# Table of contents

1. Glossary 4
2. Introduction: How to use the manual? 7
   2.1. The impact assessment process and regulatory impact assessment 7
   2.2. Steps of the impact assessment process 9
3. How to identify impacts and their significance? 14
4. How to analyse impacts? 17
   4.1. What kind of costs can occur with a regulation? 19
   4.2. Specific methods for impact assessment 20
      4.2.1. Standard Cost Model 20
      4.2.2. Cost-benefit Analysis (CBA) 32
      4.2.3. Cost-effectiveness Analysis (CEA) 34
      4.2.4. Multi-criteria Analysis 35
      4.2.5. Putting different methods in “one picture” 36
5. Consultations during Impact Assessment procedure 37
   5.1. The concept of “consultations” 37
      5.1.1. Why is it important to inform society about decisions the public institutions are going to adopt? 38
      5.1.2. Why is it important to obtain feedback from the society? 38
      5.1.3. Why is it important to analyse the opinions expressed by the society? 38
      5.1.4. Why is it important to show to the society what has been done with their opinions? 38
   5.2. Main principles in order to maintain qualitative process of consultations 39
      5.2.1. When to consult? 39
      5.2.2. Duration of consultation process 39
      5.2.3. Clarity of scope and impact 40
      5.2.4. Accessibility of consultation exercises 40
      5.2.5. The burden of consultation 41
      5.2.6. Responsiveness of consultation exercises 41
      5.2.7. Capacity to consult 42
ANNEX 1: Sequence of the RIA Fundamental procedures in Armenia 43
ANNEX 2: Template 1 for overview of proposed alternatives, their capacity to solve the identified problems, as well as their potential impacts 44
ANNEX 3: Template 2 for overview of proposed alternatives, their capacity to solve the identified problems, as well as their potential impacts 45
ANNEX 4: OECD Checklist of regulatory decision-making 46
ANNEX 5: Procedural cycle for identifying impacts 47
ANNEX 6: Check-list for identifying impacts 48
   1. Socio-economic impacts 48
   2. Impact on Health 53
   3. Environmental Impacts 55
   4. Impacts on Corruption 57
   5. Impact to arrangement of state establishments and to the state budget 61
ANNEX 7: Socio-economic impact indicators and data sources 64
1. Glossary

**Impact** – a reportable, quantifiable change, or potential change, costs or benefits, that a proposed or adopted decision or policy is or could be making in real people’s lives.

**Impact Assessment** – a process aimed at supporting the decision-making. It identifies and assesses problems at stake and the objectives pursued. It identifies the main options (alternatives) for achieving the objective, considers non-regulatory alternatives and analyses their likely or actual impacts in relevant fields (society, economy, environment etc.). There can be an ex-ante or ex-post Impact Assessments.

**Regulatory Impact Assessment** – an analysis of possible changes as a result of adoption of normative legal acts (Law on Legal Acts Article 27.1.1). Its aim is to support the decision-making process regarding a new Regulation, its positive and negative effects, and whether the regulation is likely to achieve the desired objectives.

**Impact Assessment Report** – report which includes basic information (data, etc.), based on which Impact Assessment was carried out. Also, an integral part of Impact Assessment Report is conclusions obtained in the result of Regulatory Impact Assessment. Besides, often Impact Assessment Report contains information about public consultations that have taken place during the Impact Assessment process, as well as results of these consultation (do stakeholders support or not the proposed decision, why not, if it is the case, etc.).

**(Impact) Assessor** – a body of executive power conducting regulatory impact assessment (Law on Legal Acts Article 27.1.2). An Impact Assessor can be a Drafter of a proposed decision, or an expert representing other line ministry involved in the field of activity affected by the proposed decision.

**Drafter** – a public sector expert who develops policy proposals, proposed decisions and draft regulation. Drafter carries out the initial Impact Assessment before it is sent for verification to Impact Assessors in other line ministries.

**Influence** – an action or process of producing effects. Effect - something that is produced by a cause – a result, consequence. **Ex-ante** – (Lat. “before the event”), refers to Impact Assessment that aims to forecast or predict the results, effects and consequences of an event (proposed decision) that has not happened (been adopted) yet. **Ex-post** – (Lat. “after the event”), refers to Impact Assessment that aims to evaluate results, effects, consequences and measure past performance of an event or decision that has happened or entered into force.

**Monitoring** – observation of a situation for any changes which may occur over time, supervision of activities in progress to ensure they are on-course and on-schedule in meeting the objectives.

**Simplification** – a reduction of complexity. In context of Better Regulation – a process of reviewing regulation, streamlining and removing overlaps to ensure that regulation is clear and as un-burdensome for regulators, businesses and citizens as possible.

**Policy** – guiding principles, a course of action and plan adopted and pursued by a government or public administration (usually executive branch) intended to influence and determine decisions and actions.

**Policy paper** – written statement of policy that provides comprehensive arguments that justify the suggested course of action and therefore acts as a decision-making tool and calls to action. Policy instruments – tools which can be used to overcome problems and achieve desired effects. Most common types of policy instruments are Regulatory instruments (e.g. laws and regulations) and Non-Regulatory instruments such as Economic instruments (e.g. taxes, fees and subsidies that encourage behavioral change through use of market signals) and Suasive instruments (e.g. information, campaigns that aims at changing individual or collective perceptions and priorities).

**Regulation** – state issued rules that award or constrain rights and allocates responsibilities. Regulation attempts to produce or prevent outcomes which might or might not otherwise occur (in a given place or timescale). In this way, regulations are a tool of implementation of policies. Official regulations are incorporated in legal acts. A body of legal acts and regulations, including the means to enforce them, in a certain area is usually referred to as “legal framework” or “regulatory regime”. Separate elements of Regulation (e.g. restrictions, licenses) are sometimes referred to as “regulatory requirements” or “regulatory obligations”.

**Regulator** – (also regulatory authority, regulatory body) public or governmental authority responsible for exercising authority over some area of human activity in a regulatory capacity.

**Empirical** – derived from, guided by and provable by experience or observation.

**Proposed decision** – intended action or resolution developed by the public authority or public administration put forward for acceptance or rejection. In case Regulatory instruments are considered, proposed decision can take a form of draft legal act.
Decision-making – the process of weighting the positives and negatives of each option (alternative) and selecting the best logical choice from the available options. The act of decision-making in public sector is entrusted with “decision makers” – specific institutions, positions or appointed officials granted the privilege by a legal act (e.g. The President, Government, the Parliament, a Minister, a Mayor etc.).

Business environment – a combination of external factors and forces that affect business operations and decisions, including customers, competitors, stakeholders, suppliers, industry trends, regulations, other government activities, social and economic factors and technological developments.

Evidence-based approach – decision-making by integrating the best available research findings derived from systematic collection of data through observation and experiment, practitioner expertise, best practices and other resources. Evidence-based approach aims to eliminate subjective judgment in policy making.

Policy options – (also policy alternatives) various co-existing (options) or mutually exclusive (alternatives) courses of action of possible solutions that are assessed to realize policy and reach policy goals. Assessment of policy options is carried out at Ex-ante assessment stage, before decision-making and policy implementation takes place in order to identify the policy option that best meets policy goals and at the same time is the best fit for given circumstances.

Public participation – (also participation) a broad process of enabling people to influence problem solving or decision making of public institutions and using public input to make decisions. Public participation is complementary to formal political activities (voting) and informal civic activities (such as working in NGOs etc).

Consultation – a form of public participation used to seek and to obtain feedback on policy or proposed decision by public institution. Consultation is conducted in writing, with stakeholders or general public asked to respond to a consultation document, but sometimes there are also opportunities to consult in person, in meetings or workshops.

Civil society – array of non-governmental organizations that express the interests and values of their members based on ethical, cultural, political, scientific, religious or philanthropic considerations. Representatives of civil society can be community groups, non-governmental organizations (NGOs), labor unions, indigenous groups, charitable organizations, faith-based organizations, professional associations, foundations etc.

Public – the people constituting a public, state, or nation (not specific or belonging to a particular group).

Stakeholder – person, group, or organization that has direct or indirect stake in a policy or proposed decision because it can affect or be affected by the policy, decisions, actions, or objectives. It is a smaller sample than general public.

Target group – set of stakeholders who serve as the focal point for a particular policy or proposed decision, an object toward which policy is directed, an object to be influenced or changed by a policy or proposed decision. This is a smaller sample than stakeholders.

Third party – stakeholders other than the ones involved in a transaction, agreement or proceeding (principal and agent). Often times – party who is involved by chance or only incidentally.

Goal – (also policy goal, aim, end, purpose) a statement of broader change, consequence or achievement toward which proposed decision or policy is directed. Policy goals are arranged and sequenced in hierarchies, consisting of objectives (lower level statements that can be attained by policy programs or clusters of activities) and targets (lowest level fixed and easily measurable result that can be achieved by processes or individual activities).

Result – a final consequence of sequence of actions, proposed decision or policy expressed qualitatively or quantitatively. Policy results are arranged and sequenced in hierarchies, consisting of outcomes (description of the intended long-term effect or consequence that will occur from carrying out policy or adopting proposed decision) and outputs (products and services delivered, immediate products of internal activity).

Business – (also enterprise) an organization engaged in trade of goods or services to customers in order to earn profit and to increase the wealth of their owner. A business owned by multiple individuals may be referred to as a company. Businesses operate in a certain field or a subset of domestic economy that can be referred to as “business sector”.

Efficiency – a measurable concept, quantitatively determined by the ratio of input to output describing the extent to which time or effort is well used for the intended task or purpose (how well something is done). Effectiveness is a non-quantitative concept mainly concerned with achieving objectives (how useful something is).

Government intervention – (also public intervention) any act by a public institution to influence private actions by regulatory, economic or suasive policy instruments, or through direct provision of goods and services.

Unintended consequences – results (outcomes or outputs) that are not incorporated in the goal (objective) statements and are therefore not products of purposeful action.
**Variable** – an abstract definition of a characteristic, number, or quantity that can increase or decrease over time or take different values in different situations.

**Indicator** – a specific value of a variable, a measurable representation of a process or result (outcome, output), a metric that is intended to be easily measured in order to obtain information about condition or direction of performance.

**Burden** – encumbrances and troubles that cannot be assigned or attributed to direct line of activity. Administrative burden is loss of time converted to costs to businesses and the public of complying with regulation.

**Cost** – in general terms, an amount or value that has to be paid or given up in order to get something. In business, cost is a monetary valuation of effort, material, resources, time consumed, risks incurred, and opportunity forgone to achieve some result. All expenses are costs (financial costs), but not all costs are expressed in direct financial expenses (economic costs).

**Benefit** – in general terms, advantage, gain, something that enhances well-being. In business, benefit is a monetary valuation of positive results from action, investment of effort, materials and resources. All revenues are financial benefits, but not all benefits can be expressed in monetary value and are therefore indirect (or economic) benefits.

**Public institutions** – (also public authorities) for the purposes of this Manual includes national and sub-national level institutions of executive and legislative bodies invested with regulatory capacity.

**Non-governmental organization** – a not-for-profit, voluntary public group which is task-oriented and driven by people with a common interest, organized on a local, national or international level. NGOs can perform variety of service and humanitarian functions, bring public concerns to public institutions, advocate and monitor policies and encourage public participation.

**Civil service** – (also civil servants) body of persons employed by the national civil branches of government that are not legislative, judicial, or military and in which employment is usually based on competitive examination.

**Personnel (employees) of public institutions** – body of persons employed by (national and sub-national) public institutions, and establishments acting under the public law, including civil servants and other employees.

**Small and Medium-Sized Enterprise (SME)** – business or a company whose headcount or turnover falls below certain limits.

**Micro-Enterprise** – a type of small business whose headcount, required seed capital, turnover or net assets (or a combination of these factors) fall below certain limits.
2. Introduction: How to use the manual?

The aim of the manual is to support the implementation of the RIA concept paper by describing the different types of impacts and providing tools for identifying these impacts as well as methods for their analysis.

Current chapter describes – in brief – the steps of the impact assessment process and its links with the legislative process in Armenia. Secondly, it directs the reader (e.g. the person carrying out the impact assessment) to the specific chapters of the manual explaining which further chapters could be useful during each step of the process.

2.1. The impact assessment process and regulatory impact assessment

Impact Assessment (IA) is a tool or an instrument which helps to assess the potential (ex-ante stage) or already created (ex-post stage) consequences – benefits, costs and effects – of a policy or a regulation. Thereby IA is an instrument that helps:

1) to inform politicians and public administration itself about the consequences of decisions before adoption of a policy, regulation, or legal instrument;

2) to inform politicians and public administration itself about the consequences of decisions that have already entered into force;

3) to give appropriate information about the consequences of potential or already performed Government’s intervention to the society stakeholder and stakeholders.

The general aim of IA is to assist to governments in making their policies more efficient. IA supports the process of policy-making by providing valuable empirical data to policy decisions. The use of IA can contribute to the policy-making process by promoting efficient regulatory policy, supporting business environment and improved social welfare. That is the reason why IA nowadays has become an integral part of an evidence-based approach to policy-making and to legislation.

IA should be carried out from the very early stages of identifying a policy challenge, throughout the development of policy options, as well as public consultations and final decision-making (all that applies to ex-ante stage). Besides, IA can be also applied in order to review the practical implementation of already made decision and its consequences (that refers to ex-post stage). Moreover, in practical life there can be situations when it is hard to separate both stages of IA – in other words, sometimes it can be hard to separate where ex-post stage of IA becomes already ex-ante stage of IA (see Figure No.1).
The **Regulatory Impact Assessment** (RIA) process is carried out to analyse specifically the impacts of new and/or already existing regulations. RIA consists of consecutive steps which form a circle (see Figure No 2).

**Figure No.1. Mutual link between *ex-post* and *ex-ante* Impact Assessment**

- Developing *ex-ante* Impact Assessment
- Decision (legal act), based on *ex-ante* Impact Assessment
- Reviewing the implementation of the decision = *ex-post* Impact Assessment that can contain conclusions and proposals about the necessity to change the existing situation (in this case *ex-post* Impact Assessment partly becomes a basis for *ex-ante* Impact Assessment for the new decision)
- Enforcement / implementation of the adopted decision (legal act)

**EXAMPLE (possible consequences of not carrying out a RIA):**

Government B had a problem: the investigation of small crimes (e.g. shoplifting of goods with small value) was considered disproportionately expensive because it involved proceedings by the police, prosecution and the courts. It was decided without proper analysis and consultation that shoplifting up to the value of 60 EUR should be decriminalised and only the police should deal with these cases as misdemeanours (thereby decreasing the workload of the prosecutor and the courts). The harshest punishment for a misdemeanour was a fine according to the law. Soon after the implementation of the decision shops started to complain that drug-addicts steal goods only up to the value of 60 EUR and the number of such cases had increased considerably. It was found out that drug-addicts were well aware of the fact that if the steal goods worth 60 EUR or less, they could only face a fine and as they had no money to pay the fine they actually could not be punished at all. Finally the implemented decision was changed and shoplifting in the value of 60 EUR or less was recriminalized if the person is caught repeatedly. This could have been avoided if a proper RIA had been carried out in the first place and the need to have effective mechanisms for punishment had been identified sooner. The costs of not doing a proper RIA included: the damages caused to the shop-owners (stolen goods), the cost of drafting two draft acts instead of one, etc. These costs probably could have been avoided if other ministries/departments (e.g. the police force), interest groups (shop-owners) had been consulted properly.

**Figure No.2. Regulatory Impact Assessment process**

1. Identification of the problem
2. Identification of objectives
3. Identification of alternatives for achieving the objective
4. Analysis of alternatives: identification of impacts and analysis of impacts
5. Decision on the adoption of the best alternative
6. Enforcement/implementation of the best alternative
7. Monitoring the implementation of the decision / *Ex post* analysis

The *Regulatory Impact Assessment* (RIA) process is carried out to analyse specifically the impacts of new and/or already existing regulations. RIA consists of consecutive steps which form a circle (see Figure No 2).
The RIA process corresponds with the process of adopting a legal act:

1) Identification of the problem, objectives and alternatives for achieving the objective are carried out during the initial analysis when the need to regulate is determined;

2) Analysis of alternatives encompasses analysis of both regulative and non-regulative alternatives. If the regulatory alternative is the most suitable, the results of the analysis form the basis for the elaboration of the legal act and the corresponding regulatory impact assessment submitted to the other ministries and consequently to the Government/Parliament for adoption;

3) The Government/Parliament adopts the legal act as the best possible alternative for achieving the pursued objectives;

4) The legal act is implemented/enforced;

5) After the implementation the effects of the legal act are assessed and analysed, if new problems are identified or the old ones are not solved, the process starts all over again.

**EXAMPLE (possible consequences of carrying out a RIA):**

Government A was facing a problem with corruption in the police force. One of the measures to combat corruption (in addition to stricter control mechanisms and changing the internal working culture) is increasing the salaries of the police and offering better social benefits in general. It was calculated that the total cost of increasing salaries of the police force to a level which could decrease corruption is 20 million EUR annually. Initially it was decided that this is too costly and the government cannot afford it. Then the experts calculated the cost of corruption including the cost by individuals who pay bribes, the cost of losing foreign investments (compared to a neighboring country X where the level of police corruption is low), the cost of furthering criminal activity through bribes and the cost of spending public money on ineffective police force. The total cost of corruption turned out to be 40 million EUR annually. After the results of the analysis came in, the government decided to implement the policy for increasing the salaries of the police force and as a consequence (together with implementing the other measures) the corruption in the police force decreased by 60%, making the implemented policy cost-effective.

**NB!** Chapter 6 of the manual includes the description of the consultation process.

Consultation with stakeholders should take place throughout the process.

### 2.2. Steps of the impact assessment process

It is possible to identify certain general steps of the IA process. This chapter describes each step and also includes references to the appropriate methods described in the ensuing chapters of the manual thereby serving also as a roadmap to regulatory impact assessment.

**1. Identification of the problem**

At the very beginning it is critical to define the existing problem. A good definition of the problem and a clear understanding of its causes are the necessary preconditions for setting appropriate objectives and thereby also for identifying possible options to address the problem. The elaboration and adoption of regulation (legal act) usually is just one possible way of solving the problem. Moreover, adoption of legal act should even be the chosen measure only in circumstances when no other solution is appropriate or sufficiently efficient. Otherwise there is a risk of overregulation! Exactly for that reason it is very important to identify fully and appropriately the problem to be solved.

A good problem definition should:

- describe the nature of problem in clear terms and support the description with clear evidence;
- identify clearly the drivers or underlying causes of the problem;
c) set out clearly who is most affected by the problem (individuals, sectors, social groups); identify the size/amount/scale of affected individuals, sectors or social groups;

d) describe the nature of the impact on each above-mentioned individual/sector/social group. Identify how large are these effects. Identify how long will these effects persist;

e) describe how the problem has developed over time and how already existing policies affect it;

f) describe how the problem is likely to develop in the future without any action from the Government (identify clearly assumptions, risks and uncertainty involved);

g) if relevant, describe possible international aspects that influences the problem and its possible development in the future.

**THE PROBLEM TREE**

The “problem tree” technique is a useful tool how to frame the problem simultaneously analysing its causes and effects and, where applicable, also their mutual relations. This technique is handy because it produces a visual representation of the analysis in which the key problem under discussion resembles the trunk of a tree, the effects of the problem become the branches and the causes of the problem become the roots.

Thereby this tool provides an opportunity to identify causes which might be tackled in order to solve the problem – or, in other words, it can give a hint about necessary action to take to tackle the origins of the problem.

The “problem tree” as visualization is not mandatory to include in the Impact Assessment Report. Its main help is to structure the problem and its causes for Drafter, thereby in Impact Assessment report the problem can be also described in narrative (without visualization of the “tree”).

**PRACTICAL IMPLEMENTATION in ARMENIA**

The step 1 or identification of the problem (or several problems) takes place within the Procedure 1 indicated in the Annex 1 “Sequence of the RIA Fundamental procedures in Armenia”

### 2. Identification of objectives

After identifying the problem, it is time to identify the desirable objective. The objective is the main aim of the policy to be implemented. It is important to distinguish between the “ends” and “means” of the policy. The objective has to be the “end” outcome which the government wants to achieve! And the “end” should not be confused with the “means” which are only the possible ways how to achieve your objective!

**EXAMPLE:**

Government want to reduce the number of deaths due to smoking = the “end”. Increased tax on cigarettes with the intention behind that people will buy less cigarettes = the “means”

**SMART OBJECTIVE**

A good objective should be Specific, Measurable, Achievable, Realistic and Timely (SMART). If possible, it is always advisable to describe the objective in quantitative terms (e.g. numbers) thereby it becomes possible to measure the success of achieving the objective

**PRACTICAL IMPLEMENTATION in ARMENIA**

The step 2 or identification of objectives takes place within the Procedure 1 indicated in the Annex 1 “Sequence of the RIA Fundamental procedures in Armenia”
3. Identification of alternatives

Once the objective is defined, it is possible to identify the main alternatives (e.g. means) that could enable to attain the target. It is advisable to identify as many different practical ways of achieving the objective as possible. This will enable you to identify the best possible option.

Some tips for identifying alternatives:

a) alternatives should be clearly related to the objectives and should be proportionate (with as little negative side-effects as possible and reaching the objective should be more important than the negative side-effects);

b) one of the proposed alternatives should also be so called ‘doing nothing’ option (in other words – option that would offer to maintain the status quo);

c) avoid presenting only the ‘doing nothing’ (status quo) option, the ‘extreme’ option (that kind of option which is clearly unrealistic to implement due to certain circumstances – lack of resources, lack of political support, etc.) and the preferred option;

d) narrow down the options by screening them for technical and other constraints, and by assessing them against criteria of effectiveness and efficiency;

e) explain clearly the reasons for excluding certain options from further analysis.

A special attention should be paid to non-regulatory alternatives. Usually the necessity to elaborate and to adopt legal act is the very last measure the Government should launch. Why? The main reason is that often the problem can be solved more efficiently without legal act. However, bureaucracy is tended to use regulation more than other options just because it is more convenient for it, although it can contain the risk of not achieving the objective, as well as the risk of creating additional cost for entrepreneurs or for society as such in order to fulfil the obligations of the regulation.

**EXAMPLE:**

Here you can see the list with possible non-regulatory, as well as regulatory measures (possible alternatives) that can be used to achieve the necessary objective:

- ‘doing nothing’;
- better funding or the same funding, only used/managed more efficiently;
- raising public awareness;
- increase efficiency of current legislation (incl. the aspect of controlling the execution of already existing legislation);
- deregulation;
- new regulation or amendments in already existing regulation.

In order to decide, if regulation is the best form of government intervention, some countries use so called ‘threshold tests’ that include several criteria helping to decide, whether regulation would be really necessary. However, these criteria should be perceived critically because in reality the necessity for public intervention can be created by the combination of several reasons. The main reasons for government’s intervention may include the following:

a) market failure (for instance, market prices do not reflect the real costs and benefits to society; insufficient supply of public goods; missing or weak competition; missing or incomplete markets; information failures, such as imperfect information or lack of access to information for consumers);

b) regulatory failure (for instance, already existing regulation that appears not to be in public interests; inadequately defined legal framework; unintended consequences resulting from already existing public intervention);

c) social objectives and public-interested redistribution of resources (especially with the reference to equity issues);

d) hazard or risk on health and/or safety of the society.
4. Analysis of alternatives: identification of impacts and analysis of impacts

Once you have identified all the possible alternatives, their impacts have to be:

a) identify alternatives’ potential impacts and their significance;

b) analyse and mutually compare alternatives and their potential impacts.

Initially it is important to identify all the possible impacts of the alternatives which can occur. After that it is possible to identify which impacts are likely to be significant and might need additional deeper analysis which is then possible using different methods.

NB! Chapter 4 of the manual describes the methods for identifying impacts and their significance.

NB! Chapter 5 of the manual describes the possible methods which are considered by the authors the most relevant to Regulatory Impact Assessment and decision-making support (Cost Benefit Analysis, Cost Effectiveness Analysis, Standard Cost Model and Multi-Criteria Analysis).

NB! Annex 3 includes questionnaires which can be used for identifying impacts in different fields.

5. Decision on the adoption of the best alternative

6. Enforcement/implementation of the decision (the best alternative)

7. Monitoring the implementation of the decision / Ex post analysis

Ex post analysis can be carried out using the same methods which were used during the ex ante analysis (e.g. Standard Cost Model, Cost Benefit Analysis, Cost Effectiveness Analysis, Multi-Criteria Analysis). The only difference is that during ex ante analysis the data about impacts and their significance was based on predictions while during ex post analysis it is possible to use data obtained from practice (the implementation process). Ex post analysis can serve as a basis for the new IA process (including aspects of new ex-ante analysis).
PRACTICAL IMPLEMENTATION in ARMENIA

The step 7 or monitoring the implementation of the adopted decision takes place within the Procedure 5 indicated in the Annex 1 "Sequence of the RIA Fundamental procedures in Armenia".

NB! In addition to the above-mentioned stages of IA process and the methods referred to, it is strongly suggested that during the implementation of all these stages – but particularly after first IA 4 stages – the Drafter goes through the checklist developed by the OECD (see Annex 4).
3. How to identify impacts and their significance?

The identification of impacts and their significance encompasses finding answers to three questions: what, who and how much?

- **What?**
  - What is the purpose, objective of the proposed solution? → to solve a problem, improve or develop some sectors, etc.
  - What will change due to the proposed decision? → should be related to the purpose of the proposed solution.

**NB!** Basically, *ex-ante* impact assessment means identification of possible changes – in comparison to the existing situation or to the ‘doing nothing’ option – that can occur as the result of the proposed decision.

- **Who?**
  - Who will be benefitting or bearing the costs of the proposed decision?
    - Identification and quantification of different target groups – total economy, specific sectors, households or geographic regions, etc.

An important step within the impact analysis is **identification and quantification of respective target groups that will be influenced by the proposed decision.**

**NB 1!** In this case “target group” can be not only persons (young people, pensioners, doctors or militarists, etc.), but also legal entities (enterprises).

**NB 2!** Besides, it is worth to remember that not only these groups that are positively influenced, should be identified, but also these groups that can possibly experience a negative influence created by the proposed decision.

List of possible criteria how to identify and separate target groups can be seen below:

**NB 1!** However, it is necessary to remember: that kind of list will never be ‘completed’ and thereby cannot be exclusive as it can be supplemented with criteria relevant to the respective country’s situation).

**NB 2!** Besides, in practical life these criteria can be mixed for the use of impact assessment analysis, because people belong to more than one target group at the same time.

<table>
<thead>
<tr>
<th>Target Group</th>
<th>Social affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>List of possible criteria</strong></td>
<td>sex (male / female);</td>
</tr>
<tr>
<td></td>
<td>age (children, youth, adults, older persons (starting from the age that gives the right to receive a retirement pension));</td>
</tr>
<tr>
<td></td>
<td>household situation (one person's household / several persons' household);</td>
</tr>
<tr>
<td></td>
<td>number of children in the family;</td>
</tr>
<tr>
<td></td>
<td>level of education (basic education, secondary education, higher education);</td>
</tr>
<tr>
<td></td>
<td>persons with disabilities;</td>
</tr>
<tr>
<td></td>
<td>professional affiliation.</td>
</tr>
<tr>
<td>Income level</td>
<td>poor persons;</td>
</tr>
<tr>
<td></td>
<td>persons with incomes under the identified poverty threshold.</td>
</tr>
<tr>
<td>Employment status</td>
<td>employer;</td>
</tr>
<tr>
<td></td>
<td>employee;</td>
</tr>
<tr>
<td></td>
<td>self-employed.</td>
</tr>
<tr>
<td>Enterprises</td>
<td>legal status of enterprises (accordingly to the country's legal classification in this regard);</td>
</tr>
<tr>
<td></td>
<td>big, medium, micro enterprise;</td>
</tr>
<tr>
<td></td>
<td>classification after industry to which enterprise belongs;</td>
</tr>
<tr>
<td></td>
<td>classification after the amount of paid taxes (big tax payers, small tax payers).</td>
</tr>
</tbody>
</table>
• **How much?**
  
  o How big is the additional cost or benefit (for different target groups)?
  
  o Is it too much or not enough? → comparison with total costs or revenues or profits, other sectors or countries.

For identification and quantification of potential impacts checklists, key questions and indicators are helpful tools. General indicators can be divided into more detailed sub-indicators. There are some general indicators, but usually case-specific indicators are more informative and thus valuable. Also, general indicators sometimes can be more useful for ‘preliminary’ or ‘light’ impact assessment, while sub-indicators are more directly linked to draft legal act under observation.

### Example:

In case of developing tourism sector, following indicators could be considered in different levels of aggregation:

- General indicators: GDP growth, export revenue, number of employed;
- Sector-specific indicators: value added generated in tourism sector, exports of tourism services, number of workers in tourism sector;
- Direct result indicators: number of foreign tourists in hotels, tourism expenditures on goods and services.

Best indicators are related to problems and objectives of the proposed decision – they reflect how it could help to solve the problem. There might be important side-effects (impacts on other sectors) which should also be covered in impact assessment.

### Procedural cycle for identifying impacts (see Annex 2)

First estimation of possible impacts caused by the proposed decision is given using **check-list of impacts (see Annex 3)**. Checklists exist for the following impact areas:

1. Socio-economic impacts (including administrative cost, competition, small and medium size entrepreneurs and social affairs);
2. Impacts on Health;
3. Environmental impacts;
4. Impacts on Corruption;
5. Impact to arrangement of state establishments and to the state budget.

Each area is divided into subcategories and presented as questions (whether the proposed decision will cause specific impact?). Answers are given based on expert opinion of drafter of the proposed decision (or the one who is checking the draft of the proposed decision) and have ‘yes’ or ‘no’ values.

If there are no obvious impacts then the question is dropped and next one is taken under consideration. If the proposed decision might cause possible impact then the importance of impact must be determined. If the impact is small and considered to be unimportant then it is dropped aside and not evaluated further. If the impact is considerable then it should be described and assessed (results of the proposed decision should be predicted to enable evidence-based management decisions).

To make sure whether the impact is significant four criteria are used: extent of impact, frequency of impact, size of target group and risk of unintended consequences:

- **The extent of impact** is big if behaviour of target group (person, enterprise, environment) is changing remarkably compared with prior situation and serious adaptation with new situation is necessary. Extent of impact is moderate if there are changes in target group’s behaviour but there are no difficulties of adaptation. Extent of impact is small if there are no serious changes in behaviour.

- The regularity and density of impact has to be evaluated to estimate the **frequency of impact**. Frequency of impact
is big when target group will face the consequences often and regularly. Frequency is moderate when impacts occur regularly but not on daily basis and frequency is small when impacts occur irregularly (randomly) and rarely.

- **The size of target group** is relative measure and the estimation is based upon the proportion of influenced objects (persons, enterprises, etc.) to overall population of objects (amount of influenced persons compared with whole population, amount of influenced enterprises compared with all registered enterprises etc). Size of target group is big if it contains more than half of population or number of registered enterprises. Size of target group is moderate if the proportion of influenced group is 5-50% of population and small if the target group contains less than 5% of members of population.

- To estimate the risk of unintended consequences it is necessary to make sure whether the resulting impacts are positive or negative. The risk of unintended consequences is great if these impacts are clearly negative by nature, it is moderate if these impacts are rather negative than positive and small if there are no negative impacts.

If possible impact receives high estimation at least in one of these categories or moderate in two categories then it may be concluded that the impact is significant and needs further analysis.

In case it appears that the proposed decision will have impact and it is important then it should be evaluated. To give first estimation the **indicators of impacts** are used (see Annex 4).

Indicators are used as follows:

1. The current value of indicator must be calculated to describe the existing situation. Value is given considering the situation the proposed decision will influence. To find the source to obtain necessary data table of economical impact can be used (see Annex 4).

2. The direction of change of indicator caused by the proposed decision must be determined as the next step. The determination is based upon empirical evidence and must be reasoned. Explanatory information added to the proposed decision should contain necessary evidence to determine the direction of change.

3. Using data describing current change and explanatory information added to the proposed decision, the future value of indicator should be predicted (when possible). Prognosis may always contain some error and the scope of error (or limits of trust) should also be added to evaluation document.

4. By taking into account all indicators, opinion of overall impact of the proposed decision should be given. In case of changes of regulation that can be measured in monetary terms, the impacts could be added up (cost-benefit analysis) but even in this case sub-impacts should be considered – neutral impact for total economy may not be acceptable if some sectors or areas have very big unintended consequence although majority of economy would be better off. Usually such derivation of single outcome or total impact is not possible, different variables are used for describing different impacts (for example, number of enterprises, persons, amount of working days, etc.) and final opinion is based on expert opinion (based on multiple impacts estimated to be important in this specific case).
4. How to analyse impacts?

At the beginning of carrying out Impact Assessment, one has to choose the most appropriate methodology for the circumstances. The choice of method is determined by many factors; they can be external (limited financial resources, time, specificity of the field), or internal (knowledge and experience of the assessors).

One way of classification of methods is based on their quantitative or qualitative nature.

Qualitative methods are based on inductive logic – they aim to arrive at statements, assumptions or hypotheses based on empirical observation or data. Quantitative methods, on the other hand, are based on deductive logic – they aim to verify if a certain statement, assumption (a hypothesis) holds true in the real life and according to empirical data. To sum up, quantitative methods are used for verifying hypotheses, but qualitative methods – to create them.

The most common qualitative methods are (a) expert methods (Delphi method, expert interviews, expert panels, expert polls etc.), (b) other participative methods (brainstorms, focus groups, interviews, stakeholder analysis), as well as (c) methods that analyze particular events, processes or organizations (case studies, analogies, comparative studies, best practices, SWOT analysis, multi-criteria analysis). Qualitative methods help to carry out in-depth analysis of social phenomena, organization culture and causes of different processes.

Quantitative methods are divided in descriptive and inferential methods. Descriptive methods describe collected data using frequencies, central tendencies, dispersion and, of course, correlation. Inferential statistics draw conclusions or make predictions about larger groups based on smaller samples using probability studies. Quantitative methods are chosen to compare two or more objects – they provide measurable characteristics that help to determine their relative relationship or differences, mutual causes and effects, as well as to forecast future values of a phenomenon.

Qualitative data is information that cannot be displayed in numbers and holds subjective opinions or judgments. Conversely, quantitative data are measurable in time, can be expressed in numbers, can represent a larger group through a smaller sample and, after gathering, quantitative data can be used repeatedly and for various purposes. Quantitative data can be modeled and estimated, as well as assigned a degree of confidence.

The very basic idea behind assessing impacts is to conclude what “good changes” and what “bad changes” can happen to the society or to the specific group of the society, if the proposed Government’s decision is to be adopted. How it was shown in the Chapter 3, the question is to assess how big these potential “good changes” or “bad changes” can be. Also, Chapter 3 showed that potential changes can be related to different sectors – for instance, changes in social situation or changes in environment (see also Annex 3).

Usually there are two main terms used when talking about potential changes – quite logically, these that leave positive consequences are called “benefits” and these that leave negative consequences are called “costs”. In other words, impact analyse is about identifying benefits (what society or specific its group will obtain from the proposed Government’s solution) and costs (what society or specific its group can potentially lose or suffer from). And, if necessary, comparing them in order to conclude, whether society or specific its group will rather benefit or lose from the adoption of the proposed Government’s solution.

However, in practical life these terms in different situations can have a different content, and this fact can be mostly explained by the fact that in different sectors consequences are of different nature – for instance, in social sphere “positive consequence” or benefit would be decrease of mortality, while in environmental sphere “positive consequence” would be reduction of water pollution. The same applies to “negative consequences” or costs as it is possible to identify different kind of costs.

Impacts can be assessed using different methods and in this Chapter below we offer a few of them (Cost Benefit Analysis, Cost Effectiveness Analysis, Multi-Criteria Analysis and Standard Cost Model) for your consideration. However, it has to be emphasized that this is far from being a comprehensive list of methods as our primary goal is simply to show that impacts can be assessed in different ways and no method is better or worse than another; it is rather the question of what aspect of the proposed solution you want to analyse at particular moment.

1 Cost Benefit Analysis, Cost Effectiveness Analysis and Standard Cost Model are considered to be semi-quantitative, striving to quantify and assign monetary value to impacts of proposed decisions. Multi-Criteria Analysis is generally a qualitative method in which CBA, CFA or SCM results are used as inputs, accompanied by other criteria for which
As regards benefits then we have already mentioned above that they will differ accordingly to the nature of the impact which has been assessed. The problem with benefits can rise when there is a necessity to mutually compare, for instance, social benefits of the proposed solution with those benefits concerning environmental. That’s why often benefits are identified and then expressed in monetary terms, because it can provide a possibility of comparison. That kind of quantification (including also the aspect of costs) can be done, for instance, using a Cost-benefit Analysis, a method which has been described below in sub-Chapter 4.2.2. Sometimes that kind of quantification is harder to do and then a possible solution could be Cost-effectiveness Analysis (also includes the evaluation of costs), described in the sub-Chapter 4.2.3. Similarly, in these cases when certain benefit due to different reasons (for instance, political priorities) has been valued higher than benefit in another field, Multi-criteria Analysis can turn out to be useful (sub-Chapter 4.2.4.).

As regards regulatory costs, also these can be classified accordingly of their nature (sub-Chapter 4.1.).

Besides, the fact what kind of impact and in which stage of decision-making (or legislation) process you want to analyse, can hugely influence what method you will choose in order to assess a particular impact.
4.1. What kind of costs can occur with a regulation?

When analysing regulation with aim to identify costs that regulation can cause, it is necessary to be familiar with classification of costs deriving from regulation. Generally speaking, there are many different ways how to classify costs deriving from regulations. Basically there are 3 types of costs (see also Figure No.3):

1) **direct financial costs** – these are costs that derive from regulatory requirements to transfer a concrete amount of money to governmental authorities. For instance, these can be taxes, fees for applying for a licence, and administrative charges;

2) **compliance costs** – these are all the costs of complying with regulation, with the exception of direct financial costs and long term structural consequences. In other words, all costs that are not direct financial costs or long term structural costs would be compliance costs. Compliance costs, contrary to direct financial costs, are more complicated to identify because it is not always easily to recognize the presence of these costs just by reading regulation – compliance costs are directly connected with implementation of regulation thereby it is necessary to be familiar with all phases of practical implementation of respective regulation.

Compliance costs are divided in two groups:

a) **indirect financial costs** or **substantive compliance costs** – these are costs that derive from regulatory requirements to operate business in certain way thereby creating a situation when entrepreneur has to dedicate some kind of resources in order to provide that business has been run accordingly to regulatory requirements. For instance, indirect financial costs are created when regulation demands to install filters in accordance with environmental requirements;

b) **administrative costs** (incl. administrative burdens) – these are costs that derive from regulatory requirements to collect and to give away (or to keep) information about different aspects of running business. For instance, administrative costs are created when regulation demands to submit information about employees who are working for respective enterprise. In other words, administrative costs = costs of giving information.

**NB!** Administrative costs are created not only when this information has to be submitted to governmental authority – administrative costs are created also when entrepreneur has to give information to third party (not only public authority but also other representatives of the private sector, e.g. private banks), if this requirement is determined by regulation.

**NB!** Administrative costs are created not only when this information has to be submitted – administrative costs are created also in such a situation when regulation requires simply collecting information and keeping it in order to be ready to present it upon request (e.g. in case if inspection arrives): there is no aspect of submitting information however this information still has to be collected and prepared in necessary form thereby this kind of activity also creates administrative costs.

3) **long term structural costs**.

**Figure No.3. Classification of regulatory costs**
In order to understand completely the content of this chapter, it is highly suggested to become familiar with the content of the chapter 4.1. “What kind of costs can occur with a regulation” which explains the terms ‘administrative costs’ and ‘administrative burdens’. Without this knowledge you will not be able to grasp the information provided in this chapter.

Formula of SCM

Accordingly to SCM a specific formula is used in order to assess administrative costs deriving from regulations. The SCM assessment means that resources necessary to fulfil regulatory requirements demanding to provide information are expressed in monetary terms.

SCM formula contains different variables and thereby shows an input of each variable into the final estimate of administrative cost. In that way SCM helps to understand in which direction it is more necessary and more useful to concentrate simplification measures because the formula allows seeing which variable is the most burdensome in monetary terms (within one year).

\[ P = \text{Tariff} \times \text{Time} \times \text{Quantity} = \text{Tariff} \times \text{Time} \times (\text{number of businesses} \times \text{frequency}), \]

where:

\[ P = \text{administrative costs} \]
\[ \text{Tariff} = \text{wage costs} + \text{overhead for administrative activities done internally OR hourly cost for external service providers.} \]
\[ \text{Time} = \text{the amount of time required to complete the administrative activity.} \]
\[ \text{Quantity} = - \text{the size of the population of businesses affected (number of businesses affected) and;} \]
\[ - \text{the frequency that the activity must be completed each year.} \]
Structure of analysis using SCM

Method of SCM envisages that regulation is divided in smaller units. There are 3 levels of breakdown possible when analysing legal act accordingly to the SCM (see also Figure No.5).

First and the roughest level of analysis is ‘information obligations’ (IOs). In other words, SCM analysis starts with identification of information obligations in the respective legal act.

After that each IO is analysed deeper in order to understand what kind of information an entrepreneur has to provide to fulfil each IO. This subdivision is called ‘message’ or ‘data requirement’.

Then each ‘data requirement’ is analysed in details in order to obtain information about separate activities an entrepreneur has to do to provide respective ‘message’ information. This lowest level subdivision is called ‘administrative activity’.

In fact, SCM formula then is used to calculate the administrative cost of each lowest subdivision (‘administrative activity’).

Thereby cost of several ‘administrative activities’ make a total administrative cost of one ‘data requirement’.

The cost of several ‘data requirements’ make a total administrative cost of one ‘information obligation’.

The cost of several ‘information obligations’ make a total administrative cost of respective legal act.

Figure No.5. Analysis of the legal act using the SCM
Case Study. In order to begin with analysis of certain case under SCM, we have to understand the type of assessment is going to be carried out and what kind of implications it is going to have. First of all, whether it is going to be an ex-ante or ex-post impact assessment. We can say that generally speaking SCM is considered to be an ex-post evaluation tool or, in other words, it will assess the costs of a regulation that is already in place and preferably has been enforced for at least one complete cycle.

Some countries use SCM as an ex-ante impact assessment tool, using the methodological steps to assess the impact of draft regulation (amendments) with regard to administrative costs it is going to add/remove. However, we must keep in mind that calculations are only going to be estimates and can differ significantly from real life practice. For example, we cannot say with certainty how much time filling out and submitting a certain form will take unless we actually see a typical (efficient) business doing so. Such experiments are rarely possible and cost-effective at early stages of drafting regulation. Another factor that comes into place only with time is learning – if an administrative procedure is to be performed on regular basis, businesses (people) learn from previous experiences and the input resources to completing administrative procedures can reduce.

Figure No.6

Also, the “design” of SCM model should be chosen well. Usually SCM calculation is used to calculate changes (percentage changes) in regulatory burden. The stand-alone forecasts of costs or baseline measurements are not easy to interpret; however, when set against the monetary value of amendments, the so called baseline measurements are really important.

Also, before proceeding with an SCM analysis, we have to define the scope of the work. An SCM can be performed for a specific field of economy (such as textiles industry, food production), specific field of regulation (tax administration, food safety regulation), or for specific institution or municipality with regard to their customer service. For the purposes of this Manual, let’s assume that we want to carry out an analysis on costs imposed on businesses by regulation on Accounting². In the analysis we will use the 2003 Law on Accounting (full text) for baseline measurement and drafted amendments of 2011 – to measure changes (marked red in Figure No.6). The case will be described, following the 15 Steps (3 Phases) of SCM measurement as indicated in the International SCM manual³.

PHASE 0: Start-up

We know that there are many normative acts regulating the field, both laws and secondary regulation, however, to get an idea of the scope of analysis, we should start with the key regulation – Law on Accounting.

**NB!** Obvious first step is to read the law carefully!

An important condition is that these kinds of analyses cannot be done single handily, therefore while going through the legal text the responsible party must identify the relevant stakeholders of the field – first and foremost, the affected parties of regulation, and second – the parties that are in charge of enforcing of the regulation. Affected parties can be represented by individual businesses and / or professional associations, the enforcing institutions can be represented by everyday rank-and-file employees as well as authors of the legislation, if possible. After studying the Law on Accounting, we might suggest creating a working group following the diagram below (Figure No.7):

---

² The case study of Law on Accounting focuses on identification of administrative costs, however, if we wish to analyse the regulatory costs as a whole in the field of accounting, analysis can be made on direct financial costs and long term structural costs as well.

First task of the working group would be to identify the **pool of regulation** concerning accounting requirements and procedures. Immediately from the Law on Accounting we can see that in order to get a full picture of the field the working group would also have to analyse:

1) Regulations issued by the Central Bank of Armenia on participants of financial and capital markets (Law on Banks and Banking, Law on Insurance and Insurance Activities, Law on Credit organizations, Law on Payment and settlement organizations, Law on Professional activities in the securities market);

2) Laws and regulations governing accounting processes in political parties, local governments and state institutions;

3) Secondary regulation adopted on the grounds of the Law on Accounting, stating mandatory standard forms for financial statements, initial accounting documents, account charts and books;

4) Law on Archiving.

Besides, studying these laws the working group will most probably come up with more and more additions to the list.

Working group may choose to **exclude certain subjects** from the analysis. By making a remark and providing justification, the financial and capital market subjects and / or the public sector institutions may be left outside the scope of analysis, but we have to be clear why.

Also, the working group may elect to **exclude certain borderline cases** from the analysis. In the case of Law on Accounting it could be argued that all procedures regarding corrections of errors in accounting books and documents will not be included in the SCM calculation, since it is in the interests of the businesses to be able to correct errors that should not have been made in the first place. It is best practice, though, that these borderline cases should be addressed at least in qualitative manner since they can be a source of administrative burden as well.

To insure proper information management it is recommended that the working group uses **standard data collection format**, preferably in MS Excel, in order to ensure automatic calculation and easy updating (**shown in Figure No.8**).
PHASE 1: Preparatory analysis

In this phase the working group carries out analysis of all identified normative acts by breaking down requirements relating to the subjects of the study, as well as identifying more specifically the number and type of subjects of the study themselves (filling in, first, columns 1 – 3, then 4 – 6 of Figure No.8).

NB! This phase is very important since it will provide the general structure of the data collection, however, it can (and probably will) be subject to change during the analysis.

Step 1 – Identification of information obligations (IOs), data requirements (DRs) and administrative activities (AAs) and classification by origin

The first step of preparatory analysis is careful study of the laws and regulations collected in Phase 0 and identification of IOs. We must note that not only the legal texts, but also the Impact Assessment Report, additional explanatory notes (if there exist such) and expert opinions are traditionally used in the process, therefore it is commonly accepted that these documents reach quite a significant level of detail. Also, laws are studied together with their secondary regulations (government decrees), as well as any other instructions or guidelines accompanying the main regulation.

The International SCM manual provides examples on typical information obligations, but in the case study of Law on Accounting after a preliminary screening one could propose the following list of IOs:

A) Financial statements – this IO is a classic example of an administrative cost imposing obligation to regularly ‘prepare, submit and present’ information to the authorities. Financial statement is actually a package including several documents; each of them should be treated as data requirement (DR). Therefore the list of DRs from the first IO (A) would read the following:

A.1) Balance sheet;
A.2) Statement on financial results;
A.3) Statement on change in equity;
A.4) Statement on cash turnover;
A.5) Notes to financial statements;
A.6) Data on organizations structural divisions;
A.7) Organizations requisites.

The most detailed level of analysis is to identify the administrative activities (AAs) associated with each data requirement on the list. As we will see later, AAs are used as the basic units for calculation of actual administrative costs of a regulation; therefore they have to be easily understandable both by the government and by organizations that will provide empirical data.

The International SCM manual again gives a list of 16 standard administrative activities, that can be discussed and modified according to the views of the working group and would best serve the needs of calculation of costs.

For the purposes of this case study let’s suggest the following administrative activities (AAs) for the data requirement (DR) A.1:

A.1.1) Familiarisation with the data requirement;
A.1.2) Information retrieval;

Figure No.8

<table>
<thead>
<tr>
<th>Article</th>
<th>Law / IO / DR / AA</th>
<th>Total population</th>
<th>Number of affected entities</th>
<th>Frequency</th>
<th>Time (in hours or minutes)</th>
<th>Wages (hourly or per minute)</th>
<th>Overhead or cost of services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Law on Accounting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>IO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1</td>
<td>DR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A11</td>
<td>AA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A12</td>
<td>AA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A13</td>
<td>AA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A2</td>
<td>DR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A3</td>
<td>DR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NB! This is only an example of how the data format could look like and can be easily modified by the working group or following the suggestions of experts. The meaning of all abbreviations and fields will be explained in the following sections.
A.1.3) Calculation;
A.1.4) Presentation of figures (in tables or given standard forms).

It seems that the same AA would apply to DRs A1 – A4, while for the DRs A5 – A7 the list would be slightly different:
A.5.1) Familiarisation with the data requirement;
A.5.2) Information retrieval;
A.5.3) Description.

Since all the DRs are treated as a package of information, some of AAs should only be attributed to the IO as a whole in order to avoid accounting these costs more than once:
A.0.1) Familiarisation with the information obligation
A.0.2) Compilation of information;
A.0.3) Signing by accountant;
A.0.4) Signing by CEO;
A.0.5) Auditors opinion;
A.0.6) Submitting (presenting) information;
A.0.7) Publishing information.

Mother companies and umbrella organizations will be subject to additional administrative activities, since the Law prescribes consolidation of statements.

B) Accounting books – this is another type of IO that does not involve submitting information to the government, however, the Law on Accounting says that all economic activities shall be registered in the accounts, which then form the basis of developing financial statements. One should also note that for certain subjects of the Law on Accounting mandatory standard forms of the books are defined in specific normative acts.

Studying the Law on Accounting we can identify the main type of data requirement (DR) related to the second IO (B):
B.1) Initial accounting documents (the Law on Accounting spells out the mandatory requisites of any initial accounting document, such as number, date, participants, substance of economic operation, however, it also mentions that there exists additional standard forms of optional or mandatory use depending on the subject of regulation, so this is an immediate signal for the working group to look into these regulations).

The Law on Accounting states the following administrative activities (AAs) to be performed with the initial accounting documents (DR B.1):
B.1.1) Familiarization with data requirement (the Law says that there are some standard forms that can be mandatory and that need to be acquainted with);
B.1.2) Filling in necessary forms;
B.1.3) Signing, compiling and transfer of documents;
B.1.4) Registration of documents in accounting books.

C) Archive - this is again another IO that requires an organization to keep information as far as one can deduct from the Law on Accounting. The Law stipulates that archiving is mandatory for all accounting documents, including the initial accounting documents, accounting books, financial statements, accounting policies, as well as accounting software. However, for the purposes of calculating the SC for accounting process one should select only those documents that are archived with certain frequency. Therefore the data requirements (DRs) for this IO (C) are the following:
C.1) initial accounting documents;
C.2) accounting books;
C.3) financial statements.

We can assume that the accounting policies and the software are archived only upon establishing and liquidating the organization, therefore it should be treated as a one-off cost.

As for administrative activities (AAs) the Law of Accounting says that the 'manner and time-frame' as well as the procedure of archiving should follow the Law on Archiving. It is therefore the task of the working group to carry out respective analysis of the regulation on archiving and to make sure necessary calculations are included in the overall SCM on accounting.

*) Accounting policy – this is another requirement that may look like a type of an IO (one that does not involve submitting information to the government, but the Law on Accounting stipulates that every organization should have the document in official (written) form and, if necessary, ready for inspection or audit), however, it does not fulfil the criterion of frequency. Therefore, it could be treated as a one-off cost occurring when an organization is founded. If we would like to run an SCM calculation on the procedure of establishing an average organization, this should be one of the IOs, however, the actual operation of a company takes the existence of accounting policy as a given.

To make later calculations of baseline SCM measurements easier to interpret, the working group can introduce classification
of data requirements (DRs). The most common classification labels requirements by origin:
a) – requirement introduced internationally, specifically stating a way in which it must be met;
b) – requirement introduced internationally, without stating the means of implementation;
c) – requirement introduced nationally.

This is very useful for the countries of the European Union – or any members of international organizations that have mandate to pass binding regulations. In this case, the Law on Accounting follows generally accepted better practice in accounting which would make it very hard to distinguish between domestic requirements and international guidelines, etc. However, when reforms are introduced (such as the amendments to Law of Accounting of 2011) that stipulates overarching reform and adaptation of the new IFRS standards, it could be informative to label DRs based on whether there previously non-existing requirements introduced specifically by these standards.

After completion of Step 1 the working group should have come up with a table looking approximately like this:

Figure No.9

<table>
<thead>
<tr>
<th>Article</th>
<th>No.</th>
<th>Law / IO / DR / AA</th>
<th>Total population</th>
<th>Number of affected entities</th>
<th>Frequency</th>
<th>Time (in hours or minutes)</th>
<th>Wages (hourly or per minute)</th>
<th>Overhead or cost of services</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td></td>
<td>Balance sheet</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A2</td>
<td></td>
<td>Statement on financial results</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A3</td>
<td></td>
<td>Statement on changes in equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A4</td>
<td></td>
<td>Statement on cash turnover</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A5</td>
<td></td>
<td>Notes to financial statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A6</td>
<td></td>
<td>Data on structural divisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A7</td>
<td></td>
<td>Organizations requisits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A8</td>
<td></td>
<td>Description</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B1</td>
<td></td>
<td>Account books</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B2</td>
<td></td>
<td>Initial accounting documents</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B3</td>
<td></td>
<td>Financial statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B4</td>
<td></td>
<td>Archive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B5</td>
<td></td>
<td>Initial accounting documents</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C1</td>
<td></td>
<td>Account books</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2</td>
<td></td>
<td>Description</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C3</td>
<td></td>
<td>Financial statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Step 2 – Identification and demarcation of related regulations

In order for the calculations to be accurate, it is important that costs are not counted twice. For this particular case study it can be seen in Figure No.9 how administrative activities from A01 to A06 are only counted for financial statement IO (A) as a whole, because it would be wrong to add the costs of soliciting auditors’ opinion for every part of the financial statement. While it might seem straightforward in the simplified case study, it requires much more work and cooperation between involved parties when the SCM is carried out for a whole sector of economy or field or regulation. For example, initial accounting documents are also used to prepare tax reports, therefore if, for example, the Law on VAT is included in the analysis we should make sure that the costs of preparation of the initial accounting documents are only added once. The working group may want to know how much costs are added to the process (economic sector) by each law, just like it is seen in the Figure No.9 where IOs and DRs are stacked by corresponding law. If there are overlapping data requirements, working group decides on assigning one ‘owner’ to each requirement or divides the costs equally between them.

Step 3 – Classification of information obligations by type (optional)

This step is most often used to identify compulsory and voluntary information obligations. The Law on Accounting also leaves some discretion regarding the form of initial accounting documents, for example, but the Law itself, of course, only talks about compulsory obligations. Therefore this step is not applicable in the analysis of legal text, but may come handy at the stage of information gathering and analysis of other accompanying guidelines.

Step 4 – Identification of segments

Since the Law on Accounting is a very general regulation, all IOs need to be carried out by all businesses and organizations. The Law does not introduce any segmentation itself, however, in a complete SCM study one is expected to find sector-specific requirements (for financial and capital markets, for non-for-profit and government organizations, etc.). One of the traditional ways of segmentation is using digital versus manual reporting (submitting) of documents. Later in the case study, when we talk about recording changes in SCM calculation, we will see how segmentation is used by introduction of different standards for SMEs and the rest of the businesses.

Step 5 – Identification of population, rate and frequency

1) Identification of population – the working group has to agree on a number of subjects affected by each DR (and subsequently each IO). Number has to be assigned for every segment of population as identified in Step 4. Since we are not identifying differences in regulation for particular segments at this point at the case study, we will treat population as a whole. According to Ministry of Economy statistics there are 39 000 active businesses in 2010 in Armenia.

2) Indication of rate – a percentage indicator can be used in order to distinguish the proportion of population (segment) complying with different data requirements. For this case study let’s assume that 5% of the population were submitting and disseminating information digitally in 2004 / 2005.

3) Frequency – according to the International SCM manual an annual frequency (how many times a year the administrative activity takes place) should be determined. The Law on Accounting stipulates that all AAs dealing with financial statements should be performed once a year (even though specific legislation exists that can mandate a shorter reporting period according to the Law). There is no information on activities and their frequency regarding archiving, and certainly no information about the frequency of issuing initial accounting documents, since they have to be developed per every economic transaction. This information should be acquired directly from businesses in later stages of analysis.

Step 6 – Business interviews versus expert assessment

It is important to note that the International SCM manual allows the working group and experts to make estimates on certain information if adequate justification and clear criteria is provided and agreed upon.

Step 7 – Identification of cost parameters

Before any data collection through interviews of experts can begin, the working group has to agree on cost parameters on each data requirement (DR) and administrative activity (AA).

Most often costs consist of internal and external sources and, as we can see in the Figure No.9, are calculated based on time consumed by complying with a requirement. The price of any given time must reflect a pay rate (country average) of the particular group of employees directly involved in performing each administrative activity. In order to alleviate the task, the working group should come up with a complete list of all occupational groups involved in performing activities identified in the analysis. For this particular case study what we can discern from the Law on Accounting there are the following occupation groups involved:

1) Qualified (according to the procedure established by the Law on Accounting) accountant;
2) Qualified auditor;
3) Rank-and-file employee of an organization (participant of economic transactions);
4) Archivist;
5) Chief executive;
6) Personnel of support functions (communications, document circulation).

We should not forget about the organizations that outsource their accounting, therefore make an estimate for hourly cost of these services as well.

Also, the working group has to agree on an overhead percentage that is going to be used in the calculation. There is no correct answer to this question, but the most common number used in international studies is 25%.

### Step 8 – Preparation of interview guide

For a comprehensive study and complete SCM calculation business interviews should be carried out based on an interview guide that is piloted and tested before. The guide should include specific questions, provide quantitative data, as well as provide opinions of the most burdensome requirements and proposals for simplification.

### Step 9 – Expert review of steps 1-8

Since this is the final step of Phase 1, the working group should approve of all work produced by consultants and responsible parties before proceeding with Phase 2, which is essentially data collection and calculations.

After finishing with Phase 1, the working group should have something close to material below (Figures No.10 and No.11).

**Figure No.10. SCM database**

<table>
<thead>
<tr>
<th>Article No.</th>
<th>Law / OI / DR / AA</th>
<th>Rate</th>
<th>Quantity</th>
<th>Number of affected entities</th>
<th>Frequency</th>
<th>Time (in hours or minute)</th>
<th>Tariff / Price</th>
<th>Wages (hourly or per minute)</th>
<th>Overhead or cost of services</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Law on Accounting</td>
<td>1</td>
<td>39000</td>
<td>1</td>
<td>1</td>
<td>?</td>
<td>Acc</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A11</td>
<td>Familiarisation with the data requirement</td>
<td>39000</td>
<td>1</td>
<td>1</td>
<td>?</td>
<td>Acc</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A12</td>
<td>Information retrieval</td>
<td>39000</td>
<td>1</td>
<td>1</td>
<td>?</td>
<td>Acc</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A13</td>
<td>Calculation</td>
<td>39000</td>
<td>1</td>
<td>1</td>
<td>?</td>
<td>Acc</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A14</td>
<td>Presentation of figures</td>
<td>39000</td>
<td>1</td>
<td>1</td>
<td>?</td>
<td>Acc</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A2</td>
<td>Balance sheet</td>
<td>39000</td>
<td>1</td>
<td>1</td>
<td>?</td>
<td>Acc</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

...
**Figure No.11. Interview guide**

### Quantitative data: questions

Do you agree that these are the main steps involved in preparing your annual financial statements?

<table>
<thead>
<tr>
<th>Balance sheet</th>
<th>Familiarisation with the data requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement on financial results</td>
<td>Information retrieval</td>
</tr>
<tr>
<td>Statement on changes in equity</td>
<td>Calculation</td>
</tr>
<tr>
<td>Statement on cash turnover</td>
<td>Presentation of figures (or description of text)</td>
</tr>
<tr>
<td>Notes to financial statements</td>
<td>Signing (accountant)</td>
</tr>
<tr>
<td>Data on structural divisions</td>
<td>Signing (CEO)</td>
</tr>
<tr>
<td>Organizations requisites</td>
<td>Auditors opinion</td>
</tr>
<tr>
<td></td>
<td>Submitting (presenting) information</td>
</tr>
<tr>
<td></td>
<td>Publishing information</td>
</tr>
</tbody>
</table>

Could you provide and approximation of the time your organization spends on each of these steps?

- Familiarisation with the data requirement
- Information retrieval
- Calculation
- Presentation of figures (or description of text)
- Signing (accountant)
- Signing (CEO)
- Auditors opinion
- Submitting (presenting) information
- Publishing information

From the list of elements of financial statements, are there some that stand out in terms of time consumption etc? Which one(s)?

Could you guess an approximate number of economic transactions recorded by an average (your) business every year?

(How many initial accounting documents are prepared?)

Do you agree that these are the main steps involved in processing every initial accounting document?

Are there any other important and difficult steps that are left out?

| Familiarization with data requirement |
| Filling in necessary forms |
| Signing and compiling of documents, transfer |
| Registration of documents in accounting books |

Could you provide and approximation of the time your organization spends on each of these steps?

| Familiarization with data requirement |
| Filling in necessary forms |
| Signing and compiling of documents, transfer |
| Registration of documents in accounting books |

Could you provide information on average pay (monthly) for these occupation groups?

- Qualified (according to the procedure established by the Law on Accounting) chief accountant
- Qualified auditor
- Rank-and-file employee of an organization (participant of economic transactions)
- Archivist
- Chief executive
- Personnel of support functions (communications, document circulation)

### Qualitative data: questions

Which do you think are the most burdensome procedures, activities?

Are there procedures that you consider irrational?

Would you produce these reports, documents (could be in different form) if they were not required by law?

Do you have an opinion on how they could be simplified?

---

**PHASE 2: Time and cost data capture and standardisation**

**Step 10 – Selection of typical business for interview**

Step 10 should be based on the findings of Step 4 or the segments that are covered by IOs. If the identified segment is large and general enough, the working group can proceed with random sampling to arrange interviews, however, if the requirements are specific, the government counterparts of the working group should use their knowledge and network of affected parties. A general rule suggested in the International SCM manual is that each segment should be represented by interviews from at least 3 typical businesses. For a wider SCM analysis project the working group should develop a special plan for identifying and selecting businesses for interview.

For the purposes of this case study we will use only general interviews with representatives from professional associations without creating samples.
Step 11 – Business interviews
Interviews should be conducted using the interview guide (Figure No.11, if the interview is going to cover ex-ante impact assessment). The purpose of interviews is to fill in the gaps in information and statistics (marked with question marks and abbreviations in Figure No.11), as well as to verify our list of the actual DRs and AAs. International SCM manual stresses the importance of the interviewer to have profound knowledge of the SCM methodology.

The interviews are carried out until information from at least 3 typical businesses of the respective segment is collected. There are no universal criteria for identifying which business is typical and which one is not, however, the working group should agree on some level of unexplained deviation from the data that will be considered to reflect a non-efficient (not typical) business. In that case the interview data should be dropped from the pool and replaced with a new one.

Step 12 – Completion and standardisation of time and resource estimates for each segment by activity
Like it was stated in Step 1, costs are calculated, based on the lowest elements of analysis, which is the AAs and for each segment at least 3 – 5 interviews are required. In this case study we will not have variation of data because information will be acquired from centralized sources, however, for an actual analysis each administrative activity (AA) should be described in approximately the format provided in Figure No.12.

Figure No.12
<table>
<thead>
<tr>
<th>Administrative activity A14</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Presentation of figures)</td>
<td>Typical</td>
</tr>
<tr>
<td>Business 1</td>
<td>25 min</td>
</tr>
<tr>
<td>Business 2</td>
<td>30 min</td>
</tr>
<tr>
<td>Business 3</td>
<td>30 min</td>
</tr>
</tbody>
</table>

In many cases the answers will hardly be so straightforward. For example, the working group could be presented with a dilemma such as in Figure No.13.

Figure No.13
<table>
<thead>
<tr>
<th>Administrative activity A11</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Familiarisation with the data requirement)</td>
<td>Typical</td>
</tr>
<tr>
<td>Business 1</td>
<td>90 min</td>
</tr>
<tr>
<td>Business 2</td>
<td>120 min</td>
</tr>
<tr>
<td>Business 3</td>
<td>180 min</td>
</tr>
</tbody>
</table>

Assuming this is the same case study and the interviews were conducted with the same businesses, the working group should now decide if the Business 1 is actually representing a typical example of the segment. In order to find out, more interviews should be conducted, especially addressing the activities with the highest degree of variation. If the number of such cases is not very high, the International SCM manual recommends using telephone interviews. However, if variation is common, the sample should be whether (a) broadened to 4 or 5 businesses for each AA or (b) additional segments introduced.

NB! If uncertainties cannot be resolved by empirical data, it is acceptable to rely on expert opinion.

Step 13 – Expert review of steps 10-12
This is the final step of Phase 2, and working group should approve of all work produced by consultants and responsible parties before proceeding with Phase 3, when calculation and reporting is done.
**PHASE 3: Calculation, data submission and reports**

**Step 14 – Calculation, data submission**

The purpose of Step 14 is getting to the number that will reflect the monetary value of the administrative burden at national level. The sequence of calculation is the following:

1) multiply time and price variables for each AA in each segment, for example:

AB [A06, submitting information manually, SMEs] = 15 AMD/minute * 60 min * 1.25 overhead = 1125

AB [A06, submitting information manually, other] = 17 AMD/minute * 60 min * 1.25 overhead = 1275

2) multiply by frequency over the period of one year (in this case, 1);

3) multiply by number of affected entities in particular segment:

AB [A06, submitting information manually, SMEs] = 1125 * 37830 =

AB [A06, submitting information manually, other] = 1275 * 1170

4) sum all segments for each AA;

5) sum all AAs for each DR;

6) sum all DRs for each IO.

Since costs are compiled by smaller elements, it is simple to do classification of costs by:

- information obligation (IO);
- segment of population;
- regulation.

**Step 15 – Reporting and transfer to database**

Following the International SCM manual, aside from chapters of recording the actual SCM calculation results and the description of the analytical process itself, the final report should at least include the following information:

1) identify the most burdensome regulations / requirements / activities and provides an explanation of the causes;

2) if obligations (requirements) has different “sources” the proportion should be identified;

3) include business suggestions on simplification and identification of most burdensome requirements, especially if they differ from the ones mentioned in 1).
4.2.2. Cost-benefit Analysis (CBA)\(^4\)

Cost-benefit analysis is a method for organising information to help to make decisions about the allocation of resources. The power of this method as an analytical tool rests in two main features:

- costs and benefits are expressed as far as possible in money terms and hence are directly comparable with one another;
- costs and benefits are valued in terms of the claims they make on society and the gains they provide to the public as a whole, so the perspective is a ‘global’ one rather than that of any particular individual or stakeholder.

CBA can provide guidance on the efficient allocation of resources in areas where no markets exist to provide this information ‘automatically’.

**Main question of the CBA:** Whether and to what extent the expected benefits exceed expected costs?

**Objectives of the CBA:**

To determine whether the planned activity should be carried out, and if so, to what extent? To assess the financial costs and benefits that allow decision-makers to more easily choose between different alternatives.

**Plusses of the CBA:**

a) transparency and clear responsibility

b) existence of single unit of value in both cases, for expenditures and for revenues

c) comparability – policy outcome is easy to connect to society’s benefits, it is possible to compare a variety of programs based upon single basis.

**Minuses of the CBA:**

a) conduction of full CBA is complicated and time consuming (especially computing income in monetary value, for example estimating the monetary value of human life);

b) there is a risk of careless, naive or dishonest use of method;

c) as long as the main emphasis of method is on economic efficiency, the method does not take into account the principles of equality and appropriateness.

**Steps of the CBA:**

1. **Analyze the problem and define the objective** of further analytical activities.

2. **Specify possible impacts** of planned government intervention considering the objective and target group. It is crucial to identify all possible impacts, including:

   a) wanted and unintended consequences;

   b) direct and indirect impacts (or sometimes referred as primary and secondary impacts). Direct impacts are usually related to most valued goals of activities; indirect impacts are not main objective of the activity but may however occur.

   **EXAMPLE:**
   The direct benefits of constructing new highway are: the decrease of accidents and saved travel time. The indirect costs may appear as reduced turnover of railway transportation company servicing same connection.

   c) material and immaterial impacts (or sometimes referred as directly and indirectly measurable impacts).

   The value of directly measurable impacts can be determined using prevailing market prices, while the value of indirectly measurable impacts has to be determined using estimations.

   **EXAMPLE:**
   Material costs of new highway are costs of asphalt, gravel and labour. Immature benefits appear in form of saved travel time and increased security of passengers.

d) internal and external effects to the target group (or sometimes referred as exogenous and endogenous impacts). Usually the activities are planned for certain target group but it is also important to consider the impacts that occur outside of target group.

**EXAMPLE:**
Real estate development in city centre will affect the value and the population in other city areas.

3. **Quantify important impacts (costs and benefits) in monetary terms (discounting).** Market price is usually the best indicator to assess values of cost and benefits. However, market prices may be distorted as a result of incomplete competition, monopolies, oligopolies or because of government subsidies. In this case, alternative measures can be used to assess financial value of the impacts:

a) willingness to pay.

Willingness to pay is the biggest amount of money what individuals would agree to pay for the good. Important is readiness to pay, it has to be considered that people will not have to pay it in reality. Willingness to pay is often used to determine whether one or another good should be provided as a public good.

b) opportunity cost.

The opportunity cost theory assumes that the real cost of a resource is not its acquisition cost or corresponding market price but the value of most profitable alternative (which might have been realized instead of other alternatives).

**EXAMPLE:**
Municipality plans to build an incinerator to a plot bought for 5 mil. AMD and the only alternative to use the plot is for extension of the school building. The benefit from school extension is estimated to be 50 mil. AMD. In that case the cost of the plot should be estimated to 50 mil. AMD, regardless to the fact that selling it would benefit much less.

c) compensation costs.

The value of indirect costs and benefits can be measured by calculating the cost of activities which are necessary to prevent unintended consequences (or to achieve wanted impacts).

**EXAMPLE:**
The benefits received from anti-pollution program can be calculated using the money saved in healthcare (fewer people are infected with lung cancer and other chronic diseases).

d) known preferences.

If the market price of activity (or immaterial impact) is not known but estimation of similar action is available, then the cost of similar action can be used instead to calculate the monetary costs or benefits.

4. **Convert costs and benefits into comparable form in time-scale.**

a) the value of money changes over time in respect of interest expense. Interest is the cost of borrowing money. The value of money will change over time with reference to the opportunities to use the money for other activities.

b) the future value of money (FV) depends on the present value of money (PV, ie the value at the moment), the interest rate (i) and the number of years (n).

\[ FV = PV \times (1 + i)^n \]
5. **Compare costs and benefits.** Comparison can be made based on the net income or cost-benefit ratio:

   a) **net incomes** can be compared for alternatives which do not differ largely in their overall cost (size). It is important to compare discounted costs and benefits;

   b) **cost-benefit ratio** is used in case magnitude of costs and benefits of alternatives differ a lot. Usually the activity receives approval if the cost-benefit ratio (total revenue divided by total cost) is bigger than 1 and activity is rejected when the ratio is smaller than 1. Other possibility would be to approve activity which has biggest cost-benefit ratio compared with alternative activities.

6. **Conduct the analysis of sensitivity.**

   Sensitivity analysis is used when there is doubt about validity of data gathered in cost-benefit analysis. One can assume that the measurement of costs and benefits is correct but data gathering may include estimations and assumptions (especially in case there are gaps in data) and there is always some statistical mistake in the result of analysis (especially in long term prognostics). The objective of sensitivity analysis is to clarify which aspects (or variables) are most influential for making decision. Sensitivity analysis is particularly well suited to investigate the effects of a change in the basic assumptions (how the final result will change if the prior assumptions are changing?). In case of carrying out the sensitivity analysis:

   a) define critical sensitive variables, these are variables which may influence mostly the overall outcome. To do so all the variables used to analyse the cost-benefit of the action has to be defined and measured (discount rate, cost items, productivity etc). Then different values of one variable have to be tested in situation where values of other variables remain fixed (ceteris paribus). If change in value of one variable will cause change in overall results of analysis (disclaiming the acceptance of action) then the sensitive variable has been found;

   b) further sensitive variables can be tested to find out what are the upper and lower limits of values of sensitive variables under what planned action is still beneficial;

   c) the probability of deviation of sensitive values should then be given.

### 4.2.3. Cost-effectiveness Analysis (CEA)

Cost-effectiveness analysis differs from CBA in that benefits are expressed not in money units, but in physical units (in CBA costs are expressed in money terms). Cost-effectiveness analysis is particularly useful in areas (such as health, accident safety and education) where it may be easier to specify benefits than it is to value them. Assuming that adequate quantitative measures of programme effectiveness can be found, the method is very useful in comparing alternative options or existing projects and programmes. Its limitation is that, because costs and benefits are not directly comparable, it does not provide a criterion for acceptance or rejection of a project or programme.

**Main question of the CEA:** How to achieve desired result with the lowest cost?

**Objectives of the CEA:**

To assess what action can achieve the desired objective with least cost. CEA is one part of the cost-benefit analysis, in CEA outcomes are assessed financially but revenue is measured in natural units.

**NB! Only the activities with similar objectives can be compared using this method.**

**Plusses of the CEA:**

a) there is no need for accurate assessment of financial revenue, thus no complex methodologies has to be employed (willingness to pay, etc);

b) enables to find out how to achieve maximum results in conditions of limited budget.

---

**EXAMPLE:**

If the interest rate is 10% then the value of 1,000 AMD in two years will be: \( 1000 \times (1 +0.1)^2 = 1,210 \) drams. Higher the interest rate and longer period of time will result in higher future value of money. For discounting the interest rate is typically 5-10%.
Minuses of the CEA:

a) cannot be used to compare activities with different objectives.

Steps of the CEA:

1. Definition of objectives and impacts as in CBA (sub-chapter 4.2.2.).
2. Assessment of costs as in CBA (sub-chapter 4.2.2.). Benefits are not transferred to monetary units, instead they are measured in natural units.

EXAMPLE:

Saved human lives are counted and the result is not transferred to money.

3. It is possible to estimate the amount of money necessary to achieve the objective.

EXAMPLE:

How much saving one human life will cost in case of planned activity? After that, the costs of achieving objective in case of different alternatives can be compared (how much one saved human life will cost in case of alternative activities). Then all alternatives can be ranked according to their cost and most cost-effective solution can be put into practice.

4. If necessary the sensitivity analysis can be carried out.

4.2.4. Multi-criteria Analysis

Multi-Criteria Analysis (MCA) is a decision-making support method that helps to assess the comparative suitability of alternatives from various aspects (criteria) by assigning weights to these criteria.

MCA can help to determine priorities or preferable policy alternatives in any field, and it is often used as an extension to CBA or CEA in order to take into account other factors that cannot be quantified or assigned monetary value, such as social justice or environmental preservation, for instance. Criteria are chosen and derived from the overall policy goal.

The main three steps of MCA are:

1) Defining the criteria and assigning weights of their respective significance (NB! The sum of all weights must not exceed 1 (or 10 and so on))
2) Carrying out assessment of each alternative’s conformity with or effect on each criterion. Effect should be reflected on a unified scale, such as “1 – no effect, 2 – insignificant effect, 3 - minor or considerable effect, 4 – significant effect, 5 – major effect”; for example. Ideally, the scale for each criterion would also be characterized by a performance indicator.
3) Calculating total impact (effect x weight) of each alternative and comparing them.

Example

<table>
<thead>
<tr>
<th>Alternative 1</th>
<th>Weight</th>
<th>Effect</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost efficiency</td>
<td>0.6</td>
<td>3</td>
<td>1.8</td>
</tr>
<tr>
<td>Infrastructure improvements</td>
<td>0.2</td>
<td>2</td>
<td>0.4</td>
</tr>
<tr>
<td>Equal opportunity</td>
<td>0.2</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL: 3.2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Alternative 2</th>
<th>Weight</th>
<th>Effect</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost efficiency</td>
<td>0.6</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Infrastructure improvements</td>
<td>0.2</td>
<td>2</td>
<td>0.4</td>
</tr>
<tr>
<td>Equal opportunity</td>
<td>0.2</td>
<td>3</td>
<td>0.6</td>
</tr>
<tr>
<td>TOTAL: 4.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The output of MCA can be one most preferred policy alternative, but in case of many alternatives it can result in a short list of policy options for further appraisal, or simply rule out policy options that are unacceptable.
4.2.5. Putting different methods in “one picture”

Taking into account the fact that impacts as well as methods for assessing them can be very different in their nature, as well as in their level of importance, it is necessary to understand how different types of impacts and methods can relate to each other creating a multidimensional “common picture”. The below-seen picture offers a visualization of how specific benefits and costs relate to each other.
5. Consultations during Impact Assessment procedure

5.1. The concept of “consultations”

Consultation is a regulatory process by which the public’s input on matters affecting them is sought. Its main goals are in improving the efficiency, transparency and public involvement in large-scale projects or laws and policies. It usually involves notification (to publicise the matter to be consulted on), consultation (a two-way flow of information and opinion exchange) as well as participation (involving stakeholders in the drafting of policy or legislation). More specifically, the steps of the consultation process are aimed at (see also Figure No.4):

1) informing civil society about proposed decisions within the public administration / the Government / or the National Assembly;

2) obtaining a feedback from the representatives of the civil society about proposed decisions;

3) analysing the opinions expressed by the representatives of the civil society and to examine the possibility to take them into account during the decision-making process;

4) showing to the representatives of the civil society what was done with opinions they have expressed – in other words, to give an account, whether and how they were taken into account + if they were not taken into account, explain, why.

Figure No.4. Steps and aims of the consultation process

1. To inform the society

2. To wait for feedback / opinions / comments from the society

3. A To analyse the received feedback / opinions / comments

4. To show to the society, whether their comments have been taken into account.

Or, if it is the case, explain, why their comments have not been taken into account.

3. B To improve original draft decision accordingly to the comments received from the society feedback / opinions / comments
5.1.1. Why is it important to inform society about decisions the public institutions are going to adopt?

It is one of the fundamental conditions for democratic states to provide the society the right to participate in the decision-making process. The right for participation is not only maintained through regular elections of the President or of the National Assembly. The right has to be maintained also on a daily basis and the first necessary step in order to do so is to give information to the society about the decision the public institutions are going to adopt. Every civil servant or politician, elaborating respective proposal for certain decision, should remember that at the end of the day this decision will influence the life of the society, it will regulate certain aspects of the behaviour of society’s members. And even in the case when public institutions adopt decisions about themselves, the society has the right to know about these awaited decisions, because the functioning of public institutions has been paid by the society so public institutions should observe the principle of accountancy.

5.1.2. Why is it important to obtain feedback from the society?

First of all, the society has the right to influence the decision that will be made. Moreover, the essence of RIA procedure is to maintain the adoption of evidence-based decisions and thereby stakeholders and representatives of the society can give the most appropriate information about the possible consequences of the proposed decisions. It is often the case that civil servants do not have enough practical knowledge in the field and consultation process helps considerably to fulfil this gap. Those who are in their daily life influenced by the decisions of the Government can provide information about possible side effects of the proposed decisions, as well as give useful advises about best way for the enforcement of the proposed decisions. In that way civil servants and politicians can avoid making ineffective decisions that do not tackle the problem they would like to solve.

5.1.3. Why is it important to analyse the opinions expressed by the society?

Although opinions and comments of the representatives of the society are crucial in order to improve the quality of proposed decisions, one should always remember that society as such is not homogenous, it represents different interests and sometimes these interests can be also mutually competing. Therefore it is important to analyse the received comments and proposed amendments by the stakeholders – consultation procedure does not mean that it is mandatory to ‘copy-paste’ received opinions and to amend automatically the proposed decision accordingly to the received suggestions.

**EXAMPLE:**

Ministry X proposes to introduce a new legal act to allow the sale of alcohol only in special shops (and not in ordinary shops). It is quite predictable that respective draft legal act would receive negative comments from business associations which represent owners of ‘ordinary’ shops because they will not be allowed to sell alcohol in their shops anymore, and consequently their profits would decrease. However, at the doctors’ associations would probably support the draft because it can help to reduce the consumption and the availability of alcohol and therefore it could improve the health of the society as such. The decision-makers have to be fully aware of existing contradictory opinions in the society. However, their decision should not be modified in such a way that everybody becomes satisfied – sometimes that kind of approach can undermine the very essence of the proposed decision; it is a duty of decision-maker to analyse received arguments and to decide, how these arguments are linked to the previously identified objective of the draft decision.

5.1.4. Why is it important to show to the society what has been done with their opinions?

It is crucial to show to the representatives of the society that their opinions and comments have been taken into account. In addition, providing feedback to the society usually raises the motivation of decision makers to consider received opinions seriously, as they know that they will have to give report how about the future destiny of received suggestions.

Thirdly, it becomes even more crucial to give feedback to the society about its opinions, if they for several reasons have not been taken into account. In that way public administration shows its ‘good will’ to the society and also gives the necessary explanation why the final version of the draft might not satisfy all stakeholders 100%. The stakeholders would rather know the reasons why their suggestions were not included in the final version of the draft than not be asked for feedback at all.
5.2. Main principles in order to maintain qualitative process of consultations

5.2.1. When to consult?

Formal consultation should take place at a stage when there is scope to influence the policy outcome.

Formal, written, public consultation will often be an important stage in the policymaking process. Consultation makes preliminary analysis available for public scrutiny and allows additional evidence to be sought from a range of stakeholders so as to inform the development of the policy or its implementation. It is important that consultation takes place when the Government is ready to put sufficient information into the public domain to enable an effective and informed dialogue on the issues being consulted on. But equally, there is no point in consulting when everything is already settled. The consultation exercise should be scheduled as early as possible in the project plan as these factors allow.

When the Government is making information available to stakeholders rather than seeking views or evidence to influence policy, e.g. communicating a policy decision or clarifying an issue, this should not be labelled as a consultation. Moreover, informal consultation of stakeholders is sometimes also an option. It will often be necessary to engage in an informal dialogue with stakeholders prior to a formal consultation to obtain initial evidence and to gain an understanding of the issues that will need to be raised in the formal consultation.

Over the course of the development of some policies, the Government may decide that more than one formal consultation exercise is appropriate. When further consultation is a more detailed look at specific elements of the policy, a decision will need to be taken regarding the scale of these additional consultative activities. In deciding how to carry out such re-consultation, the drafter will need to weigh up the level of interest expressed by consultees in the initial exercise and the burden that running several consultation exercises will place on consultees and any potential delay in implementing the policy. In most cases where additional exercises are appropriate, consultation on a more limited scale will be more appropriate.

Consultation exercises should not generally be launched during election periods. If a consultation is ongoing at the time an election is called, it should continue. However, drafters should avoid taking action during election periods which will compete with candidates for the attention of the public.

5.2.2. Duration of consultation process

Consultations should normally last for at least 15 days with consideration given to longer timescales where feasible and sensible.

Under normal circumstances, consultations should last for a minimum of 15 days. This should be factored into project plans for drafting a legal act. Allowing at least 15 days will help enhance the quality of the responses. This is because many organisations will want to consult the people they represent or work with before drafting a response to Government and to do so takes time. If a consultation exercise is to take place over a period when consultees are less able to respond, e.g. over the summer or Christmas break, or if the policy under consideration is particularly complex, consideration should be given to the feasibility of allowing a longer period for the consultation.

When timing is tight, for example when dealing with emergency measures, or international, legally-binding deadlines, or when the consultation needs to fit into fixed timetables such as the Budget cycle, consideration should be given to whether a formal, written, public consultation is the best way of seeking views. Where a formal consultation exercise is considered appropriate and there are good reasons for it to last for a shorter period (e.g. in order to fulfil International obligations etc), the consultation document should be clear as to the reasons for the shortened consultation period and this should be agreed with the top officials of the drafting body. In such circumstances it is important to consider the provision of additional means through which people can express their views.

When planning a consultation, it is important to take steps to raise awareness of the exercise among those who are likely to be interested. In particular, drafters should consider ways to publicise consultations at the time of, or if possible before, the launch date so that consultees can take advantage of the full consultation period to prepare considered responses.
5.2.3. Clarity of scope and impact

Consultation exercises should be clear about the consultation process, i.e. what has taken place in the development of the policy paper prior to the consultation exercise, how the consultation exercise will be run and, as far as is possible, what can be expected after the consultation exercise has formally closed. Consultation exercises should be clear about the scope of the exercise, setting out where there is room to influence policy development and what has already been decided, and so is not in the scope of the consultation.

Estimates of the costs and benefits of the policy options under consideration should normally form an integral part of consultation exercises, setting out the Government’s current understanding of these costs and benefits. A “consultation stage Impact Assessment” should normally be published alongside a formal consultation, with questions on its contents included in the body of the consultation exercise.

An Impact Assessment should be carried out for most policy decisions and consultation of stakeholders on the Impact Assessment and on equality assessments can bring greater transparency to the policymaking process and should lead to departments having more robust evidence on which to base decisions.

Consideration should also be given to asking questions about which groups or sectors would be affected by the policy in question; and about any groups or sectors (e.g. small businesses or third sector organisations) that may be disproportionately affected by the proposals as presented in the consultation document. Consultation exercises can be used to seek views on the coverage of new policies, ideas of how specific groups or sectors might be exempted from new requirements, or used to seek views on approaches to specific groups or sectors that would ensure proportionate implementation.

The subject matter, any assumptions the Government has made, and the questions in the consultation should all be as clear as possible. A mixture of open and closed questions will often be desirable, and consideration should be given to offering consultees the opportunity to express views on related issues not specifically addressed in the questions.

5.2.4. Accessibility of consultation exercises

Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.

It is essential that stakeholders are identified early in the process so that consultation exercises can be designed and targeted accordingly. When consultation exercises need to reach a diverse audience, several approaches may be required. In the consultation document it should be stated what ways are available for people to participate, how exactly to get involved, and why any supplementary channels have been chosen. Over-reliance on standard lists of consultees to disseminate consultation papers can mean that key groups are excluded and others receive consultation documents that are not relevant to them.

As far as is possible, consultation documents should be easy to understand: they should be concise, self-contained and free of jargon. This will also help reduce the burden of consultation. While consultation exercises on technical details may need to seek input from experts, when the views of non-experts are also required, simpler documents should be produced.

It is vital to be proactive in disseminating consultation documents. Careful consideration should be given to how to alert potential consultees to the consultation exercise and how to get views from relevant sectors of the public and the economy. While many stakeholders can usually be contacted directly, there will often be other stakeholders not known to Government or who can only be reached through intermediary bodies. Working with appropriate trade, public or third sector organisations can help the Government to hear from those who would otherwise go unheard. Using specialist media or events can also help promote consultation exercises among interested groups.

Thought should also be given to alternative versions of consultation documents which could be used to reach a wider audience, e.g. a young person’s version, other language versions, an “easy-read” version, etc., and to alternative methods of consulta-
tion. Guidance on methods to support formal consultation exercises to help reach specific groups and sectors (regional, public meetings, online tools, focus groups, etc.) is available.

It is important that people can decide quickly whether a consultation exercise is relevant to them. For this reason, a standard table of basic information should be used for all consultation exercises produced by any public institution. This will mean that all the key information is readily accessible when potential consultees are first presented with a new consultation document and that regular consultees will become familiar with the format.

5.2.5. The burden of consultation

Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees’ buy-in to the process is to be obtained.

When preparing a consultation exercise it is important to consider carefully how the burden of consultation can be minimised. While stakeholders may welcome the opportunity to contribute their views or evidence, they will not welcome being asked the same questions time and time again. If the Government has previously obtained relevant information from the same audience, consideration should be given as to whether this information could be reused to inform the policymaking process, e.g. is the information still relevant and were all interested groups canvassed? Details of how any such information was gained should be clearly stated so that consultees can comment on the existing information or contribute further to this evidence-base.

If some of the information that the Government is looking for is already in the public domain through market research, surveys, position papers, etc., it should be considered how this can be used to inform the consultation exercise and thereby reduce the burden of consultation. In the planning phase, the drafter should speak to other drafters in the same ministry and other ministries with an interest in similar sectors in order to look for opportunities for joining up work so as to minimise the burden of consultations aimed at the same groups.

Consultation exercises that allow consultees to answer questions directly online can help reduce the burden of consultation for those with the technology to participate. However, the bureaucracy involved in registering (e.g. to obtain a username and password) should be kept to a minimum. Formal consultation should not be entered into lightly. Potential consultees will often be happy to advise about the need to carry out a formal consultation exercise and acceptable alternatives to a formal exercise.

5.2.6. Responsiveness of consultation exercises

Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.

All responses (both written responses and those fed in through other channels such as discussion forums and public meetings) should be analysed carefully, using the expertise, experiences and views of respondents to develop a more effective and efficient policy. The focus should be on the evidence given by consultees to back up their arguments. Analysing consultation responses is primarily a qualitative rather than a quantitative exercise.

In order to ensure that responses are analysed correctly, it is important to understand who different bodies represent, and how the response has been pulled together, e.g. whether the views of members of a representative body were sought prior to drafting the response. Consultation documents should, where possible, give an indication as to the likely timetable for further policy development. Should any significant changes in the timing arise, steps should be taken to communicate these to potential consultees.

Following a consultation exercise, the Government should provide a summary of who responded to the consultation exercise and a summary of the views expressed to each question. A summary of any other significant comments should also be provided. This feedback should normally set out what decisions have been taken in light of what was learnt from the consultation exercise. This information should normally be published before or alongside any further action, e.g. laying legislation before Parliament. Those who have participated in a consultation exercise should normally be alerted to the publication of this information. Consideration should be given to publishing the individual responses received to consultation exercises.
5.2.7. Capacity to consult

Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

Ministries should consider appointing a Consultation Coordinator. The Consultation Coordinator should be named in consultation documents as the person to contact with any queries or complaints regarding consultation process (the policy lead should be the contact point for queries regarding content).

Policy officials who are to run a consultation exercise should seek advice from their Consultation Coordinator early in the planning stages. Ministries should monitor the effectiveness of their consultation exercises. Learning from consultation exercises should be shared with the Consultation Coordinator who will facilitate the sharing of lessons learned within the ministry and between other ministries.
ANNEX 1: Sequence of the RIA Fundamental procedures in Armenia

Process 1. Preliminary analysis and impact assessment:
- Identification of alternative solutions and their impacts for the problem, its solution;

Process 2.1. Receiving of conclusions on RIA:
- Decision on in-depth impact assessment as a result of discussions with the RA Prime Minister.

Process 2.1. Public discussions;
- Identification of alternative solutions and their impacts for the problem, its solution;

Process 3. Checking of compliance of the RIA processes:
- Checking of compliance of the policy adopted by the RA Government staff;
- Decision on in-depth impact assessment as a result of discussions with the RA Prime Minister.

Process 4. Approval of normative legal act

Process 5. Enforcement and ex-post analysis.

RA National Assembly

RA Government staff

Ministries providing RIA conclusions

NGOs, associations, etc.
ANNEX 2: Template 1 for overview of proposed alternatives, their capacity to solve the identified problems, as well as their potential impacts

<table>
<thead>
<tr>
<th>Alternatives (→)</th>
<th>Problems to solve (↓)</th>
<th>1. “Doing nothing” alternative</th>
<th>2. Non-regulatory alternatives:</th>
<th>3. Regulatory alternatives:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3. C</td>
<td>1.3. C</td>
<td>1.3. C</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall effectiveness to solve problem X</th>
<th>Overall effectiveness to solve Problem Y</th>
<th>Overall effectiveness to solve Problem Z</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Alternatives (→)</th>
<th>Economic impact</th>
<th>Social impact</th>
<th>Environmental impact</th>
<th>xxx Impact (e.g. on corruption)</th>
<th>Risks of enforcement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 3: Template 2 for overview of proposed alternatives, their capacity to solve the identified problems, as well as their potential impacts

<table>
<thead>
<tr>
<th>Options (→)</th>
<th>1. “Doing nothing” alternative</th>
<th>2. Non-regulatory alternatives:</th>
<th>1. Regulatory alternative:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problems to solve (↓)</td>
<td>1.1. A</td>
<td>1.1. A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.2. B</td>
<td>1.2. B</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.3. C</td>
<td>1.3. C</td>
<td></td>
</tr>
</tbody>
</table>

Overall effectiveness to solve problem X

Overall effectiveness to solve Problem Y

Overall effectiveness to solve Problem Z

Alternatives (→)

1. “Doing nothing” alternative

2. Non-regulatory alternatives: 1.1. A

2. Regulatory alternative: 2.1. A

2.2. B

2.3. C

Advantages / benefits

Disadvantages / costs

Net effect (but only, if benefits & costs indicated previously have been quantitative)

Risks of enforcement
ANNEX 4: OECD Checklist of regulatory decision-making

This checklist is developed by the OECD and contains ten questions that should be used in order to analyse regulatory decision-making.

1. Is the problem correctly defined?
   The problem to be solved should be precisely stated, giving clear evidence of its nature and magnitude, and explaining why it has arisen (identifying the incentives of affected entities).

2. Is government intervention justified?
   Government intervention should be based on clear evidence that government intervention is justified, given the nature of the problem, the likely benefits and costs of action (based on a realistic assessment of government effectiveness), and alternative mechanisms for addressing the problem.

3. Is regulation the best form of government intervention?
   Regulators should carry out, early in the regulatory process, an informed comparison of a variety of regulatory and non-regulatory policy instruments, considering relevant issues such as costs, benefits, distributional effects, and administrative requirements.

4. Is there a legal basis for regulation?
   Regulatory processes should be structured so that all regulatory decisions rigorously respect the “rule of law” – that is, responsibility should be explicit for ensuring that all regulations are authorised by higher level regulations and consistent with treaty obligations, and comply with relevant legal principles such as certainty, proportionality, and applicable procedural requirements.

5. What is the appropriate level (or levels) of government for this action?
   Regulators should choose the most appropriate level of government to take action, or, if multiple levels are involved, should design effective systems of coordination between levels of government.

6. Do the benefits of regulation justify the costs?
   Regulators should estimate the total expected costs and benefits of each regulatory proposal and of feasible alternatives, and should make the estimates available in accessible format to decision-makers. The costs of government intervention should be justified by its benefits before action is taken.

7. Is the distribution of effects across society transparent?
   To the extent that distributive and equity values are affected by government intervention, regulators should make transparent the distribution of regulatory costs and benefits across social groups.

8. Is the regulation clear, consistent, comprehensible, and accessible to users?
   Regulators should assess whether rules will be understood by likely users, and to that end should take steps to ensure that the text and structure of rules are as clear as possible.

9. Have all stakeholders had the opportunity to present their views?
   Regulations should be developed in an open and transparent fashion, with appropriate procedures for effective and timely input from stakeholders such as affected businesses and trade unions, other stakeholders, or other levels of government.

10. How will compliance be achieved?
    Regulators should assess the incentives and institutions through which the regulation will take effect, and should design responsive implementation strategies that make the best use of them.

---

ANNEX 5: Procedural cycle for identifying impacts

Documents:
- Initiative together with its preliminary IA Report
- OR
- Draft legal act with its RIA Report

**Step of Process**

- Are there any impacts?
  - No or Yes?

- Are the impacts important?
  - No or Yes?

- What are the current values of indicators?
  - numeric value

- What will be the direction of change?
  - (increase or decrease)

- What is the predicted value?
  - (numeric value (+ / -))

- What is the aggregated impact?
  - (numeric value(s))

**Material**

- Impact check-list – questionnaire for each impact field

- Criteria of importance of impact
  - extent
  - frequency
  - size of target group
  - risk of unintended consequences

- Table of economical indicators
  - indicator
  - categories of values
  - units of variable
  - statistics
  - source
  - renewal of data

- Impact assessment conclusion
  - possible impacts
  - estimated values of impacts
ANNEX 6: Check-list for identifying impacts

1. Socio-economic impacts

1: Will the proposed decision influence the coping of households or households’ economical decisions?

1.1. Will the proposed decision influence the incomes and expenses of households (for example the changes in taxation or amounts of subsidies) or the amount or value of property of households?

Indicators for 1.1.:

1.1.1. Income of household (AMD per year, average and total) → how much will it change due to the proposed decision?

1.1.2. Structure of income (percentage by origin – salary, subsidies, pension, entrepreneurship, etc.) → how much will the components of income change?

1.1.3. Number of households affected by regulation (number of households and amount of household members) → what kind of households will be affected (with one or many household members, pensioners, etc.), how many of them will be affected?

1.1.4. Expenditures of household (per year, average and total) → how much will expenditures change due to the proposed decision?

1.1.5. Structure of expenditures (taxes, consumption, saving, investing – percentages per year, total of year in AMD) → which components of expenditures are affected and how much?

1.1.6. Property of household (average value by household, total value of the economy) → will it affect household property, what kind of property, how much?

1.2. Will the proposed decision influence (increase or reduce) socio-economic equality, exclusion or poverty of social groups? Does the coping of some social group (risk group) change compared with other groups (for example, for single parents, for elderly people, for families with many children, for national minorities, for people from specific region, for people with certain profession, etc.)?

Indicators for 1.2.:

1.2.1. Structure of division of incomes (income of deciles of population) → will the proposed decision affect more people with higher or lower incomes; if possible to calculate (using for example household survey data), by how much will the different groups be affected?

1.2.2. Gini index → will the proposed decision increase or decrease equality (indications of magnitude gives also estimation of impacts by deciles, see previous indicator of 1.2.).

1.3. Will the proposed decision influence the behaviour of consumption of households? Will the proposed decision influence the behaviour of consumption (structure or amount) or the balance of consuming, saving and investing?

Indicators for 1.3.:

1.3.1. Structure of consumption (percentages per year – food, beverages, clothing, habitation, health care, transportation, communication, leisure and entertainment, education, other) → which components of consumption and by how much are affected, are these mainly primary goods, luxury goods, etc.?

2. Will the proposed decision influence the business environment or the activity of entrepreneurs?

2.1. Will the proposed decision influence directly or indirectly the taxes, the fees or the subsidies (for example, are there direct influence from the changes of income tax rate or from the amount of business subsidies or indirect influence from changes in taxation of labour, changes in VAT or changes in rates of custom)?
Indicators for 2.1.:

2.1.1. Additional costs or revenues (overall annual cost in AMD; percentage of total costs, percentage of revenues or profits) → how big will be additional costs or revenues due to the proposed decision?:

2.1.2. Magnitude of change in tax rates, fees or subsidies (percentage points or in AMD in case of fees or subsidies; compared with the current level):
   - income tax;
   - VAT;
   - labour taxes;
   - excise duties;
   - local taxes;
   - other taxes;
   - fees and similar;
   - subsidies;
   - other.

2.1.3. magnitude of change of tax costs or subsidies (overall annual cost in AMD; percentage of total costs, revenues or profits);

2.1.4. targeted sectors or geographic regions (names of sectors or areas, percentage of total economy in terms of labour or number of enterprises or revenue);

2.1.5. number of enterprises or persons eligible (number).

**NB 1! Size of target group should be covered by all indicators (may include all enterprises, but if there are different impacts by different sectors, this should be mentioned).**

**NB 2! Also other important costs or revenues not mentioned under following points should be covered in impact analysis (for example, changes in labour costs due other reasons beside taxes).**

2.2. Will the proposed decision cause changes in the behaviour of businesses (for example, will it change the structure of enterprises or the usage of innovative IT or communication tools)?

2.3. Will the proposed decision influence activity of business or investments to some business sectors?

Indicators for 2.2. and 2.3. (behaviour of businesses and business sector activity) are covered under other points (for example, additional costs → influenced sectors).

2.4. Will the proposed decision influence the situation of competition? Will it limit or distort the competition in market (also the situation of businesses in international market)?

Indicators for 2.4.:

2.4.1. Change of concentration of enterprises (Herfindahl-Hirshman index (HHI) or similar, change in percent; market share of 3 or 4 or 5 biggest companies, percent; in very concentrated market – market share of the biggest enterprise in relevant market, percent).

**Main question here is:** Will the proposed decision worsen the competitive situation? →

If yes, then the next question is: Is it acceptable (because in case of tough competition the change could be acceptable, but in case of monopolistic market deeper analysis of potential risks may be necessary)?

2.4.2. Change in profitability level of targeted sector companies → higher competition means usually lower prices and lower profitability (percent, comparison with other sectors or other countries).
2.4.3. Change in import share of total consumption of targeted good or service (percent) → import may be important source for competition, but it depends from the market (goods vs. services).

**NB!** In fact, these indicators could be best traced within *ex-post* impact assessment analysis; it’s difficult to estimate the *ex-ante* impact. But it is possible to estimate the direction based on supplementary information. Early ‘warning signs’ are, for example, different relative change in costs of some companies (small vs. big, local vs. foreign), change in entering and exit costs of enterprises (look at following point).

2.5. Will the proposed decision influence starting enterprises access to market (for example, will it change the restrictions arising from permissions or licenses), the level of concentration of market or the enterprises usage of methods of competition (like prices, quality, advertising)?

**Indicators for 2.5.:**

2.5.1. Change in start-up costs, including necessary capital, license and registration fees (overall annual cost in AMD; percentage of total costs, revenues or profits).

2.5.2. Change in administrative costs related to starting a business (overall annual cost in AMD; percentage of total costs, revenues or profits) (see also sub-chapter 4.1. about regulatory costs for explanation of term “administrative burdens”).

2.5.3. Change in market concentration – see the previous point 2.4. about competition.

2.5.4. Change in consumer complaints about competition (percent) → gives information about the situation, it’s possible to estimate beforehand if the situation should improve or worsen due to the proposed decision; indicator helps to identify actual effects afterwards.

2.6. Will the proposed decision influence SMEs or starting businesses or other more vulnerable enterprises?

2.7. Will the proposed decision influence enterprises of certain field of activity or economical sectors?

**Indicators for 2.6. and 2.7.** (the effect to SMEs and starting businesses) are covered under previous points (for example, start-up costs or change in taxes is covered under differentiating the target groups).

2.8. Will the proposed decision influence (improve or constrain) innovation (for example, introducing new means of production, developing new goods and services or conduction of surveys or development of business)?

**Indicators for 2.8.:**

2.8.1. Change in innovation costs through tax system or subsidies, etc. (overall annual cost in AMD; percentage of total costs, revenues or profits).

2.8.2. Change in administrative costs related with marketing new products due testing or certification requirements, etc. (overall annual cost in AMD; percentage of total costs, revenues or profits) (see also chapter 4.1. about regulatory costs for explanation of term “administrative burdens”).

2.9. Will the proposed decision influence the internationalization of enterprises? Will it encourage export or international investments? Are businesses likely to increase their investments as a result of the proposed decision, or is it more probable that the investment rate will decrease?

**Indicators for 2.9.:**

2.9.1. Change in exports (percent) → will the proposed decision help to boost exports, in case of significant impact it may be quantified (based on companies or expert opinions, other countries experiences, models). This remark applies also to the following indicators (2 till 4).

2.9.2. Change in imports (percent).

2.9.3. Change in inward investments (percent).

2.9.4. Change in outward investments (percent).

2.9.5. Financing available for investments, tax reliefs or subsidies for investments, public R&D financing (AMD; % of total costs, revenues or profits; % share of businesses receiving public financing or obtaining private risk capital).

**NB!** These indicators are not easily estimated in advance, direction of change should be based on the information of other, ‘lower level’ indicators (change in costs, change in access to the market).
2.10. Will the proposed decision influence the cooperation of enterprises (especially SMEs cooperation)?

**Indicators for 2.10.:**

2.10.1. Change in transaction costs of enterprises, information costs, etc. (overall annual cost in AMD; percentage of total costs, revenues or profits).

2.10.2. Change in potential revenues of cooperation (overall annual revenues in AMD; percentage of total costs, revenues or profits).

**NB!** These indicators are difficult to quantify, special surveys are usually needed to describe the change, possibly caused by the proposed decision.

2.11. Will the proposed decision have overall consequences for economic growth and employment?

**Indicators for 2.11.:**

2.11.1. Change in GDP growth (percentage points) if the impact is big enough (covers majority of economy or impact of one sector is ‘visible’ in the total economy, this change could be calculated or estimated using models (depends on the case). The same applies for the following indicators (2 till 4).

2.11.2. Change in GDP per capita level (percentage).

2.11.3. Change in value added per employee – productivity (percentage).

2.11.4. Change in employment (number of employed, percentage of labour force).

**NB!** These indicators may be important in case of large impacts. Input information for calculating macroeconomic impacts should come from lower level indicators or lower level impacts.

3. Will the proposed decision cause administrative burden to enterprises, to NGOs or to persons? (see also subchapter 4.1. about regulatory costs for explanation of term “administrative burdens”).

3.1. Will the proposed decision influence (increase or reduce) businesses, NGOs or persons obligations to deliver information to state or to third parties (and costs arising from these activities)?

**Indicators for 3.1.:**

3.1.1. Delivering information obligations (overall annual cost in AMD) – it can be calculated using Standard Cost Model (for more detailed information see Chapter 4.2.1.).

3.2. Will the proposed decision influence (loosen or restrain) requirements for working procedures or will it introduce requirements for some additional procedures, or will it bring along demand for new equipment (for example for storing or protecting data)?

**Indicators for 3.2.:**

3.2.1. Working procedures (overall annual cost in AMD):

3.2.2. number of enterprises or persons eligible (number);

3.2.3. number of procedures (per enterprise, overall sum in AMD);

3.2.4. duration of procedures (hours spent complying per enterprise);

3.2.5. Cost of labour (AMD per hour);

3.2.6. Training necessary (in AMD).

3.2.7. Necessary equipment (overall annual cost in AMD):

3.2.8. number of enterprises or persons eligible (number);

3.2.9. number of equipment (per enterprise, overall sum in AMD);

3.2.10. cost of equipment (per enterprise per year, overall sum in AMD);

3.2.11. cost of new equipment (per enterprise, overall sum in AMD);

3.2.12. annual amortization (per piece of equipment, per year, overall sum in AMD).
4. **Will the proposed decision influence the development of information society?**

4.1. Will the proposed decision influence the dependence of state’s vital functions (electricity, transport, banking services, etc.) from IT solutions or data networks?

**Indicators for 4.1.:**

4.1.1. Malfunctions of data systems (events per year) – based on local experience, assessment may indicate the direction of change due to actions prepared.

4.1.2. Expenditure of malfunctions or crashes (AMD per year) – information could be gathered based on previous incidents, can be used for making estimations about potential future impacts.

Basically, here is the question about risks related to IT and network services.

In addition to above-mentioned indicators, below you can see some **additional examples of questions (checklists)** that should be asked in the frame of impact analysis – these questions are more oriented to social impact (although, economic element cannot be excluded) and they cover the following aspects (5-8).

5. **Will the proposed decision influence employment and labour market** (linked also to the first set of above-mentioned indicators about **households**):

5.1. will the proposed decision facilitate new job creation?

5.2. will the proposed decision lead directly or indirectly to a loss of jobs?

5.3. will the proposed affect the demand for labour?

5.4. will the proposed decision have an impact on the functioning of the labour market?

6. **Will the proposed decision influence the working environment?**

6.1. will the proposed decision influence job quality?

6.2. Will the proposed decision affect workers’ safety?

7. **Will the proposed decision influence social inclusion and protection of a particular social group?**

7.1. will the proposed decision lead directly or indirectly to greater equality or inequality?

7.2. will the proposed decision affect access to particular social group to the labour market?

7.3. will the proposed decision affect equal access to services and goods?

7.4. will the proposed decision affect access to services of general economic interest?

7.5. will the proposed decision have specific positive/negative consequences for particular professions, groups of workers, or self-employed persons?

7.6. will the proposed decision affect particular age groups (if yes – how)?

8. **Will the proposed decision influence equality of treatment and opportunities (incl. non-discrimination aspect)?**

8.1. will the proposed decision affect the principle of non-discrimination, equal treatment and equal opportunities for all?

8.2. will the proposed decision have a different impact on women and men?

8.3. will the proposed decision promote equality between women and men?

8.4. will the proposed decision entail any different treatment of groups or individuals directly on grounds of sex, racial or ethnic origin, religion or belief, disability, age, and sexual orientation? Or could it lead to indirect discrimination?

**NB!** Equality of treatment and opportunities has to be checked, bearing in mind the following aspects:

a) legal aspect – for instance, whether equal rights have or have not been defined in the legal draft document;

b) non-financial aspect – for instance, access to infrastructure, to public goods, timing when respective rights can be realized;

c) informative aspect – for instance, will the information about goods / services be equally available and accessible for everybody.
2. Impact on Health

Key questions and indicators:

1. Will the proposed decision influence directly or indirectly peoples physical or mental health?

Indicators for 1.:

1.1. Rate of mortality.
1.2. Average life expectancy.
1.3. Percentage of mentally or physically handicapped people among society.
1.4. Percentage of people unable to work due to health disorders among society.
1.5. Annual number of registered physical and mental disorders (by categories).

2. Will the proposed decision influence risk factors of diseases or health disorders?

Indicators for 2.:

2.1. Registered cases of pollution accidents of living or working environment (noise pollution, pollution of water, air, food, soil, etc.).
2.2. Average level of pollution of living or working environment.
2.3. Safety of living or working environment (safety of handling machinery, safety of traffic, safety of electricity, networks; safety of water, gas and fuel piping).
2.4. Number of injuries and deaths caused by injuries per year:
   2.4.1.- number of work accidents resulting with injuries per year;
   2.4.2.- number of traffic accidents resulting with injuries per year.

3. Will the proposed decision influence health behavior and preconditions of health?

Indicators for 3.:

3.1. Percentage of:
   3.1.1. regular smokers among population;
   3.1.2. diagnosed alcoholics among population;
   3.1.3. diagnosed drug addicts among population.
3.2. Percentage of people engaged in sportive activities among population.
3.3. Composition of food and beverages (over- or under-consumption of proteins, fats, carbohydrates, minerals or vitamins).
3.4. Average Body Mass Index among population:
   3.4.1. number of people considered having over weight among population;
   3.4.2. number of people considered having eating disorders.
3.5. Number of health disorders caused by:
   3.5.1. regular smoking;
   3.5.2. overconsumption of alcohol;
   3.5.3. consumption of drugs;
   3.5.4. eating disorders or harmful diet.
4. **Will the proposed decision influence need (demand) for health services?**

Indicators for 4.:

4.1. Number of visits to specialized doctors per year.

4.2. Average waiting time for visits to (specialized) doctors.

5. **Will the proposed decision influence supply of health services by medical facilities?**

6. **Will the proposed decision influence people’s access to health services (availability of healthcare)?**

Indicators for 5. and 6.:

6.1. Average distance from hospitals.

6.2. Average waiting time of ambulance arrival.

6.3. Number of ambulance teams (per person) and number of teams in service at a time (per person).

6.4. Number of daily/yearly calls for ambulance teams.

6.5. Annual number of visits to (specialized) doctors (per person).

6.6. Overall capacity of hospitalization, number of persons per hospital bed.

6.7. Actual annual usage of hospitalization service.

7. **Will the proposed decision influence functioning and sustainability of healthcare system?**

Indicators for 7.:

7.1. Annual funding of health care institutions (percentage of GDP per person).

7.2. Number of public and private healthcare service providers (hospitals, polyclinics, ambulatories, clinics, etc.).

7.3. Number of medical stuff employed (nurses, doctors, support personnel).

8. **Will the proposed decision influence covering health care costs (remuneration by state and payments made by patients)?**

Indicators for 8.:

8.1. Percentage and amount of healthcare service costs covered by patients.

8.2. Percentage and amount of medicine costs covered by state.

8.3. Annual payments to cover sick-leaves.

### 3. Environmental Impacts

While carrying out an Environmental Impact Assessment (EIA) assessors deals with forecasting or identifying both direct natural impacts of a proposed decision, as well as secondary natural impacts that can emerge from direct socio-economic impacts. Most often, EIA is performed when considering development projects – promoting manufacturing, production or consumption, changing the terms of use of land or other resources; improving infrastructure etc. Because EIA is attempting to establish direct and indirect causality among many factors that most often cannot be characterized by numerical data, most often a set
Key questions and indicators:

1.a Will the proposed decision directly influence natural environment (water, air, vegetation, animals and climate), built environment (landscape and cultural heritage) or use of natural resources?

1.b Will the proposed decision influence natural environment (water, air, vegetation, animals and climate), built environment (landscape and cultural heritage) or use of natural resources indirectly through other socio-economic impacts?

To answer these questions, it is possible to use different kinds of indicators, depending on the stage of policy making. For purposes of identifying the possibility of impact on environment (both ex-ante and ex-post stages), assessors may use descriptive indicators or “state indicators” that characterize natural or other environment in a certain territory and / or time. However, in order to identify possible types of impacts, their magnitude and units of measurement, assessors use such indicators as driving force indicators, pressure indicators and impact indicators.

Examples of Indicators: State indicators (focusing on the state of the environment):

1.1. Concentrations of ozone depleting substances (ODS) in the atmosphere;

1.2. UV Index, Air Quality Index;

1.3. Average temperature in given territory at specific time period;

1.4. Number or breeding bird or animal pairs (of rare species) in a given area;

1.5. Number of various species found in a given area (biodiversity);

Examples of Indicators: Driving forces, pressure and impact indicators (focusing on anthropogenic activities):

1.6. Population growth;

1.7. Volume of greenhouse gas emissions;

1.8. (Increase in) volume of wild-caught fish;

1.9. Change in volume (or contamination) of river water (decrease in downstream discharge, increase of drainage), as well
as groundwater as a result of irrigation;
1.10. Loss of biodiversity as a result of increase in livestock (meat production) in a given area;
1.11. Change in transportation patterns (routes and arrangements), re-location of housing, industry etc;
1.12. Increase in traffic, traffic congestion and urban sprawl;
1.13. Increase in noise pollution;
1.14. Change in land use, e.g. amount or proportion of land used for roads;
1.15. Amount of waste generated by the increase in production, industry or consumption;
1.16. Increase in use of resources (mineral, water, forest, energy etc. resources).

2. Will the proposed decision influence the probability (risks) of direct environmental influence on natural envi-
ronment (water, air, vegetation, animals and climate), built environment (landscape and cultural heritage) or
use of natural resources?
Examples of Indicators: Risk prevention, mitigation or transfer indicators:
2.1. Are there safety measures taken before transportation of hazardous materials by land or waterway?
2.2. Are there flood safety and impact mitigation measures in place?
2.3. Are there emergency preparedness plans developed and adopted by the authorities?
2.4. Are unmanageable risks insured?

3. If any of the above questions are answered positively, does the proposed decision incorporate impact avoid-
ance or mitigation measures, following the principle “polluter pays”?
Examples of Indicators: Response indicators:
3.1. Types of preventive measures in place to lessen the driving forces of environmental impact;
3.2. Technical or educational measures in place to lessen the pressures and impact on environment (e.g. Number or pro-
portion of people serviced by sewage treatment in a given area, Amount of or proportion of waste disposed of or
recycled);
3.3. Charges or taxes levied from the polluter.

4. Impacts on Corruption
Introductory remarks
A) There is no universally agreed upon definition of corruption. A frequently used one has been that developed by Transparency
International: corruption is the misuse of entrusted power for private gain. However, as seen from anti-corruption laws and
policies of different countries, different kinds of corruption have been kept in mind when using the concept. Therefore it is pos-
sible to divide corruption as a whole into several pairs of categories. Common to these categories is that all of them, in a direct
or indirect, more or less severe way, undermine integrity in the society, diminish trust towards and between its members and
institutions, and cause loss to its resources.
First, there may be **criminal and non-criminal corruption**. The first one is composed of activities that are so severe that sooner or later they have been considered to be criminal offences, like giving or taking bribe. The second one is composed of activities that may constitute an actual, potential or seeming conflict of interest for decision makers, or even all kind of non-transparency of decision making. If the reason why this or another decision has been taken, is not clear for the observers, there exists always the risk that the decision maker has been influenced by other than legal and legitimate interests.

Secondly, there may be corruption “according to the rule” or “against the rule”. The first involves situations where the purpose of a payment made to an official is to obtain some kind of preference compared to others, but the expected act of the official is not against the law. The second one, on the contrary, includes cases where the official who receives payment, will act beyond his legal powers, acting against the law. Depending on cultural circumstances and local habits, tips and gifts may be deemed acceptable in general, but if they are accepted by a decision maker for making his job, they may at least seem a corrupt practice and involve a conflict of interests in later transactions.

Thirdly, there are **public sector corruption and private sector corruption**. The first involves a “recipient” who is entitled to act in the public interests or to provide public services. Even if the “donor” side belongs to the private sector, as usual, the “recipient” from the public sector is enough to classify the relationship as belonging to public sector. On the other side, if both the parties belong to the private sector, it is classified as a private sector corruption. Even if the last form does not usually damage trust to the state, it destroys trust to the employees and other agents, causes direct damage to their employers and may involve far-reaching losses to resources. Corruption in the public media sector, in particular, may be used in order to manipulate with the public and even decision makers.

Again, there is so-called **petty corruption and grand corruption**. Petty or low-level corruption refers to “ordinary” corruption by officials in their interaction with the public. Grand, political or high-level corruption refers to corrupt acts by politicians and high-level officials, leading in some cases to the “purchase” of laws and state policies.

To conclude the list here (which does not mean that it is exhausted) there are **selfish and altruistic forms of corruption**. If corruption is the misuse of entrusted power for private gain, it includes the abuse of power by an official for his own gain, e.g. when demanding his subjects to work in his private interests, not in the interests of the employer of the official, as would be due. On the other hand, if an official requires that a bribe should be paid to a charity, it is not less corrupt than to ask it for himself.

It is clear that different kinds of corruption require different tools for combating them – either by reaction (punishment, invalidation of results obtained by using corrupt practices, confiscation of criminal income), by prevention (in specific or general scale, e.g. by establishing limitations and terms for officials, controlling party funding, requirements guaranteeing transparency, avoiding direct contact with an official by means of electronic procedures, having better regulation), or by raising public awareness and training officials.

B) **Corruption, in whatever form, tends to be a latent vice** because very often both parties involved – both the decision maker who receives a benefit (the recipient or passive party) as the one who receives a wished result for the benefit granted by him (the donor or active party) – are content with the result. Most often the interaction is not documented. This is one of the reasons why:

- it is rather **difficult to estimate the presence of corruption** in a society; only limited number of incidents of corruption reach court; this is one of the reasons why the use of quantitative indicators for anti-corruption purposes is almost impossible;

- it has been found to be **more effective to prevent corruption** by establishing different kinds of measures (limitations to activity in order to prevent conflict of interests, auditing system, declaration of interests, transparency of decision making, guarantees for co-operative offenders and whistleblowers, etc) and to raise awareness of it and ethical sensitivity, than to combat with its incidents and their results so difficult to prove.

Therefore, when assessing the impact of a future rule, instrument or policy on corruption, the **indicators have to be more weighted than measured**. What should be kept in mind, is also that corruption in the general sense does not always imply breaches of rules (usually it does), opinions whether some behaviour is corruption or not, is influenced by public reactions: what is acceptable in one context, may not be in another.

**Key questions and indicators:**

I Concerning rules and policy papers

1. **Will the proposed decision imply as an outcome rules or policy papers which are ambiguous or not clear, or the contrary?**

**Indicators for 1.**

1.1. The regulation or policy paper would use undefined concepts or vague references to other rules or documents.

1.2. The regulation or policy paper would invest competing competences to agencies or officials.

1.3. The regulation or policy paper would use discretionary competences by decision makers, including competence to act
without specifying under which circumstances action is mandatory.

1.4. The regulation or policy paper would use unclear or too general delegation rules which do not specify, who has to do what, whether and how.

2. Will the proposed decision imply as an outcome rules or policy papers which are too dense, fragmentary or incoherent, or the contrary?

Indicators for 2:

2.1. Too wide scope of regulation or policy paper: it concerns issues that should not be concerned.

2.2. Lack of delegation to a lower level of decision of issues, that could (more) effectively be decided on a lower level.

2.3. Requirements that are too strict and inappropriate compared to the legitimate purpose to be achieved; punishments that are improportionate to the offense and the guilt.

2.4. Setting of unrealistic standards or purposes.

2.5. Too narrow scope of regulation or policy paper: areas that should be concerned, are not concerned.

2.6. Delegation to a lower level of issues that can be decided exclusively on the higher level.

2.7. Rules or statements that are incoherent with the purpose of the policy as a whole, or higher level policies.

II Concerning obstacles to anti-corruption activities in all sectors

3. Will the proposed decision inhibit anti-corruption activities, or the contrary?

Indicators for 3:

3.1. Encouraging dishonesty, low ethics, corruptive contacts, neglect of conscience-building.

3.2. Encouraging under-estimation of corruption risks.

3.3. Inhibiting disclosure or detection of corruption cases, including encouraging concealment thereof.

3.4. Creating obstacles for investigation and prosecution of corruption cases.

3.5. Inhibiting recovery of proceeds of corruption, enabling concealment thereof.

III Concerning private sector, civil society and the media

4. Will the proposed decision influence corruption prevention in the business sector?

Indicators for 4:

4.1. Encouraging to establish, review and implement internal codes of conduct and standards of business ethics.

4.2. Encouraging to publish the codes of conduct and standards of ethics, and give information about their implementation.

4.3. Encouraging to agree on, implement and publish integrity pacts by professional unions, trade chambers and similar organisations, and systematic review and monitoring thereof.

4.4. Encouraging businesses to demand compliance with their ethical standards from their agents, employees, partners and subcontractors.

4.5. Demanding sound book-keeping and disclosure of annual reports.

4.6. Demanding good corporate governance and responsive relationship between investors and corporations.

5. Will the proposed decision influence participation in corruption prevention by the civil society and the media?

Indicators for 5:

5.1. Enabling consumers, civil society and the media access to the information on corruption prevention by the business
sector.

5.2. Enabling consumers, civil society and the media access to the data on the corporate interests and economic indications (as far as justified, taking into account business secrecy).

5.3. Enabling members of the public, in particular the stakeholders, to access to the information on the decision making procedures, outcomes and corruption prevention measures by the institutions (as far as justified, taking into account state secrecy, data protection etc.).

5.4. Enabling members of the public to access to the information concerning corruption cases (as far as justified and without detriment to the procedure).

IV Concerning the institutions

6. Will the proposed decision influence the establishment, impartiality and functioning capacity of decision making institutions?

Indicators for 6:

6.1. A clear legal basis, defining the distinct competence of the institution and its relationship to other institutions.

6.2. Reliable and sustainable funding of the institution, which guarantees its autonomy without undue political or other influence.

6.3. Independent audit for the budget and resources of the institution.

6.4. Professional criteria for appointment of leadership of the institution, limited to a fixed but not too short term.

6.5. Objective principles for recruiting well-trained staff.

6.6. Capacity to use as many staff as necessary for the task, with a salary comparable to that of specialists of the same profession in the private sector.

6.7. Motivating the staff by good working conditions and offering ongoing training, to keep the loyalty of staff and inter alia, to avoid the phenomenon of revolving doors.


6.9. Information and experience sharing with similar institutions from other countries.

7. Will the proposed decision influence the corruption prevention in decision making institutions?

Indicators for 7:

7.1. Disclosure of competing interests and corruption risks by a decision maker to his superior.

7.2. Managing conflicts of interest and corruption risks, if required, by proportionate limitations to external activities and post-service recruitment by addressees without cooling-off period (revolving doors).

7.3. Adequate, unavoidable responsibility for breaches of rules, including breaches of code of conduct, according to established procedure.

7.4. Avoidance of close connections with the addressees of decisions; if possible, use of electronic procedures, anonymous decision making, decision by committees. Rotation of staff, or cases.

8. Will the proposed decision influence the functioning of decision making institutions?

Indicators for 8:

8.1. Clear rules concerning the procedure and the competence of the decision maker.

8.2. If rules, with a clear delegation and fixed scope, demand discretion from the decision maker, the criteria of discretion are specific and objective enough to be applied in the same manner by another person.
8.3. Transparency in decision making, enabling peer review or external expert review of decisions made, and also centralised collection of decisions and their reasons, in order to enable internal and external audits, comparison and harmonisation of practices.

8.4. Transparency in decision making in the interaction with the addressee of the decision.

8.5. Reasoning of decisions in order to enable review, audit and appeal.

8.6. Availability of appeal to the decision of the first instance, including clear rules for the appeal.

8.7. As far as possible, publication of the decisions and their reasons, or their availability to the members of public, in particular stakeholders and competitors to the addressee.
5. Impact to arrangement of state establishments and to the state budget

Key questions and indicators:
Administrative impact area I: Will the proposed decision influence arrangement of public institutions?

1. Will the proposed decision influence inter-organizational relations (division of tasks, responsibilities, authority and cooperation)?

Indicators for 1:
1.1. Number of inter-ministerial official committees and task-groups.

2. Will the proposed decision result in creation of new establishments or departments, reorganization or liquidation of existing ones?

Indicators for 2:
1.1. Number of state and local municipality establishments.
1.2. Number of establishments acting under public law (and not regarded as state establishments – hospitals, universities, etc.).
1.3. Number of state owned companies
1.4. Frequency and number of structural reforms of state establishments.

3. Will the proposed decision influence accessibility to public services and the quality of service?

Indicators for 3:
3.1. People’s assessment (rating) to the quality of public services.
3.2. Overall amount and frequency of using public services.
3.3. Duration and cost of state proceedings (by establishment or by public service).

4. Will the proposed decision influence the functions and job management (also the work load and tasks of establishments), organizational structure and processes, or establishments ability to fill main objectives and offer public services?

Indicators for 4:
4.1. Yearly number of delays and losses in delivering public service.
4.2. Number of unsuccessful attempts to gain public service by persons (according to complaints).
4.3. Gross and average number of official (paid) and unofficial (unpaid) working hours by establishments and by employees.

5. Will the proposed decision influence costs of sustaining local authorities or state establishments?

Indicators for 5:
5.1. Size of budget for maintaining state establishments and local authorities.
5.2. Division of budget between different establishments.
5.3. Structure of budget (division into budgetary categories).
6. Will the proposed decision influence the personnel of local authorities or state establishments?

Indicators for 6.:
6.1. Number of people employed in civil service, number of posts/positions, occupancy of posts.
6.2. Employees division into categories by rank and by profession (or field of activity).

7. Will the proposed decision influence requirements to personnel of local authorities or state establishments (requirements to education and qualification)?

Indicators for 7.:
7.1. Employees (civil servants) average education; requirements to education by rank and profession of civil servants.
7.2. Demands to employees (civil servants) qualification and working experience; actual average qualification and work experience by rank and profession of civil servants.
7.3. Number and percentage of under and over educated or qualified personnel.

8. Will the proposed decision influence need for training of civil servants?

Indicators for 8.:
8.1. Number of trainings for civil servants.
8.2. Volume and duration of trainings (in training days).
8.3. Overall and average cost of trainings; average cost of training days.

Administrative impact area II: Will the proposed decision influence funding of public service (revenues and expenses)?

9. Will the proposed decision influence state revenues (development and sustainability of state budget)?

Indicators for 9.:
9.1. Yearly incomes to state budget (by categories of incomes: taxes, excises, dividends of state owned enterprises, etc.).
9.2. Increase or decrease of state budget revenues (by categories).

10. Will the proposed decision influence state expenses?

Indicators for 10.:
10.1. Yearly outgoings of state budget (by categories or by ministries administrative fields).
10.2. Increase or decrease of state budget expenses (by categories).
10.3. Balance of state budget, yearly surplus or deficit of state budget.

11. Will the proposed decision influence financial relations inside public sector?

Indicators for 11.:
11.1. Structure of budget, distribution between establishments.
11.2. Budget distribution between different governmental levels (state and local municipalities).
12. Will the proposed decision influence financial control in public sector or the transparency of financial decisions?

Indicators for 12:

12.1. Yearly number of audits and audited establishments.
12.2. Number of auditing organizations in state disposal (or number of auditors employed).
12.3. Number of mistakes discovered and prescriptions made by auditors.
12.4. Number of civil and criminal prosecutions based on financial control.

13. Will the proposed decision influence financing non-governmental organizations (NGOs) or their financial relations with state?

Indicators for 13:

13.1. Number of NGOs, their distribution between fields of activity.
13.2. Gross and average yearly budget of NGOs, percentage of state support in NGOs budget.
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Categories</th>
<th>Statistics</th>
<th>Unit</th>
<th>Database</th>
<th>Frequency of data renewal / update</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income of household</td>
<td>Salary, subsidies, pension, entrepreneurship etc</td>
<td>Average, total</td>
<td>Money (drams)</td>
<td>NSSRA</td>
<td></td>
</tr>
<tr>
<td>Structure of income</td>
<td>Average</td>
<td>Percentage</td>
<td>NSSRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of households</td>
<td>1-member, 2-member, with children, in countryside etc</td>
<td>Total</td>
<td>Persons</td>
<td>NSSRA</td>
<td></td>
</tr>
<tr>
<td>Expenditures of household</td>
<td>Average, total</td>
<td>Drams</td>
<td>NSSRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structure of expenditures</td>
<td>taxes, consumption, saving, investing</td>
<td>Drams, percentage</td>
<td>NSSRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property of household</td>
<td>Average, total</td>
<td>Drams</td>
<td>NSSRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gini index</td>
<td>0…1</td>
<td>Fixed</td>
<td>NSSRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structure of consumption</td>
<td>food, beverages, clothing, habitation, health care, transportation, communication, leisure and entertainment, education, other</td>
<td>Average</td>
<td>Percentage</td>
<td>NSSRA</td>
<td></td>
</tr>
<tr>
<td>Additional costs or revenues</td>
<td>magnitude of change in tax rates, fees or subsidies; magnitude of change of tax costs or subsidies; targeted sectors or geographic regions; number of enterprises or persons eligible</td>
<td>Total</td>
<td>percentage points or in drams in case of fees or subsidies; drams; percentage of total costs, profits etc; percentage</td>
<td>Draft law; NSSRA, business register, administrative data</td>
<td>Draft law;</td>
</tr>
<tr>
<td>Indicator</td>
<td>Categories</td>
<td>Statistics</td>
<td>Unit</td>
<td>Database</td>
<td>Frequency of data renewal / update</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>---------------------------------</td>
<td>-------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>------------------------------------</td>
</tr>
<tr>
<td>Concentration of enterprises (Herfindahl-Hirschman index (HHI) or market share of biggest companies</td>
<td></td>
<td>Index; percent</td>
<td>NSSRA, business register, administrative data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability level of targeted sector companies</td>
<td></td>
<td>Percent</td>
<td>NSSRA, business register, administrative data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import share in total consumption</td>
<td></td>
<td>Percent</td>
<td>NSSRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start-up costs, including necessary capital, license and registration fees</td>
<td>Total</td>
<td>Drams</td>
<td>Administrative information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer complaints about competitiveness</td>
<td>Total</td>
<td>Number</td>
<td>Consumer rights protection agency?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation costs</td>
<td>Total</td>
<td>Drams; percentage of total costs, revenues or profits</td>
<td>-</td>
<td>Ad hoc</td>
<td></td>
</tr>
<tr>
<td>Administrative costs related with marketing new products due testing or certification requirements etc</td>
<td>Total</td>
<td>Drams; percentage of total costs, revenues or profits</td>
<td>-</td>
<td>Ad hoc</td>
<td></td>
</tr>
<tr>
<td>Change in exports</td>
<td>Total</td>
<td>Percent</td>
<td>NSSRA</td>
<td>monthly</td>
<td></td>
</tr>
<tr>
<td>Change in imports</td>
<td>Total</td>
<td>Percent</td>
<td>NSSRA</td>
<td>monthly</td>
<td></td>
</tr>
<tr>
<td>Change in inward investments</td>
<td>Total</td>
<td>Percent</td>
<td>NSSRA or Central Bank?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in outward investments</td>
<td>Total</td>
<td>Percent</td>
<td>NSSRA or Central Bank?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction costs of enterprises, information costs etc</td>
<td>Total</td>
<td>Drams; percentage of total costs, revenues or profits</td>
<td>-</td>
<td>Ad hoc</td>
<td></td>
</tr>
<tr>
<td>Potential revenues of cooperation</td>
<td>Total</td>
<td>Drams; percentage of total revenues</td>
<td>-</td>
<td>Ad hoc</td>
<td></td>
</tr>
<tr>
<td>Change in GDP growth</td>
<td>Total</td>
<td>Percentage points</td>
<td>NSSRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in GDP per capita</td>
<td>Total</td>
<td>Percentage</td>
<td>NSSRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in value added per employee</td>
<td>Total</td>
<td>Percentage</td>
<td>NSSRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in employment</td>
<td>Total</td>
<td>Number; percentage of labor force</td>
<td>NSSRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicator</td>
<td>Categories</td>
<td>Statistics</td>
<td>Unit</td>
<td>Database</td>
<td>Frequency of data renewal / update</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>------------</td>
<td>-----------------------------------</td>
<td>----------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>3. Administrative burden</td>
<td>Delivering information obligations</td>
<td>number of enterprises or persons eligible; number of obligations; frequency of obligation; time necessary to fill the obligation; cost of labor filling the obligation; cost of necessary inventory</td>
<td>Total</td>
<td>Number; Obligations per regulation; Events per year; Hours per event; Drams per hour; Drams per organization</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Working procedures</td>
<td>Number of enterprises or persons eligible; Number of procedures; Duration of procedures; Cost of labor; Training necessary</td>
<td></td>
<td>Number; Number per enterprise; Drams per enterprise; total</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Necessary equipment</td>
<td>Number of enterprises or persons eligible; Number of equipment; Cost of equipment</td>
<td>Total</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>4. Information society</td>
<td>Malfunctions of data systems</td>
<td>Total</td>
<td>Events per year</td>
<td>-</td>
<td>Ad hoc</td>
</tr>
<tr>
<td></td>
<td>Expenditure of malfunctions or crashes</td>
<td>Total</td>
<td>Drams per year</td>
<td>-</td>
<td>Ad hoc</td>
</tr>
</tbody>
</table>

NSSRA – National Statistical Service of the Republic of Armenia