How to Appraise Impact Assessments – A Four Day Programme for Brazilian Public Servants as Regulators (HAPB 2)

Escola Nacional de Administração Pública - ENAP

26 - 29 November 2013

Aim:

To develop a shared understanding of a systematic approach to reaching decisions on regulation and related policy choices; and set the approach in a cost benefit analysis framework.

To illustrate the practical application of this approach to actual choices.

Outline timetable:

DAY ONE Tuesday 26 November

09h00 Introductions

Establishing detailed outcomes for the programme

 [Content see Annex Section Z]

Overview of Programme: Impact Assessment basic themes

 [Content see Annex Section A]

13h00 *Lunch*

14h00 Appraisal of the Policy Options 1: principles of analyzing the costs and benefits of the options

 [Content see Annex Section B]

1530 *Break*

Appraisal 1: applying the cost benefit principles: work in groups

Appraisal 1: applying the cost benefit principles: report back and plenary discussion

 [Content see Annex Section C]

17h30 Close of Day One

DAY TWO Wednesday 27 November

09h00 Review

Appraisal Foundations 2: developing a logic chain [Content see Annex Section D]

Appraisal Foundations 2 : developing logic chains: work in groups [Content see Annex Section E]

Appraisal Foundations 2: Developing logic chains: report back and plenary discussion

11h15 *Break*

Appraisal Foundations 3: ROAMEF as a framework for Impact Assessment [Content see Annex Section F]

Rationale: work in groups [Content see Annex Section G]

Rationale: report back and plenary discussion

1300 *Lunch*

1400 Appraisal Foundations 3 Continued: Objectives: outcomes and outputs [Content see Annex Section H]

Objectives: work in groups [Content see Annex Section I]

1530 *Break*

Objectives: report back and plenary discussion

17h30 Close of day two

DAY THREE Thursday 28 November

09h00 Review

Appraisal Foundations 3 Continued: Preparing for monitoring and evaluation – devising indicators

[Content see Annex Section J]

Devising indicators: work in groups [Content see Annex Section K]

Devising indicators: report back and plenary discussion

11h15 *Break*

Appraisal Foundations 4: Appraising options – costs and benefits [Content see Annex Section L]

Appraising options – costs and benefits: work in groups

[Content see Annex Section M]

Appraising options – costs and benefits: report back and plenary discussion

1300 *Lunch*

1400 Discounting and decision rules [Content see Annex Section N]

Decision rules: work in groups [Content see Annex Section O]

Decision rules: report back and plenary discussion

1530 *Break*

Appraisal Foundations 5: Risk and uncertainty [Content see Annex Section P]

Risk and uncertainty: work in groups [Content see Annex Section Q]

17h30 Close of Day Three

DAY FOUR Friday 29 November

09h00 Review

Risk and uncertainty: report back and plenary discussion

Evidence gathering and consultation [Content see Annex Section R]

Evidence gathering and consultation: work in groups

[Content see Annex Section S]

11h15 *Break*

Evidence gathering and consultation: report back and plenary discussion

Participants Case studies:: preparation

Presentation I

1300 *Lunch*

1400 Participants Case studies:: Work in groups

Participants Case studies:: Presentation II

Participants Case studies:: Work in groups

Participants Case studies: Presentation III

Participants Case studies: Work in groups

Participants Case studies: Presentation IV

Participants Case studies: Work in groups

Closing review

16h00 Close of programme

Annex: Session Outlines

Z: Establishing detailed outcomes for the programme

Questions for discussion:

- Roles in Brazilian regulatory regime

- Ex ante and ex post scrutiny

- How stakeholders are consulted

- Links to other strands of Brazilian economic policy

- Key practical issues for participants

A: Impact Assessment basic themes

Input – Why decisions need systematic analysis:

- 'Opportunity cost'

- Crowding out

- Efficiency and equity

- Scrutiny: audit and Value for Money

- Accountability

- Policy and the role of the civil servant

B: Appraisal using cost benefit principles

Input - Brief overview of:

- History of UK guidance on regulatory decisions

- How proposals should, and do, develop in departments and agencies

- Central focus on cost benefit analysis:

    o Total Benefits > Total Costs

    o Points to be aware of

    o Compensation tests and limitations

- Market failure at the heart **of policy**

C: Work in groups: Questions for discussion

QC1 How might decisions to change regulations be reached?

QC2 What are the issues, positive and negative, for each of the different decision-making approaches your group identified in answer to the previous question?

QC3 If cost benefit principles are used to help judge changes in regulations, what sort of problems might this give rise to?

D: Appraisal foundations: developing a logic chain

Input

D1 Logic chains and logical framework revisited

- Models and drivers

- Indicators and limitations

- Data issues

- Long term objectives

D2 Assessing "real" impact

- Definitions

- Clarifying directions and influences

- Data issues revisited

- Additionality, deadweight, substitution and leakage

- Multipliers: income and supplier

E: Developing logic chains –questions for discussion

QE1 For a recent/new/changed regulation, or one currently being developed, construct a logic chain.

QE2 In the logic chain developed in response to QE1, identify the points, or links, where key (behavioural) assumptions have been made and risks exist.

F: ROAMEF as a framework for Impact Assessment analysis

Input

F1 Model

- **R**ationale
- **O**bjectives
- **A**ppraisal
- **M**onitoring
- **E**valuation
- **F**eedback

F2 Key features

- Integrated nature
- Indicators – leading and lagging
- Systems

G: Rationale: questions for discussion

QG1 For a recent regulatory provision or one currently being considered, develop a clear statement of the rationale for the regulatory action or revision. (Market failure arguments should normally dominate your answer.)

QG2 What types, and what sources, of evidence would you expect to use in developing the impact assessment case for introducing a new regulation or revision?

H: Objectives, outcomes and outputs

Input

- Sources and context
- Distinguishing outcomes and outputs
- Qualities of objectives
- Linking processes to outputs
- Linking objectives and benefits

I: Objectives: questions for discussion

QI1 For a recent regulatory provision or one currently being developed, provide a statement of desired outcomes, suggesting the main beneficiaries.

QI2 Develop a range of output options for the achievement of the desired outcomes, not confining these to regulatory solutions.

J: Preparing for monitoring and evaluation – devising indicators

Input

- Purposes of indicators
- Qualities of indicators
- Distinguishing targets
- Data collection and related issues

K: Devising indicators: questions for discussion

QK1 What are the most important factors in choosing indicators for a regulation affecting a sector which provides goods or services to a large proportion of the Brazilian population?

QK2 How might a regulatory body seek to ensure the indicators for proposed new regulations are the best that can be used?

L: Appraising options: costs and benefits

L1 Overview

- Only need intervention when markets fail...

- .Market prices are available for many items

- Market failure types and implications

- Welfare and well-being – first approaches

- Whose welfare?

L2 General equilibrium, marginal cost and its implications

- General equilibrium and optimality

- Departures from optimality in principle

- Willingness to pay and Willingness to accept

- Sources and implications of inequality

L3 Approaches in practice: Stated and Revealed preference (SP and RP)

- RP approaches i Hedonic pricing

- RP approaches ii Related markets

- RP approaches iii Insurance

- SP approaches

- Wellbeing – the future?

M: Estimating costs and benefits in principle:

QM1 What problems follow from using the "compensation test" as a basis for making a policy recommendation using cost benefit analysis? Illustrate your answer at different levels of governance.

QM2 What are the main problems associated with trying to incorporate subjective "wellbeing" into policy making?

QM3 Why is an understanding of market failure vital for good policy making?

QM4 For a recent regulatory provision or one currently being developed, identify the major items of cost and benefit which would result from the implementation for at least **two** options for policy.

QM5 Identify the types, and sources, of evidence you could use to estimate the size and value of the costs and benefits suggested in answer to QM4.

N: Discounting and decision rules

Input -

N1 Social Time Preference and foregone rate of return

- Private and social time preference

- Empirics

- Catastrophe risk

- Declining long term discount rate

- Foregone returns and social cost of public finance

N2 Equity issues

- Compensation test revisited

- Links to wellbeing

- Modelling impacts by group

- Target groups

- Implicit and explicit weights

O: Questions for discussion

QO1 Why should the impact assessment analysis normally include an assessment of the size of gains and losses to stakeholders as well as the overall net benefit or cost?

QO2 Why might a country adopt different discount rates for different types of project or different geographical areas? What sort of problems might this give rise to?

QO3 Why might governments choose to take responsibility for at least some aspects of education? Should governments determine, at least in part, the types of higher education available?

QO4 Why might governments choose to subsidise the costs of education? What distributional impacts might such a policy have?

P: Appraisal foundations: Risk and uncertainty

Input –

P1 Identification of risks

- Prior analysis

- Consultation

- Risk register

P2 Analysis of risks

- Impact

- Likelihood

- Two way matrix

P3 Treatment of risk

- Review and revise models

- Review and improve data

- Present a picture

- Sensitivity testing

- Modelling multiple uncertainties

- Manage and monitor

- Real options

P4 Difficulties in valuation – (i) Origins of the problem

- Market failure

- Subjective nature of items

- Intangibles

- Sustainability

P5 Difficulties in valuation –(ii) Multi Criteria Analysis

- Definition of objectives

- Defining criteria and consultation

- Deriving weights

- Identifying options

- Scoring and pairwise comparisons

- Sensitivity testing

Q: Questions for discussion

QQ1 What are the objectives and major uncertainties in a programme designed to safeguard areas of the tropical rainforest? How would you present this analysis to a policy maker? How might the risks be managed?

QQ2 Suggest the objectives and main uncertainties in a programme designed to preserve minority languages in Brazil. What would be the possible ways of counteracting these?

QQ3 Why does intangibility of some of the Costs and/or Benefits tend to make monetary valuation difficult? How far is the problem of sustainability a purely economic phenomenon? What economic arguments are there for allowing rich nations to buy up areas of tropical rainforest.

QQ4 For an issue ("Policy") other than that addressed in response to question QR3 above, identify:

> ➢ The origin of the issue
>
> ➢ The nature of the market failure or other basis for government intervention
>
> ➢ The types of evidence that might be sought about the scale of the market failure or other concern and scope for Government intervention having positive net benefits
>
> ➢ A statement of outcome and output objectives
>
> ➢ Options for delivery
>
> ➢ Indicators of success for the policy

QQ5 What difficulties are faced by the policy analyst advising policy makers on the merits of various options to address a policy issue when the media strongly advocate tougher regulation? How might these difficulties best tackled?

QQ6 Why are governments concerned about "deadweight" expenditures? Why is designing incentives to change the behaviour of citizens or businesses a difficult task?

QQ7 For a policy issue that at least one member of the group is familiar, identify the objectives of the government policy and, at least, three options for addressing the delivery of these objectives. Suggest the main difficulties in finding indicators and data to assess real "additionality" for one of the policy options suggested.

R: Evidence gathering and consultation

Input

- Evidence in the policy process
- Sources of evidence
- Qualities of evidence
- Consultation as a source of evidence

S: Evidence and consultation: Questions for discussion

QS1 For a recent regulatory provision or one currently being developed, what options are there for collecting relevant evidence on the operation of the regulation?

QS2 What options are there for meeting the costs of data collection and analysis?

QS3 Prior to the finalisation of new or revised regulations, what options are there for ensuring the robustness of the analysis that support the option recommended for implementation?

QS4 What difficulties are there in using consultation as a basis for ensuring robustness of analysis as discussed in response to QAS3?

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