

# ***Introducing Impact Assessment into Government Policy-Making in Croatia***

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# Ministry of Economy, Labour and Entrepreneurship

- ‘The Government of the Republic of Croatia and the Ministry of Economy, Labour and Entrepreneurship, as its constituent, will continue to make efforts and propose complete legal and other solutions, in order to ensure an optimal climate for the development of the economy and society, as a whole’.

Damir Polancec

Vice Prime Minister and Minister of Economy,  
Labour and Entrepreneurship

# Workshop Objectives

## Objectives

- Show how IA can be used to develop ‘solutions to ensure an optimal climate for the development of the economy and society’.
- **Topics to be covered**
- An overview of IA
- Practical guidance on how to conduct IA, using case study examples
- Proposals for an IA Manual
- Discussion of Croatia IA Case Studies

# **Session 1.**

## **Impact Assessment and its role in modern policy-making: practice and experience**

# Policy Analysis and IA

## WHAT IS IA?

- Impact Assessment (IA) is a tool which helps policy-makers and governments to develop better policies
  
- **HOW DOES IA CONTRIBUTE TO BETTER POLICY?**
  - IA provides a framework for the systematic assessment of potential or actual impacts of policy measures
  - IA provides the decision maker with evidence on the likely consequences of policy measures
  - IA strengthens public-private dialogue

# The Internationalisation of IA

- IA used by European Commission since 2001
- IA used by members of the EU, particularly in UK
- Used in pre-accession countries to support adoption of *Acquis Communautaire*
- IA is used in transition economies to manage the transition process

# Transitional country context

- **increasing need for competitiveness on accession to EU**
- **Providing an environment that supports business development and economic growth**
- **rapid change in economic, political and administrative systems**
- **Strengthening public-private sector dialogue**
- **high administrative workload to transform legislation for EU accession**

# Lessons for Successful Adoption of IA

**Experience in a large number of countries confirms the following factors are important for ensuring an effective IA procedure:**

- 1. Need for Effective High Level Political Support**
- 2. Need for a Central Coordinating Body**
- 3. Need to assess the effectiveness of new legislation**

- 4. Need for effective capacity building programmes (training).**
- 5. Importance of Public - Private Dialogue and Consultation**
  - private sector can provide evidence to government on how the business sector would be affected by new proposals**

# **Session 2.**

## **An Integrated Impact Assessment Framework: Stages and Processes in IA**

# KEY QUESTIONS TO BE ANSWERED IN THE IA REPORT

- ✓ What is the nature and magnitude of the problem to be addressed?
- ✓ What are the main policy options available?
- ✓ What are the possible economic, social and environmental impacts of the available options?
- ✓ What were the main outcomes from the consultation process?
- ✓ What are the likely constraints on implementation and compliance?
- ✓ How will monitoring and evaluation be organised?

# Components of IA

- **Analysis: Calculating the costs and benefits of government action**
  - ➔ **Finding lowest cost solutions, reducing policy failures**
- **Consultation and responsiveness to a wider range of interests**
  - ➔ **Evidence gathering, building trust, and reducing regulatory risks for private sector**
- **Integrating multiple policy goals (social and economic policies)**
  - ➔ **Policy coherence and promote horizontal thinking**
- **Accountability for actions and results (within ministries, to the public)**
  - ➔ **Client-oriented, credible, and responsive government**

Adapted from: Jacobs & Associates

# Core Structure of the IA Report

1. The Policy Problem/ Purpose and Intended Effects
2. Options
3. Impacts
4. Distribution of Impacts
5. Consultation
6. Compliance
7. Monitoring and Evaluation

# 1. PROBLEM IDENTIFICATION

- First steps in the IA process
  1. Analyse the problem – what is the unsatisfactory situation the proposal seeks to address?
  2. Consider purpose and intended effect of the proposal – the Policy aim/objective

## Key questions:

- What is the problem being addressed? What is the magnitude (or size) of the problem?
- Give an explanation of the issue and the need for the government action.
- Is government intervention necessary? What is the risk of no intervention?
- What is the history/context of this proposal?
- Are there any wider issues to be aware of?

## 2. POLICY OPTIONS

Policy options are the different alternatives available to tackle a policy problem.

### 1. Do nothing/maintain status quo

### 2. Direct Intervention:

- New law or regulation

### 3. Indirect intervention

- Fiscal measures ie financial incentives
- Information and education campaigns
- codes of practice & quality standards

## ■ Identifying the Options

- ✓ International Comparisons
- ✓ Consultations
- ✓ Using experts
- ✓ Experienced Officials

### 3. IMPACT ASSESSMENT

- IA is designed to support ‘Evidence Based Decision Making’
- IA involves:
  1. gathering the evidence
  2. analysing the evidence and assessing the significance of the potential economic, social and environmental impacts of each option
  3. presenting the evidence to the decision-maker

# Assessing Impacts: Evidence Gathering

## Gathering the Evidence

- Sources of evidence:
  - Your own knowledge and experience
  - The knowledge and experience of colleagues in your own department and other Ministries
  - Consultation with external experts
  - Consultation with those that are likely to be affected
  - Research documents, market reports, government statistics, internet searches

# Assessing Impacts: Evidence

- **Quantitative and Qualitative Evidence**
  - Evidence on impacts should be quantified wherever possible.
  - Quantification should be in economic market value terms wherever possible. This allows comparisons between different types of impact
  - It is especially important to quantify benefits as well as costs

# Assessing Impacts: Evidence Gathering

- **How Much Evidence is Needed?**
  - **Proportionate Analysis**
    - - the more significant the impacts are likely to be the greater the effort of quantification that is needed
    - - level of detail also needs to be related to the resources and time available
    -

# Assessing Impacts: Analysis

- **Analysing the Evidence**
  - The evidence needs to be used to explain *how and why* the impacts occur. What are the ‘cause and effect’ links between the policy measure and the impacts?
  - The analysis is presented in the form of a narrative in the IA report, in which the evidence is used to validate the analysis.
  - This is called *causal chain analysis*.

# Assessing Impacts: Analysis

- The IA report needs to be able to advise the decision maker on the importance or ***significance*** of the contribution that the policy measure will make to the objectives
  - positive or negative?
  - large or small?
  - long term or short term?
  - Reversible or Irreversible?

# Impact Assessment: Presentation of Results in the IA Report

- **Presenting the Analysis**
  - The results of the assessment should be described and explained in the text of the IA
  - The significance of the impacts should also be clearly shown in tabular form
  - The positive impacts (benefits) and negative impacts (costs) should be shown separately
  - Positive and negative impacts should be quantified, where-ever possible

## 4. DISTRIBUTION OF IMPACTS

- The distributional impact should be included in the IA:
  - SMEs?
  - Regional effects?
  - Industry or sector effects?
  - low income households?

■

## 5. CONSULTATION

- Consultation is a vital tool in the development of a policy or supporting laws and regulations.
- Stakeholders are consulted through meetings and written communication
- This process allows participation of stakeholders in the policy formulation and creates ownership of the formulated policy.

# Purpose of Consultation

- Consultation provides policy makers with evidence on likely impacts on particular groups, sectors, businesses and consumers
- Important to consult widely, not just the business community
- Important to give sufficient time for responses to be prepared
- Important to begin consultation process early
- Important to respond to the consultees and to report the results of the consultations in the IA report

## 6. COMPLIANCE

▸ If a policy is not complied with the expected policy outcomes will not be delivered.

### **Voluntary Compliance**

People comply voluntarily rather than incur punishment for non compliance

- Three main strategies
  - Education
  - Persuasion
  - Incentives (financial)

### ■ **Enforced Compliance**

Who will be responsible for ensuring compliance?

## Enforcement costs

**Enforcement will involve costs:**

- **Inspection visits**
- **Police time**
- **Court time and legal costs**

## 7. MONITORING AND EVALUATION

- New policy measures should be monitored and evaluated.
- Monitoring and evaluation allows us to determine whether a new policy is serving its original purpose in the most cost effective and efficient manner.
- The mechanisms and responsible authority for monitoring and evaluation should be specified in the IA.

# Session 3.

## Methods and Techniques

# Tools used to support IA

- **Competition Assessment**
- **SME Impact Assessment**
- **Risk Assessment**
- **Cost Benefit Analysis**
- **Cost Effectiveness Analysis**
- **Economic modelling**
- **Multi-Criteria Analysis**
- **Environmental Impact Assessment**
- **Social Impact Assessment**
- **Health Impact Assessment**
- **Sustainability Impact Assessment**

# Assessing Impacts: Decision Criteria

1. Are the Benefits greater than the Costs?
  - compare the total costs with the total benefits
  - simplified form of *cost-benefit analysis (CBA)*
2. Is the approach the least costly option for achieving the objective?
  - compare costs of different options ( assuming each option gives the same benefits)
  - this is known as *cost-effectiveness analysis*
3. Do the benefits justify the costs
  - this is a political decision based on the evidence provided in the IA

# Assessing Impacts: Key Lessons

- **Key Lessons**
  - 1. Quantify benefits and costs where possible
  - 2. Use economic valuation where possible
  - 3. Do not ignore the non-quantifiable impacts
  - 4. Include the environmental and social impacts separately
    - some environmental impacts have quantifiable economic costs that should be included in the economic analysis

# Assessing Impacts: Key Lessons for Impact Assessment

- 5. Be transparent on uncertainties, risks, assumptions and quality of data
- 6. Think analytically and use good judgement:  
*'IA is an art not a science'*
- 7. Recognise that IA cannot provide all the answers
  - *'IA is a tool for decision-making not a decision making tool'*

# Practicalities and example IAs

# Some practical issues

- **example IAs from 5 to 84 pages**
- **UK estimate of typical staff time, including consultation**
  - **2 person weeks**
- **some IAs may be much bigger and may need sub-contract consultancy research**
  - **how justify the cost?**
- **transposing EU legislation**
  - **use the EC IA if available**
- **IA assesses the costs and benefits of alternative options**
  - **is this necessary when there is only one realistic option?**

# Example 1 Financial Collateral Arrangements

## Legislation:

- **Financial Collateral Arrangements Regulations (final)**

**Number of pages: 5**

## EU legislation:

- **Directive on Financial Collateral Arrangements**

## Purpose:

- **remove legal obstacles to the use of collateral, to enable businesses to access finance more easily**

# Example 1 Financial Collateral Arrangements

**alternative options considered: none**

**other studies used: none**

## **consultation**

- **Government - devolved administrations, the Department for Trade and Industry and the Department for Constitutional Affairs.**
- **Informal public consultation with a variety of trade associations and other interested parties.**
- **Formal consultation paper containing the draft Regulations and partial IA.**

# Example 1 Financial Collateral Arrangements

## Costs and benefits

- **It is not easy to quantify the benefits. Some relevant considerations include:**
  - **the reduced cost of capital.**
  - **the opportunity cost in providing collateral**
  - **legal and administrative savings**
  - **implications for non-collateralised creditors**
  - **changes in patterns of business following the implementation of the Directive**
  - **the benefits of improved financial stability**
- **costs depend on the degree to which domestic law already supports collateral arrangements. Laws in the UK are already among the most amenable. The domestic effect of the Directive will therefore be correspondingly less. The Directive should, however, clarify and improve some aspects of law in the UK.**

# Example 2. Late payment

## Legislation:

- **Late payment in commercial transactions**

**Number of pages: 10 plus annexes giving consultation results**

## EU legislation:

- **Directive on combating late payment in commercial transactions**

## Purpose:

- **introduce aspects not already covered in UK legislation on statutory right to claim interest for late payment:**
  - **a) right to claim reasonable compensation for recovery costs**
  - **b) opportunity for organisations representing SMEs to take action**

# Example 2. Late payment

## OPTIONS

- **consultation document identified 8 options for a) (right to claim) and 4 for b) (representation of SMEs).**
  - **a) consultation and a series of meetings with a subgroup of the Better Payment Practice Group reduced the number of options to two.**
  - **b) Minister invited the 5 key representative organisations of small business to a meeting to determine which option should be chosen. Representatives from the Federation of Small Business, the British Chambers of Commerce and the Confederation of British Industry attended and this resulted in agreement that Option 1 should be adopted.**

# Example 2. Late payment

## CONSULTATION

- Consultation paper open for 2 months
- Subsequently continued to consult informally with a range of stakeholders including:
  - Better Payment Practice Group,
  - small firms' representative organisations, including:
    - British Chambers of Commerce,
    - Confederation of British Industry SME Council,
    - Institute of Directors,
    - Federation of Small Businesses and
    - Forum of Private Business,
    - as well as other Government Departments.
- A summary of the consultation results in Annex.

# Example 2. Late payment

## OTHER STUDIES USED

research reports published by:

- Dun and Bradstreet,
- London Society of Chartered Accountants,
- Credit Management Research Centre

# Example 2. Late payment

## Costs and benefits

- level of interest owed to small businesses
- savings in court fees
- qualitative discussion - not possible to estimate with any useful degree of certainty the total compliance costs involved.
- summary table – costs zero, benefits qualitative

# Example 3. Insurance mediation\*

## Legislation:

- Insurance mediation

Number of pages: 14

## EU legislation:

- Directive on Insurance Mediation

## Purpose:

- part of completing the single market and will enable UK firms to trade in Europe

\* IA report in handout

# Example 3. Insurance mediation

## OPTIONS

- Option 1 - Do nothing.
- Option 2 - Implement the directive as it is.
- Option 3 - Go further than the directive in terms of regulating direct sales of insurance by insurers and by regulating all motor warranties that are contract of insurance.

# Example 3. Insurance mediation

## CONSULTATION

- The Government received some 400 responses to the consultation. Respondents ranged from the FSA, to trade bodies such as the ABI and ABTA, to intermediary firms, as well as consumer bodies.

## OTHER STUDIES USED

- FSA published a cost benefit analysis, summarising cost benefit analysis by 'Europe Economics', an independent firm of economic consultants, through a survey of mortgage and general insurance firms.

# Example 3. Insurance mediation

## COMPETITION ASSESSMENT

- **We expect some firms, particularly some secondary insurance intermediaries and some small primary intermediaries to exit the market for selling insurance. This will lead to consolidation, and some reduction of competition. But it is a competitive market. Whilst there is some concentration in the general insurance market with the top three intermediary firms having 37% of the market, even with some consolidation there would still be many thousands of intermediaries selling insurances direct or as appointed representatives of insurance providers. And the proposals will benefit competition by increasing transparency and raising standards, making it easier for consumers to shop around.**

# Example 3. Insurance mediation

## COSTS AND BENEFITS

benefits qualitative

costs:

- Option 1 - nil.
- Option 2 - £55.6m one-off and between £60.8m and £120m recurring costs.
- Option 3 - between £58.8m and £62.7m one-off and between £61m and £120.4m recurring costs.

Option 3 recommended

- estimates do not include the costs of compliance with the FSA's conduct of business rules. FSA will consult and publish a cost benefit analysis.

# Example 4. Cetacean Bycatch\*

## Legislation:

- Small Cetacean Bycatch Response Strategy (partial)

Number of pages: 11

## EU legislation:

- Common Fisheries Policy

## Purpose:

- porpoises and dolphins - integrate environmental protection into the CFP

\* IA report in handout

# Example 4. Cetacean Bycatch

## OPTIONS

- Option (i). Do nothing
- Option (ii). Proceed on a piecemeal basis
- Option (iii). Adopt a UK Small Cetacean Bycatch Response Strategy (recommended)

## CONSULTATION

- government - Statutory Nature Conservation Agencies.
- Public – the partial IA is part of the consultation - list of organisations invited to comment. The Sea Mammal Research Unit and the Association of Sea Fisheries Committees were members of the working group.

## OTHER STUDIES USED

- report on whale-watching – tourism income

# Example 4. Cetacean Bycatch

## COSTS AND BENEFITS

- benefit is predominantly environmental. However, it could be argued that economic wealth could be improved through the adoption of the Strategy through its indirect impact upon the tourist industry, more specifically whale-watching
- cost of deploying equipment, accreditation scheme, abundance survey
- some of these costs met by EU funding

# Example 5. Landfill Waste

## Legislation:

- Landfill Waste Regulations (final)

Number of pages: 35

## EU legislation:

- Landfill Directive

## Purpose:

- reduce hazard and quantity of waste to landfill

# Example 5. Landfill Waste

## 1 REGULATORY IMPACT ASSESSMENT

- 2.1 The objective
- 2.2 The background
- 2.3 Impact considerations

## 3 OPTIONS

## 4 BENEFITS

- 4.1 Business sectors affected
- 4.2 Equity and fairness

## 5 COSTS

### 5.1 Compliance costs

- Waste producers
- Merchant recyclers
- Charities and voluntary organisations as waste recyclers
- Waste management contractors
- Landfill operators
- Professional bodies
- Costs to the Environmental Agency as Regulator

### 5.2 Cost for a typical small business

## 6 CONSULTATION WITH SMALL BUSINESSES

## 7 ENFORCEMENT AND SANCTIONS

## 8 MONITORING AND REVIEW

## 9 SUMMARY AND RECOMMENDATION

## APPENDIX 1: ASSESSMENT OF HAZARDOUS SOLID WASTE TREATMENT COSTS

# Example 5. Landfill Waste

## OPTIONS

**Option 1: Introduce fixed acceptance criteria for all wastes**

**Option 2: Permit risk assessment option for all wastes**

**Option 3: Permit risk assessment option for certain pollutants**

## CONSULTATION

- **Consultation open for 3 months. The draft amending Regulations and the partial Regulatory Impact Assessment were published on the website. 55 responses received, some of which were detailed.**

# Example 5. Landfill Waste

## OTHER STUDIES USED

- **Waste not, want not: A strategy for tackling the waste problem in England. Strategy Unit, 2002)**
- **numerous documents providing data**
- **most analysis was own calculations using data supplied by consultees**

# Example 5. Landfill Waste

## COSTS AND BENEFITS

- fines of up to £100,000 per day for nonimplementation of Community legislation
- laboratory analytical charges
- compliance testing
- thermal treatment hazardous wastes
- risk assessment for underground storage
- leaching limits assessment. Costs are unknown - could be in the range £2500 to £25,000 per instance.
- as an illustration, the costs for hazardous waste producers during the first year of implementation could be as high as £20m with annual costs thereafter of the order of £6m. Similarly, for inert waste producers first year annual costs would be £4m with subsequent years at £1.28m.

# Example 5. Landfill Waste

## COSTS AND BENEFITS

- benefits environmental – not quantified
- Option 1: costs of regulation £265k per year, excluding monitoring and auditing costs.
- Option 2: additional annual cost to waste producers £1.17m. Environment Agency an additional 2.2 person-years (£220k per year)
- Option 3: additional annual cost to waste producers £290k. Environment Agency only 0.54 person-years (£54k per year), which could be readily accommodated.
- Option 3 is therefore recommended

# Example 6. Common Agricultural Policy

## Legislation:

- **Compliance with Good Agricultural and Environmental Condition (final)**

**Number of pages: 84**

## EU legislation:

- **Council Regulation on farms benefiting from the Single Payment Scheme as part of the reformed Common Agricultural Policy**

## Purpose:

- **Farmers are required to maintain all agricultural land in good agricultural and environmental condition (GAEC)**

# Example 6. Common Agricultural Policy

## OPTIONS

- alternative options considered for each aspect of the legislation

## CONSULTATION

- public programme ran for 12 weeks. 463 responses were received from a wide range of stakeholders; Farmers, farming representatives, Government organisations including the statutory agencies, retailers and retail groups, research institutes and universities and other interested individuals and groups.

# Example 6. Common Agricultural Policy

## OTHER STUDIES USED

- Report on 'Cross compliance under the new CAP regime' for English Nature
- Report 'On-farm Impact Of Compliance With The Need To Keep Land In Good Agricultural And Environmental Condition: Report on RDS Farm Case Studies'. Some 27 farms of varying location, type and size were selected for this case study.

# Example 6. Common Agricultural Policy

## ASSESSMENT

assessed the following for each of 19 aspects:

- Economic impacts – public accounts (e.g. advisory booklets, requests for further advice)
- Economic impacts – farm business
- Environmental impacts
- Broader rural impacts
- Regional impacts
- Application and enforcement issues
- Equity issues

Summary tables of advantages and disadvantage

# Example 6. Common Agricultural Policy

## COSTS AND BENEFITS

- Overall costs equate to around 0.5% of total farm costs
- cost details in Annex
- benefits described but not quantified

# Example 7. Water Framework Directive

## Legislation:

- **Water Framework Directive**

**Number of pages: 66**

## EU legislation:

- **Water Framework Directive**

## Purpose:

- **to ensure that water bodies achieve good status by 2015**
  - **register of protected areas in each river basin**
  - **monitoring scheme**
  - **river basin management plans**

# Example 7. Water Framework Directive

- Existing framework of primary legislation includes:
  - Environmental Protection Act 1990,
  - Water Resources Act 1991
  - Water Industry Act 1991
  - Environment Act 1995
  - Pollution Prevention and Control Act 1999
  - Water Act 2003
- These provide many of the powers needed to implement the WFD.
- Tighter standards for certain discharge consents might be required
- New regulatory powers are expected to be required to implement some of the provisions of the Directive.

# Example 7. Water Framework Directive

## OTHER STUDIES USED

- initial IA was undertaken by a consortium of consultants
- comprehensive review cannot realistically be undertaken until the completion of the River Basin Management Planning process, itself a requirement of the Directive.
- This IA represents the best estimates of costs and benefits that can be made now.

# Example 7. Water Framework Directive

## COSTS AND BENEFITS

- IA tries to maintain a distinction between:
  1. costs and benefits arising directly from transposition - additional monitoring, administration and implementation requirements
  2. the costs and benefits of compliance with measures that will eventually be agreed in the RBMPs.
- costs of compliance will be subjected to rigorous cost-effectiveness analysis. where costs are seen to be disproportionate a process will be set in train to pursue a less stringent environmental objective
- through the process of river basin management planning the Environment Agency and the appropriate authority will be undertaking a process similar to, but in many cases more extensive than, an IA, for each programme of measures

# Example 8. Water Bill

## Legislation:

- **Water Bill**

## Number of pages: 64

- **(three assessments - Regulatory, Environmental and Equal Treatment)**

## EU legislation:

- **primarily UK policy, but also implements aspects of Habitats Directive**

## Purpose:

- **reform water abstraction licensing, improve water industry responsiveness to consumers**

# Example 8. Water Bill

The IA includes individual IAs for each of 18 policy areas

## COSTS AND BENEFITS

- Establishment of independent Consumer Council for Water. A modest increase in the £3m costs currently associated with running the Customer Service Committees; one-off set up costs of up to £1m.
- Measures to improve the transparency, consistency, predictability and accountability of regulation. Costs expected to be no more than £300k per annum. All costs borne by regulator, but recovered from licence fees and ultimately borne by consumers.
- Benefits qualitative

# Proposed structure and content of the Impact Assessment Manual

# Proposed structure and content of the Impact Assessment Manual

- will supplement and complement the Economic Impact Assessment manual as a step-by step guide
- approximately 15 – 20 pages plus annexes
- when to start
- how to write a consultation document
- who to consult, when and how
- how to identify realistic alternative options
- how to identify potentially significant impacts of each option, and the sectors/regions most affected
- how to obtain data (qualitative and quantitative) for assessing costs and benefits
- identifying needs for consultancy or other assistance with more detailed assessment or research