



# INSPECTIONS REFORMS – WHY, HOW, WHAT RESULTS?

Review of experience in inspections and enforcement of  
business regulations and their reform

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Inspections, enforcement, regulatory  
delivery – some words of context



## Good and bad regulations, bureaucratic rules and reforms share some things in common...

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- They somewhat “assume” delivery, effectiveness, compliance – “if we decree it, it will (normally, generally) happen”
- Tend to pay too little attention to how third parties, but also the state administration are actually supposed to work with them *in practice*
- Increasing attention is given in OECD countries and beyond to “how does regulation actually work”
  - Who delivers it (staff resources, structures)?
  - How is the interaction with citizens, businesses?
  - How do practices get transformed?
  - What does it all cost, and bring?



# Inspections and enforcement – the “frontline” of regulatory delivery

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- Enforcement is all the set of activities that state agencies can undertake to secure compliance with regulations – awareness raising, inspections, warnings, fines, closure etc.
- Inspections are checks conducted to ensure that businesses (and citizens) abide by these regulations – these checks can focus on premises or on products
- Key issues for reform (*in addition to the “RIA-type” questions on the regulations themselves, of course*)?
  - **Are inspections effective at increasing compliance?**
  - **Is the overall “enforcement strategy” effective?**
  - **What about cost-effectiveness?**



## Inspections and regulatory delivery – challenges on the way of “effective reforms”

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- Rely on “cutting” to a limited extent only – many inspection functions are needed – the issue is how they work
- Inspections reform requires in-depth engagement with the question of *how regulatory agencies conduct their work*
- Public/consumers often quite worried about “less inspections” and “less control” – strong opposition to reform is possible
- If practices are what matters, how do you change practices? Legal instruments won’t be enough...
- Where do you start, where do you focus? Where do you stop, if this is “all about implementation”?



What problems are we trying to address?





## “Typical” picture: high costs and disappointing (or hard to evaluate...) impact

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- In most countries around the world (OECD, developing, transition etc.), to varying levels and extent:
  - Many inspections creating significant costs for the state, and burden for businesses
  - Insufficiently clear requirements, uncertainty, discretion etc. lead to additional barriers to growth
- Impact can be disappointing, or hard to measure, in terms of:
  - Protecting populations (citizens, consumers, workers) from preventable hazards [or securing other public goods]
  - Cost/effectiveness of enforcement and inspections



## Different contexts, somewhat similar issues

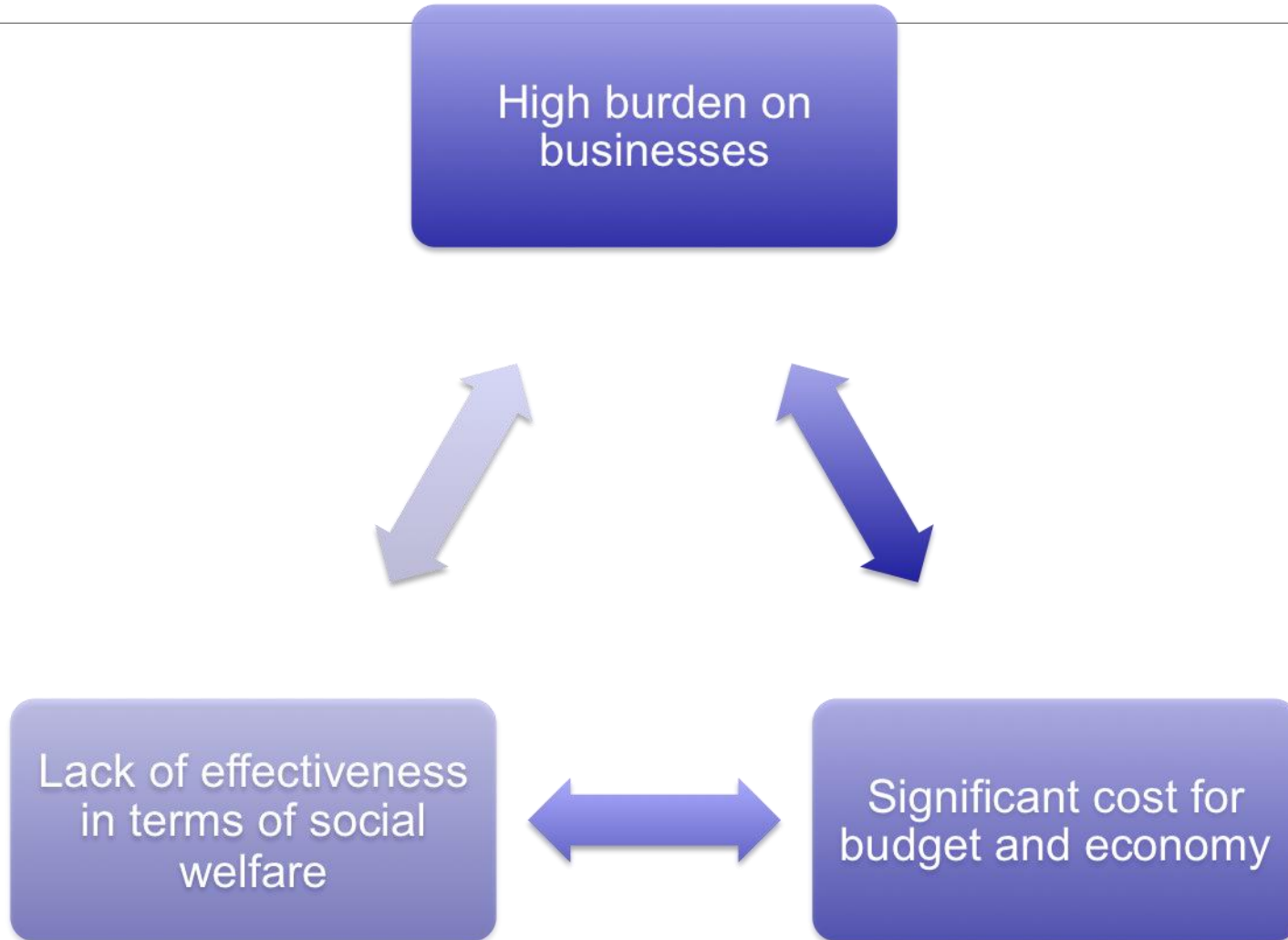
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- Many inspecting agencies, inspectors, and inspection visits – frequent overlaps, duplications, lack of coordination
- Insufficient risk-focus – many businesses get inspected, even though their risk level is low or moderate (combination of probability and magnitude of hazard for the public)
- Lack of consistency, coordination and coherence between agencies – lack of uniform guidelines and approaches between inspectors
- Frequent focus on finding violations rather than improving compliance and outcomes
- *Not every country or institution has these issues – and not all at the same level – but the pattern is frequently there...*





# Ineffective and burdensome inspections – interconnected problems





## Why do *more* inspections *not* improve compliance?

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- Research and practice have shown that when enforcement is seen as excessive and unfair, and even law-abiding citizens are targeted as would-be criminals, compliance is strongly *discouraged*
- Lack of targeting means inspectors try to cover too many objects – in too little depth – and lack of guidelines on *how to check* means the key issues are not always verified during inspection
- Unclear requirements, and/or absence clear guidance for businesses, mean that in any case compliance is made difficult
- Uncoordinated checks by many institutions on the same topic mean resources are wasted as information is not shared effectively, same issues are verified several times etc.



# “How to Reform Business Inspections?”





# A vision of reform

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## A growing trend across many countries...

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- Major examples within the OECD: Mexico (1995), UK (Hampton Review 2005), Netherlands (Inspections Renewal Programme starting 2006), Slovenia (2007), Italy (since 2011) – also many “targeted” reforms e.g. on food safety inspections (Canada Food Safety 1997 – Estonia Food Safety 2000 etc.)
- Other countries in Central/Eastern Europe (Croatia 1999, Latvia 2000, Bosnia and Herzegovina 2004), Colombia (2008) etc.
- Many countries in Former Soviet Union - Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan (varying degrees of success/implementation)
- Beyond: Jordan, Mongolia, Kenya...
- Many countries w support of World Bank Group



## “How to reform inspections” – frequently used tools and approaches

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- Framework process reform: legal provisions setting general rules and guidelines, in more or less detail depending on context
- Check-lists and transparency requirements: allows businesses to clearly know what they have to comply with, ensures focus on essential safety norms and consistency
- Risk-based approaches: ensure that inspections target the most hazardous businesses, and alleviate burden for others
- Promoting compliance: start by informing, do not punish “honest mistakes”, reduce checks' frequency for compliant businesses etc.
- Coordination and institutional reform: reduce overlaps and duplication of control and requests
- Information technology to improve targeting, coordination etc.



## Risk-based inspections – simple principle, but implementation work needed

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- Risk = probability x hazard (seriousness x magnitude)
- Frequency and depth of inspections should be proportional to risk
- Criteria: type of activity/process/products, scope/size, location etc. - and compliance history of the business/establishment
- Developing actual risk criteria for many inspection functions is already a lot of work – and weighting different factors is not easy
- Most complex/problematic, however: setting up an information system that actually allows regulators to analyse risks and plan their inspections on their basis – requires not only careful design, but considerable work if set-up from scratch



# Promoting compliance – the enforcement pyramid



Source: Ayres and Braithwaite, *Responsive Regulation*, 1992





# Fragmentation and excessively broad scope lead to ineffectiveness...

**Universal control – all aspects of all activities**



- hygiene
- veterinary
- product specifications
- product safety
- service standards
- energy use
- labour safety
- environment
- mining
- farming practices
- water



## ...Focused control achieves more





# Summary findings and outcomes





## Decreased burden – better outcomes?

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- Burden estimates put the cost of inspections for businesses in countries like Italy or the Netherlands at hundreds of millions of EUR – and this is just the administrative burden, not the cost of uncertainty, investments deterred etc.
- Data from surveys in Lithuania, Georgia, Ukraine etc. show that decreases of 30-60% in admin. burden are possible in a few years – through use of risk-based targeting, process rules etc.
- If targeting and delivery are improved, not necessarily adverse outcomes for safety etc. – possibly even better ones. Depends partly on baseline situation, but general trend is clear (e.g. UK OSH and Environmental inspections numbers down over 10 years but improved outcomes)



# Consolidate and replicated good practices

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- Much can be done and has already been done
- Generally can yield positive results for the state (budget included) and not only for businesses
- Do not necessarily require to rewrite the whole set of regulations – focus on changing how they are enforced instead
- However many challenges – legal, institutional, political etc.