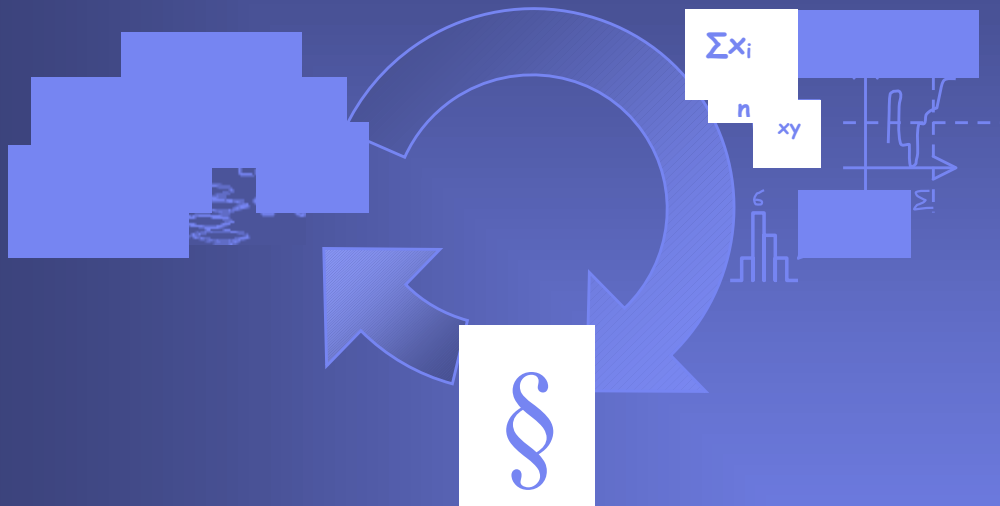




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# Regulatory Impact Analysis

– a comprehensive approach –

– summary –

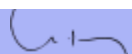
# Introduction



Photo #1  
The building of the Hungarian  
Parliament

The preparation of legal norms, the decision making process and the whole policy cycle is in general strongly affected by political affairs. Election programmes are transformed into governmental programmes – this is the only way to realize the promises given to the citizens. Finally, the intentions formed in these programmes must be expressed in legal products.

The Regulatory Impact Analysis, as the methodology continually controlling the regulatory role of the law, providing the impact assessment of law implementation, thus ensuring the continuous and professional improvement and modification recently became a relevant part of legislative preparation and analysis – now it is time to make a comprehensive methodology including the most useful assessment tools and new approaches.

  
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# What is Impact

***The Regulatory Impact Analysis is an information collecting and analyzing process, the purpose of which is the improvement of the effectiveness of legal norms, by analyzing the short and long term social, economic and other impacts of law under preparation or already in force, to the degree justified by the nature of the regulation, helping the better decision making with the summarization of the results.***

The Regulatory Impact Analysis/Assessment Studies *are not* collections of orders to be followed in all cases; they are to make the horizon of the decision makers wider: they do

- give a comprehensive picture of the economic and financial effects of the regulation,
- monetize to the needed and possible degree to make certain elements more comparable,
- present those short, middle or long term economic, social and other impacts which were not taken into consideration during the law-preparation,
- help the consultation between decision makers and those who can provide useful information about the effects of the law,
- serve as a concrete problem-analyzing and -solving tool in specific cases.

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# General Principles & the 'Think-Real-Approach'



Photo #2  
The Szalay str. building of the  
Ministry of Justice

Although a uniform impact assessment practice can not be applied in all RIA actions considering the different nature of elements building up the regulation, general principles and the 'Think-Real-Approach' shall be taken into account in any analyses.

The 'Arrow Principles – ten elements of high quality regulatory impact analysis' (1996) by Nobel-laureate **Kenneth J. Arrow** is an excellent collection of rules to be followed.

The preferred and outstanding cost-benefit approach as the mainstream of the impact analysis represents the most relevant aspects of assessment studies. However, there is a place for some fine-tuning in order to really fulfill the requirements of the comprehensive consideration of all the factors to be evaluated.

The 'Think-Real-Approach' means that the relation between the IA project purpose and the available resources shall always be considered during the planning and execution, instead of the mechanical application of the IA methods' repertoire.



## Ten principles of the high quality impact assessment

(Based on the 'Arrow Principles – ten elements of high quality regulatory impact assessment' (1996) by Nobel-laureate Kenneth. J. Arrow)

1. The impact assessment contains the expressive comparison of the favourable and adverse outcomes of the regulation considering
  - a) costs and benefits of monetizable nature,
  - b) costs and benefits of not monetizable nature, and their allocation.
2. The above mentioned impacts shall be compared to possible alternative solutions' outcomes assessed in the same dimensions.
3. The required depth of analysis depends on
  - a) the nature and importance of the regulation, and
  - b) the estimated influence of the impact assessment on decision making mechanisms.
4. The substantial rules of the regulation shall be selected for the analysis.
5. The analysis shall be limited to palpable effects.
6. The additional and external effects need to be taken into account with due stress.
7. Efforts need to be made in order to monetize the impacts as possible. However, it is needed to give the most precise possible description of foreseeable changes of important but not monetizable factors, as well.
8. Elements/factors of uncertainty shall be handled with 'safety margins', indicating the reasons and degree of insecurity.
9. Every component of the impact analysis shall adopt the same assumptions and methods (discounting, evaluation of risks, etc.).
10. The results of summarization/evaluation shall be presented in a standardized form.

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# Why is it comprehensive and



Our purpose was to compose a general impact assessment methodology which can be used as a starting-point for all the experts dealing with or interested in regulatory impact analysis.

For this reason, the aim of the prepared IA methodology is twofold:

**1** To serve as a complex *handbook and thesaurus* of general and special impact assessment (IA) practices and tools.

Our approach is to unite *and stress the most useful parts of the recent assessment methodologies*<sup>7</sup> on the one hand and to *present new and complex practices* on several areas of IA on the other hand.

Among others the following approaches, practices and tools are included:

## *Economic Impact Analysis*

We present the most important economic, statistical and mathematical tools making part of the economic impact analysis. Introduction is given to the following areas:

<sup>7</sup> More than one hundred different IA papers, studies and guidelines from all over the world are used as reference so far.



- **statistical data collecting,**
- **defining the costs and benefits of the regulation,**
  - different methods and categories,
- **discounting** (discount rates etc.),
- **external effects** (externalities)
  - assessment practices and internalization methods of several factors, such as utilities, risks and special benefits of regulation, affecting external actors,
- **'cost-benefit' type analyses** (CBA, CEA, risk assessment, etc.),
- **building up models** (scenario models),
- **comparison approaches** (Baseline analysis, do nothing analysis, etc.)



Photo #3  
Colorful crowd in the morning  
at the East Railway Station,  
Budapest

### *Social Impact Analysis*

The idea behind assessment of the impact made by a regulatory action on social phenomena is to make the new law responsive to social development concerns.

The following social factors help answer the question whether a proposed law can ensure both equitable and sustainable social development.

- **Social diversity,**
- **Social institutions, rules and behaviour,**

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- **stakeholders,**
- **participation,**
- **social risks.**

The most frequently used qualitative research methods are also presented in order to provide tools to study the above mentioned social phenomena.

- **participant observation,**
- **focus groups,**
- **in-depth interviews, etc.**

### *Social Aspects of Law*

The discipline represented mostly by legal scientists puts the focus on problem areas like effectiveness of, and compliance with law, interactions of society and law making, reception of law, etc.

Surveys based on the questions of social origin and effects of law can improve the general success of legislation.





Photo #4  
Mid-afternoon rural landscape  
with train at the foot of  
Mátra mountains,  
near Pásztó

## *Environmental Impact Assessment*

We provide an outlook on the features of the international environmental assessment practices. We also present the SEA process and the steps building it up.

- **Definitions** (environment, environmental impacts, etc.),
- **Environmental Impact Assessment, Strategic Environmental Assessment** (environmental impacts, international regulation, steps of EIA, SEA)

## *Health Impact Assessment (HIA)*

Health Impact Assessment models consider health usually as being the main aim of any human activities. As laid down in the Constitution of WHO, the health is more than the absence of illness. Factors affecting human health are of several nature.

The handbook introduces the most important methods of HIA, and the best known practices as basics of any assessments related to human well-being and health.



## *Practical tools of effective legislation*

Turning the law maker's intentions into an effective legal product is not a matter of RIA but it is a complementing tool which can be applied by RIA specialists or other experts involved in legislative preparations using the results of the RIA project.

The creation of a legal text needs the right application of such instruments introduced in the handbook like

- **setting intervals,**
- **simultaneous setting of terms of different nature,**
- **optional and alternative consequences,**
- **equity,**
- **durable conditions,**
- **replacement of hardly measurable factors, and**
- **simplification of organizations and processes.**

These tools haven't been collected so far, and serve as a pioneer methodological help to improve the overall quality of the legal system.



Photo #5  
Court district of Budapest



## 2 To provide an applicable algorithm on *how to organize a Regulatory Impact Assessment project.*

Our methodology includes several charts, graphs and figures to serve as a real support in order to organize an effective IA project, and provides useful help on

- how to start to map and select the impacts to be analyzed,
- how to plan the RIA project,
- how to define the affected groups,
- how to build up the Impact Assessment Team,
- how to communicate with representatives of affected groups, experts of governmental and non-governmental institutes in order to improve the quality of the RIA,
- how to manage the resources available for the project,
- how to select the appropriate management, economic and social tools to analyze the impacts of the regulation,
- how to organize the impact assessment project effectively to achieve best results.

We compiled the steps of the impact analysis into the '*Double Impact Analysis Chain*' (DIAC).

The two chains (the *executive* and the *project management chain*) are horizontally linked and complete each other, like the *double helix of the DNA*.

See next  
chapter →

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# Double 'Impact Chain'



With the help of the before mentioned IA methods, tools and practices a complete *impact analysis process*, a 'chain' can be built up.

The well-composed *Impact Assessment Chain* is the framework of the whole analysis process: the role of the chain's rings is the same as the blocks of the pyramids. Their secret is the accurate architectural planning, the well-organized workflow and the precise building.

**The key of the excellent result is the well-founded, and built up impact assessment process.**

One chain collects the professional steps, the other presents the project management aspect of the IA.

The professional part of the analysis shall be separated into *three* parts:

- 1) Preparation
- 2) Execution (of the analysis)
- 3) Presentation, decision- and law making

Details on  
next page

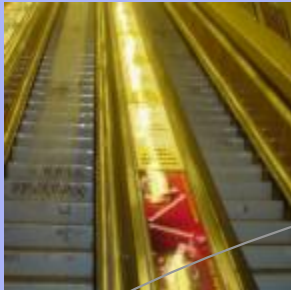
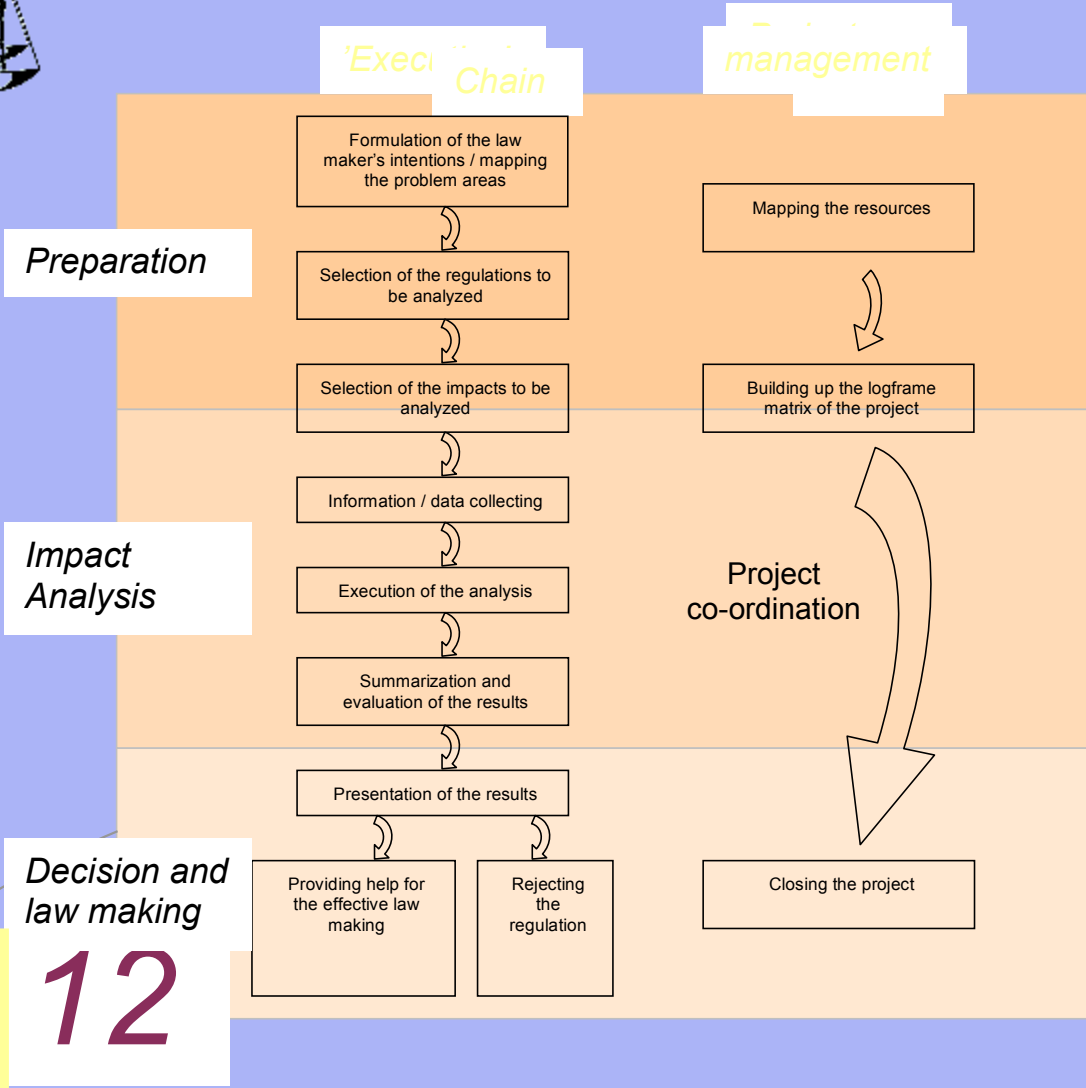


Photo #6  
Double subway escalator,  
Budapest

The rings of the chain are the activities building up the above mentioned categories. They are linked to each other as closely related elements.



*Double Impact Assessment Chain*



*Decision and law making*  
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## 1 Preparation

The most important step of the analysis is the precise mapping of the purposes/intentions of the law makers: it means the interpretation of the elements of the draft regulation in practice.

After specifying the intentions of the law makers, the regulations to be analyzed shall be selected.

## 2 Execution of the analysis

In this section of the process the (foreseeable) impacts shall be specified and studied with the help of the mentioned economic, sociological and other impact analysis and management tools.

After selecting the impacts of the regulation to be analyzed due to their significance and relevance, the needed data and their source shall be specified. Choosing the appropriate source(s) is important.



After collecting the required data, building up social and economic models, selecting the appropriate assessment methods, the *analyses shall be executed*. Their results shall be processed and summarized.

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### Summarization, decision- and law making

The professional presentation of the impact assessment's results has a high importance, its aim is twofold: it must *maximally meet the requirements* set by the client, and the *informative* impact analysis summary shall contain all relevant information, results and details.

Based on experiences collected during impact assessment projects, advices on appropriate usage of regulation techniques could help the better realization of the law maker's intentions through legal norms.

### *Project Management Chain*

The Project Management Chain represents organizational and controlling activities. Tasks of planning and supervising resources such as financials, HR and time become transparent by creating the Logframe Matrix of the project.

Experts playing different roles in the RIA process shall be selected considering the aim and extent of the assessment.

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Photo #7  
The authors at work

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