

# MAXIMISING THE BENEFITS OF RIA:

Key institutional and methodological factors

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*Joint workshop of the Regulatory Policy  
Committee and Annual Meeting of  
Sustainable Development Experts*

*2 November 2011*

# 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

# Improving the effectiveness of RIA

- ▣ 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

# Maximising RIA benefits: Methodological issues

- ▣ 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

# Conclusions

- ▣ 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