Indicators of regulation and regulatory policy performance

Canada’s vision

Madrid Workshop, Sept. 26, 2011
Context

• **Issue:**
  – How do we answer the question “How good is our regulatory system?” in ways that are meaningful to Ministers, decision-makers and citizens alike?

• **Answering this question requires demonstrating that:**
  
  1. **The impact of regulatory policy:** firstly, sound regulatory policy(s) lead to regulations that are of a high quality – i.e., they are streamlined, well designed and have minimal negative externalities (e.g., reduce the ability of businesses to compete, limit market access or stifle innovation) and costs to society;

  2. **The impact of regulation and of departmentalagency regulatory activities:** high quality regulations help deliver and improve upon key public policy objectives (e.g. safety, security, health, environment);

• **This suggests two sets of indicators:**
  – the first would showcase the performance of regulatory policy by demonstrating how streamlined regulations minimize regulatory externalities;
  – the second would showcase the contribution of regulations to public policy outcomes over time.
Questions for Discussion

1) What regulatory outcomes areas should be assessed? (e.g. environment, health, security, etc.)

2) What regulatory quality areas should be assessed? (e.g. performance-based regulation, market-based, benefits justify costs, compliance & enforcement performance, etc.)

3) What regulatory “externalities” areas should be assessed? (e.g. costs to business, impacts on competition / innovation, admin. burden, etc.)

4) Is this framework (Canadian proposal) enough to answer the question “How good is our regulatory system?”

5) Is it credible? Can better outcomes and lower externalities be attributed (or correlated with) better regulatory quality?
What Could a Framework Include?

(PRELIMINARY) Assessing the quality and outcome of regulatory systems:
Health Example

- **Dashboard Indicators**
- **Marketplace framework**
- **Safety**
- **Health**
- **Environment**
- **Security**

Potential domestic and cross-country indicators (Countries can opt out)

**Regulatory Outcome Indicators**
- e.g. Reduced mortality & morbidity rates
- e.g. Perception of safety and trust (citizens)

**Regulatory Quality Indicators**
- e.g. Benefits outweigh costs
- e.g. Red tape minimized
- e.g. Transparent and accessible regulations
- e.g. Alternatives to regulation are used

**Domestic indicators**
- Domestic regulatory outcome indicator 1
- Domestic regulatory outcome indicator 2
- … Domestic regulatory outcome indicator n

Evaluating the performance of the **regulatory system**

Evaluating the performance of **regulatory policy**

Negative externalities of regulations on:
(Competition, Innovation, Market Access, Costs to businesses, etc.)

Regulatory Policy:
(Aggregate Measures, Overall Costs & Benefits, Admin Burden Reductions, etc.)
Challenges

1. How to keep the framework simple, manageable and cost-effective to implement?
   - Need to build upon existing indicators and data sources to minimize costs, taking into account the potential lack of readily available data

2. Developing indicators that are credible while resisting the urge to strive for perfection

3. Ensuring that the framework is meaningful for individual countries, while keeping the door open for future benchmarking country comparisons

4. Demonstrating a credible link between: 1) regulation and high level public policy outcomes (causality); and. 2) regulatory policy and the quality of regulation (design of, and minimizing externalities)
Example: Environment

• First, countries can assess their own performance according to environmental performance indicators, e.g., Urban SO2 levels (contribution to the public policy outcome of a healthy environment/environmental protection)
  – In addition to this indicator, OECD countries should be able to choose from any number of other relevant indicators of environmental quality (see next slide)

• Such indicators can be linked to improved regulations (e.g. outcome-based regulation, more attention to compliance and enforcement, more market-based solutions, more robust cost-benefit analysis, focus on lowering administrative burden, etc.) (regulatory quality)

• As consequence, it can also be possible to demonstrate how these improved regulations allow for more innovation and competition, lower costs, better improved stakeholder perceptions, etc. (regulatory externalities)
Example: Environment

Change in environment outcome indicators over time:

Air Quality
- Energy consumption
- e.g., energy usage per GDP unit?
- e.g., urban SO2?
- e.g., GHG emissions per capita?

Biodiversity Index

Water Quality

Change in “regulatory quality” indicators over time:

Outcome-based regulation

Compliance & Enforcement

Pass CBA test

Performance evaluation

Change in “regulatory externalities” indicators over time:

Costs to business

Innovation

Entry / Exit

Contribution of regulation

Performance of regulatory policy
Potential data sources?

• **Outcomes:**
  – Benefit aspect of Cost-Benefit Analyses (aggregated by key area)
  – Reports to parliaments (e.g. in Canada: Expenditure Management System, Program Activity Architectures)
  – (For e.g. environment): World Economic Forum’s Environmental Sustainability Index (ESI), World Bank, World Health Organisation, OECD
  – Departmental performance measurement and evaluation plans (required for all high impact regulations since July 2008)

• **Externalities, Costs:**
  – Regulatory Impact Analyses and Cost aspect of Cost-Benefit Analyses (aggregated by key area)
  – Global Competitiveness Report, OECD indicators
  – World Bank Survey (Doing business)

• **Regulatory Quality:**
  – Regulatory Impact Analyses (Aggregated)
  – OECD indicators of regulatory management systems, augmented with compliance indicators (i.e. what countries do, not what they say they do)
Advantages and Limitations of Proposed Approach

- **Advantages:**
  - **Comprehensiveness:** Approach would provide a whole-of-government overview of the contribution of sound regulatory design and implementation to a country's well-being and competitiveness.
  - **Flexibility:** Implementation of framework based on a key set of indicators that allows each country to tailor its approach by using additional ones that are most relevant in light of current domestic priorities and public policy objectives.
  - **Existing data:** Approach relies on data which can, ideally, be collected from existing data sources.

- **Limitations:**
  - Overambitious?
  - Can we overcome the “attribution issue”?
  - Is it possible to achieve consensus on a common indicators that forms the basis of our approach?
Success factors

- Although not exhaustive, success of the indicators project will depend on:
  - A concept for the framework that countries find has merit and a chance of being implemented
  - Commitment from a core group of countries to refine and revise the methodology/framework with the OECD that reaches out to other key policy communities (e.g., performance measurement and evaluation experts in the area of transportation, environment, etc.)
  - Pursuing flexibility on divisive issues while making progress and ensuring results for April 2012 meeting of the RPC in Paris, and;
  - Obtaining buy-in from major regulatory departments which may have to make the necessary investments and efforts to gather and analyze the required data.
Path forward

• Madrid Workshop:
  – General acceptance of broad outcomes of regulation to assess (e.g. health, environment, security, etc.)
  – Draft framework by end of January 2012 that proposes a robust methodology to assess the link between regulation and the public policy outcome and that also showcases how regulation is minimizing economic externalities
  – Distribution of draft framework to Steering Group members for comments and feedback by end of February 2012

• April 2012 RPC Meeting:
  – Presentation by the OECD of a broadly acceptable approach that includes options for indicators to member countries
  – If agreeable, countries can elect to undertake case studies on a voluntary basis to further test the approach
Questions

• For the April 2012 RPC meeting:
  – Should a framework that countries can use to develop their own indicators of the performance of regulation and regulatory policy be presented;
  or,
  – Should options for a set of indicators that can be used to benchmark countries be presented instead?

• What outcomes of regulation to undertake cross-country comparisons do we agree upon, and are there any existing indicators for those outcomes?

• Should these indicators be the same for all countries, or should countries remain flexible to choose the most appropriate for their particular context?