



Implementing Regulatory Reform

Foreign
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IMPLEMENTING REGULATORY IMPACT ASSESSMENT IN DEVELOPING COUNTRIES: CHALLENGES AND OPPORTUNITIES FOR SOUTH ASIA

Government policy plays a key role in creating an environment which fosters productive investment and in ensuring that economic growth contributes to poverty reduction. But policies need to be well designed and administratively feasible if they are to improve the investment climate rather than act as a constraint on pro-poor growth.

Regulation is the main policy tool that government can use to affect the outcomes of markets. If state regulation is to promote economic and social welfare, it needs to be both *effective* and *efficient*; effective in the sense of achieving its planned goals, and efficient in the sense of achieving these goals at least cost, in terms of government administration costs and the costs imposed on the economy in terms of complying with regulations. Regulatory policy normally involves trade-offs in which one or more parties benefit, while others lose out. There is, therefore, a compelling case for the systematic appraisal of the positive and negative impacts of any proposed regulatory change, including the distributional consequences.

Regulatory impact assessment (RIA) is a term used to describe the process of systematically assessing the benefits and costs of a new regulation or an existing regulation, with the aim of improving the quality of regulatory policy. In other words, by assessing the positive and negative impacts of potential and existing regulatory measures, RIA, through *ex-ante* and *ex-post* assessments, is intended to enhance the evidence-base for policy decisions.

This paper considers the opportunities and challenges in using RIA in the developing countries of South Asia. The overall aim of the paper is to draw to the attention of policymakers and donor agencies in South Asia,

the advantages and feasibility of adopting RIA as an instrument for implementing better practice in regulatory design and practice.

State regulation needs to be effective if it is to benefit developing countries by removing market failure and promoting sustainable development. The fundamental goal of development policy is pro-poor economic growth and the aim of regulation policy in developing countries should be to change private sector behavior in ways that are consistent with the goal of raising the income levels of the poor. Whilst the impact of economic growth on poverty reduction is the focus for continued empirical investigation, it is generally agreed that the benefits of growth will not always “trickle down” to improve the income levels of the poorest. Regulation, therefore, has a potentially important role to play in ensuring that the benefits of more efficient market processes are distributed in accordance with society’s social preferences. This implies a wider range of objectives for regulation policy beyond those of promoting market efficiency.

The paper concludes that there is a pressing need to extend the existing knowledge of the current use of regulatory practice in developing economies and the problems encountered, and to utilise this knowledge in developing a RIA framework that is appropriate for these countries. While regulation is now acknowledged to be a key component of development policy, comparatively little attention has been given, so far, to training and capacity strengthening to support evidence-based appraisal of proposed regulation measures, and the monitoring of the effectiveness of regulation in the promotion of development in lower-income countries. RIA provides a method for improving the quality of regulation outcomes and regulatory gov-

ernance, thereby promoting the improvements in regulatory practice which support equitable growth and development.