

Local Impact Assessment in the Czech Republic – the Theoretical Framework of Analysis

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Abstract

The text presents the theoretical framework of Local Impact Assessment presenting it as a new and effective tool of decision-making on the level of local administration. Although controlling elements of Regulatory Impact Assessment were already implemented on the state administration level in 2008, such implementation on the level of local administrations is not being conducted homogenously and often by taking the subjectively selected qualitative as well as legal inefficiencies into consideration. Decentralizing public administration has been a modern trend in economy of public sectors; Local Impact Assessment can be a key tool for effective blending of the public and private sectors.

Keywords: reagination, local impact assessment, regulatory impact assessment, new public management, public policy, public service, finance.

Introduction

Local Impact Assessment presents a modern regulatory instrument based on the impact analysis of certain regulatory activities at the local level, which increases the efficiency at decision-making processes in local government institutions and during the implementation of regulatory actions. Although Regulatory Impact Assessment takes place during the legislative process at the level of central government, local authorities must deal with actual impacts of the regulation on various economic agents. These impacts may have a fiscal, economic, demographic or other nature. Local Impact Assessment represents an element of decentralized decision-making in public administration, as it focuses on the evaluation of social benefits and costs (externalities) of specific activity in a particular locality (catchment area).

Materials and Methods

The main methodological approach used in the process of impact assessment is an analysis of costs and benefits – Cost & Benefit Analysis (CBA). This universal method is used to evaluate project proposals spilling over into the public sector. It compares positive effects (benefits) on one side and negative effects (costs) on the other. In general, the recommended procedure is an essential element of the impacts analysis on actors, the quantification of the impacts and their conversion to a common comparative basis, ideally financial unit (Boardman et al. 2006; Mishan and Quah 2007, etc.). Based on this procedure, it is possible to extend the CBA by other economic, mathematical or econometric tools such as net present value, discounting formulas, regression analysis, scenario analysis and probit/logit model, etc. This allows a comparison of non-financial benefits to the financial statements and to compare the broader social benefits with the zero option (no action). Implementation of the local CBA element into decision-making of state and local government bodies produces enormous research potential.

A key goal of Local Impact Assessment is to improve decision-making at local levels, especially while processing applications (e.g. business licensing, construction projects, infrastructure planning, etc.). The Local Impact Assessment analysis (e.g. by relevant institution in the applicant's expenses – options to be specified) could be a key basis for negotiations about the application at the local level. Then, the decision will depend on the Local Impact Assessment Final Report, approved by the relevant public authority. Local Impact Assessment will be carried out transparently, based on a certified methodology and assessing all relevant societal benefits and costs. If the Local Impact Assessment detects significant negative socio-economic impacts of the project, the applicant has to determine ways of eliminating these negative impacts, or of compensating the social costs and externalities in the catchment area, respectively. This integration of central and decentralized legislative processes is a significant improvement for all concerned subjects. Various analyses of socioeconomic and demographic factors can be made by the Local Impact Assessment approach, so the concept could be used not just for regulatory action, but also in other areas as well (Vanclay 2003).

New Public Management and LIA

The role of the state authorities has grown with regard to more and more issues, in which the public sector intervened in the past century. Among crucial state activities, the internalization of market failures with a negative impact on society is the most important task – a wide range of regulations encroached into all areas like industry, agriculture, leisure, education, etc. (Pildes and Sunstein 2005; Foster 1992). In a parallel, economists have turned the attention to the unintended consequences of regulatory actions that could generate significant barriers to the economic activities and, moreover, could lead to the collapse of the market system as a whole (Akerlof 1970; Veljanovski 2010). That is why we currently observe a greater pressure on redefining the current model of regulation and on searching for innovative approaches that should determine a more efficient way of regulation. Such regulation that would closely reflect the market mechanism and would

neither impose market administrative costs on market actors nor distort the market by aims of unelected interest groups (Baldwin 2010; Ogus 2007). The key conclusion of the current state of knowledge is that we should focus on a decentralization of the state administration, i.e. on transferring regulatory competencies onto lower administrative units.

The decentralization of state administration follows the concept of New Public Management. This concept highlights benefits of the efficient cooperation among institutions at the public administration and of larger involvement of both scientific community and general public in decision-making processes at all levels of government and public administration (Alonso et al. 2015). Another outcome of the debate about better regulation has been the introduction of Impact Assessment Tools (Adelle and Weiland 2012) – the best known tool being a process of Regulatory Impact Assessment: ‘Regulatory Impact Assessment (RIA) is an efficient method of policy analysis which is intended to assist policymakers in the design, implementation and monitoring of improvements to regulatory systems, by providing a methodology for assessing the likely consequences of proposed regulation and the actual consequences of existing regulations.’ (Crew and Parker 2006; OECD 2002). A modern government, however, has to ensure a balance between the legislative activity at the state level and the efficient operation of local governments, communities and settlements (Dunleavy and Hood 1994). Therefore, it is desirable to develop the Local Impact Assessment (LIA).

In the Czech Republic, the concept of Local Impact Assessment is neither practically used nor theoretically elaborated. An insufficient degree of knowledge together with the absence of any research in this area reflect a rational ignorance of stakeholders towards this attractive concept. Local Impact Assessment is used in Australia. The Office of Liquor, Gaming & Racing uses this principle as an input when evaluating an application for a new business license in a given location, e.g. opening of a new casino with slot machines in some urban area (more in McAllister 2014). The concept of Local Impact Assessment, based on the Australian experience with different regional specifics, can be modified and thus serve as a stimulating inspiration for the Czech public administration.

Better Regulation

For decades, economics has systematically cultivated the public administration by using experience as inputs into theoretical modelling and empirical research. Conclusions made in the field of economics of regulation (the public choice theory, social utility function and allocation of resources between the public and private sector, collective action and public goods, the theory of bureaucracy, interest groups and pressure groups theory, rent-seeking ...) have been actually applied into practice. Economics of regulation defines the public administration (central government and local governments) as an essential pillar for the efficient operation of territorial units, which should serve as a systematic support for regulatory decision-making at various levels of the public sector, carried out according to clearly defined rules limiting benevolence or arbitrariness of public officials (Niskanen 1971). However, regulatory actions (a binding and enforceable rule that changes

spontaneous choice of economic agents – assess control, price control, quality control or output control) are often sub-optimal because the regulation is de facto an economic good. It has its own market with interactions between the supply side (controller) and the demand side (regulated entities). In regulated areas, the supply side (politicians and officials from state and local governments) naturally faces an information asymmetry. This produces significant inefficiencies in decision-making, outlined in the most famous approaches to the theory of regulation:

- Regulatory Capture (Capture Theory): A regulated entity provides selective information to the controller with the aim to create information bias and utilize it for own purpose. The regulator is de facto captured by the regulated subject. This ensures that the development of the controlled sector will follow preferences of regulated entity (Stigler 1971).
- Theory of Economic Regulation (Peltzman Model): Regulation activities are defined by the conflict among politician's personal goal (re-election), goal of interest groups (high prices and profits in the regulated sector) and aim of customer/voter (low prices in the regulated sector). Therefore, a politician must balance a positive response to rent-seeking activity of interest groups and a positive response to voters' desires to secure the highest attainable support (Peltzman 1976).
- Becker Model: The model analyzes an interaction between two interest groups seeking the influence on regulatory decision-making. The model defines reaction curves of interest groups, by which these competitors optimize the pressure on the regulator in order to maintain (improve) the influence (Becker 1983).

Economics of regulation determines an opportunity for implementation of new elements to the state administration practice, especially in emerging and developing countries (Kirkpatrick and Parker 2004; Winer 2006; Jacobs 2006). At the central government level in the Czech Republic, the legislative process uses a tool of Regulatory Impact Assessment as a complement to the work of the Government Legislative Council of the Czech Republic. This should ensure impacts of legislative proposals are comprehensively evaluated.

Regulatory Impact Assessment and Local Impact Assessment

The process of Regulatory Impact Assessment in the Czech Republic adheres to the Guidelines for Regulatory Impact Assessment (RIA). Identification of all new, large-scale impacts in areas of the state budget and other public budgets (3.6a), administrative burden for public authorities (3.6b) and economic and legal relations between public authorities and private entities is defined as the main task of the Regulatory Impact Assessment process. Nevertheless, the process of Regulatory Impact Assessment does not practically provide comprehensive identification due to procedural shortcomings (e.g. exceptions listed in section 3.8 of the Guidelines; inadequate elimination of subjective utility function author (=promoter) of regulatory changes; insufficient identification of concerned public institutions and their agendas because of ignorance of regulatory

process maps; political interests and activities of interest groups; time perspective; a lack of erudition or subjective interests of the entities listed in the database of consulting institutions (DATAKO); etc.). This issue reflected in the lack of real local impacts evaluation, i.e. no impact assessment on the level of local governments (Report on the Effectiveness 2013).

Genuinely, the process of Regulatory Impact Assessment affects decision-making with nationwide and regional effectiveness, however lower-ranking representatives of local governments do not have any similar instrument. It increases the costs of competent and efficient decision-making at the level of local municipalities. But even here politicians and officials must contend with various specific investment projects which constitute a substantial local budgets' burden (infrastructure, land use plans, development projects, leisure activities, etc.). As the result, time required for decision-making at local levels expands, or local representatives rationally assume more passive roles in their jobs. At the same time, a lack of inputs opens up a space for various interest groups, corruption and non-transparent political decisions without any possibility to control the process by voters (Olson 1965; Tullock 1967; Krueger 1974; Posner 1974; Peltzman 1976; Benson 1984; etc.).

Therefore, a tool of regulatory impact assessment from the respective of local authorities (Local Impact Assessment) generates a great potential to improve the general impact assessment process. Especially, if it is applied to decentralized decision-making with respect to impacts of regulation – any systematic evaluation at local levels is missing here. The concept of Local Impact Assessment is built on empirical methods of evaluating the impact of pre-defined activities to interest groups (communities) defined locally, ethnically, socially, etc. (more about these methods in Runyan (1977)). The default approach is an analysis of costs and benefits (Cost & Benefit Analysis, CBA). The approach uses economic (not accounting) economic measures and also time-aspect and discounting (Hahn and Tetlock 2008; Adler and Posner 2006).

The concept of Local Impact Assessment is particularly attractive, because it can be used for a comprehensive control in decision-making and implementation of regulatory actions at both central and local governmental units, i.e. as:

- 1) A complement to the existing process of Regulatory Impact Assessment (e.g. RIA to the government bill does not evaluate the local economic impact in the catchment area of self-governing unit; Local Impact Assessment carried out in selected locations could remedy this issue).
- 2) A key element in the control of decentralized decision-making processes at the local government levels (e.g. when deciding whether to grant a license for economic activities or not, municipalities in the Czech Republic unsystematically apply different approaches based on subjective set of qualitative and quantitative measures; Local Impact Assessment as a compulsory impact assessment component could remedy).

The concept of Local Impact Assessment is primarily intended to regulate the supply of goods and services in industries generating economic activities associated with negative social costs. However, it can also be used in evaluating impacts of other, regionally very specific regulatory activities which is not rational to assess at the central government level – heterogeneity problem, additional bureaucracy, budgetary costs, flexibility at decision-making, etc. (Francesco and Radaelli 2010; Weatherill 2007). Local Impact Assessment enables self-governing administrative units to create an operational methodology for evaluation of any phenomenon. It is a transparent tool for elimination of net social costs that would arise after erroneous regulatory decisions. As a particular example, a project of building an industrial zone near the village could be mentioned, when a decision-making authority would be subject to pressures from various interest groups. These interest groups spend unproductive expenses (rent-seeking costs) on the presentation of their subjective arguments and they try to influence the process in their favor. After the implementation of the Local Impact Assessment in accordance with the generally valid methodology, net local economic impacts in the catchment area could be calculated and used in decision-making whether to approve the project plan, which conditions for realization to set, etc.

Conclusion

Decentralization of decision-making competences is perceived as an effective tool in controlling of regulatory activities with significant social costs. The project offers a unique opportunity to implement a systematic solution to the impact assessment process in the Czech Republic, while the ex-ante evaluation of economic impacts on the local level will enable local public authorities, NGOs businesses and individuals in the catchment areas to utilize objective arguments for eliminating erroneous regulatory decisions.

Systematic decentralization of the impact assessment process is a major challenge for local authorities – accumulation of bureaucratic activities increases labor intensity of public officers at all levels of government and multiply activities within the public administration. Before the implementation of regulatory actions by the central government, these impacts in absolute (nominal) measures or relative measures compared to annual expenditure of the state budget or the budget chapter are taken into account. However, for local authorities and local branches of public institutions, even declared "minimal increase in budgetary expenditures" may represent a major budget constraint with regard to the local budget, employees, capital position or other restrictions. Regulatory Impact Assessment do not cover additional costs of regulation within the process map of public administration, because the costs are not linearly distributed among local public institutions. As part of a comprehensive methodology for regulatory impact assessment, Local Impact Assessment should quantify the total economic costs generated to local authorities and thus secure a significant Pareto-efficient change of the status quo.

The concept of Local Impact Assessment identifies relevant economic benefits and costs, generated in the catchment area of the local authority. On this basis, the local authority

can choose the optimal control strategy. Local Impact Assessment could thus expand overall comprehensive approach to the concept of Regulatory Impact Assessment, i.e. to ensure more efficiencies of adopted regulatory actions, especially a detailed analysis of particular impacts on local authorities, and secure the sustainability by identifying fiscal and socioeconomic threats. It follows the modern public administration principles. In general, regulatory actions cause two effects: Ratchet effect (once the regulation has been implemented into the system, it is very difficult to dismantle it, as the responsible official uses information asymmetry against politicians and simply presents the regulation as indispensable) and Snowball effect (one regulatory action generates additional spending needs associated with the preparation, performance, control or administration of the regulatory action at both central and local levels, while the risk of such expenditure needs are not accurately analyzed), as studied in Niskanen (1971), Niskanen (1975), Bradbury and Kellough (2010), Buchanan (1974) or Dunleavy (2014). Impact Assessment tools are intended to eliminate these effects, and by fusing of the Local Impact Assessment concept, this may be happening without an unnecessarily costly process of adapting every central government's legislative process to needs of all entities at local government level. Other impact assessment tools as Regulatory Impact Assessment (RIA), Environmental Impact Assessment (EIA), Social Impact Assessment (SIA), Health Impact Assessment (HIA) and others focus on specific areas, without significant local focus (Burdge and Vanclay 1996; Lock 2000; Ramanathan 2001).

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