MAXIMISING THE BENEFITS OF RIA:
Key institutional and methodological factors

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Experience with RIA

- Around 30 years in some countries
- Most OECD countries have used RIA since the 1990s
- No country has abandoned RIA
  - Most have progressively expanded its use
- But its limited impact on policy decision-making is widely conceded
  - It was expected to be more influential
The limited influence of RIA

- Based on the “public interest” theory of regulation
  - But strong political incentives act counter to it
  - These operate within administrations, as well as on Ministers
- Scope of application is often limited
  - Primary vs subordinate legislation
  - Role of inter-jurisdictional agreements
- Practical problems
  - Data, expertise, timing
Work of OECD and other regulatory reform specialists suggests optimising RIA’s influence involves action in three areas:

- Policy design
- Institutional design
- Methodological requirements
Maximising RIA benefits: Policy design issues

- Applying RIA broadly
  - Primary & subordinate leg., inter-jurisdictional agreements
  - But need threshold tests (size & incidence of costs),
- Starting RIA early
- Integration with policy process
  - Role of multi-stage RIA (eg UK, Aust (CoAG))
- Analytical issues
  - Methodology (BCA, CEA, Cost min. analysis, BEA)
  - Range of impacts considered (benefits or only costs? macro vs micro, competition impacts?)
  - Integrated analysis vs separate, partial analyses
Maximising RIA benefits: Institutional issues

- Political commitment
- Status of the policy (e.g. In law, Cabinet guideline)
- Role of central oversight body
  - Ability to reject RIA
  - Location within government
  - Training role
  - Advocacy
- RIA and public consultation
- Ex post review of RIA
Basic methodological tools/options

- Benefit/cost analysis (BCA)
- Cost effectiveness analysis & “least cost analysis”
- Break-even analysis
- Multi-criteria analysis (MCA)

Need for a flexible, but rigorous approach to tailor the most suited tool to the specific case

- Limited recognition of this in RIA guidance docs
Maximising RIA benefits: Methodological issues (2)

- Economic analysis, not financial
  - embraces “all things that are valued” (includes environmental & social impacts)
- Integrating qualitative & quantitative analysis
- Avoiding fragmentation due to proliferation of partial analyses requirements
  - (e.g. Impacts on small business, regions, trade, employment, indigenes, sustainable development)
- Sensitivity analysis
- Decision rules
  - NPV > 0, B/C ratio rules, MBC=1
Maximising RIA benefits: methodological issues (3)

- Inclusion of risk assessment
  - (subjective vs objective risk, risk acceptance/aversion, precautionary principle)

- Integrating competition assessment
  - OECD toolkit

- Valuation of a statistical life
  - Guideline value, conceptual basis, updating

- Discount rates
  - Conceptual basis, specific rate, updating
Systemic issues limit RIA effectiveness, but

Policy design, institutional & methodological improvements offer hope of significantly improved practical performance

RIA is an *integrated* analysis potentially a broad enough tool to take all policy considerations into account

This will better address necessary policy trade-offs than a “silo” approach