



METHODOLOGICAL GUIDELINES FOR PREPARING THE FINANCIAL IMPACT ASSESSMENT OF THE DRAFT LAW

THE COST ESTIMATES AND LEGISLATIVE SUPPORT UNIT

PARLIAMENTARY BUDGET OFFICE

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THE PURPOSE OF THE DOCUMENT

The purpose of the document is to determine the main principles and methodological guidelines for making financial impact assessment, which is to be presented within the explanatory note of the draft law, in accordance with the requirements of Article 17, Paragraph 1, Sub-paragraph "b" of the Organic Law of Georgia "On Normative Acts", so that the provided information reflected the expected financial impact of the draft law. In order to ensure that, the document defines the general guidelines and basic requirements for the preparation of the financial impact assessment for each component which is to be presented in accordance with the structure defined by the Organic Law of Georgia "On the Normative Acts".

SCOPE OF THE DOCUMENT

Article 45 of the Constitution of Georgia defines that the Government of Georgia, a member of the Parliament, a parliamentary committee, a parliamentary faction, the supreme representative bodies of the autonomous republics of Abkhazia and Adjara, and not less than 25,000 voters have the right of legislative initiative;

It is recommended that this document be used for the financial impact assessment of all legislative initiatives prepared and submitted by the legislative initiative/initiator(s) in the form of a financial impact assessment of the draft law's explanatory note;

This document does not apply to: explanatory note of the draft law of Georgia on State Budget; to explanatory note of the international agreements.

DEFINITION OF TERMS

The terms used in the document have the following meanings:

Budget – set of revenues, expenditures and adjusted balance approved by the representative bodies of central, autonomous republican and local authorities of Georgia for the execution of duties and functions assumed by the central, autonomous republican and local authorities of the country;

State Budget – set of revenues, expenditures and adjusted balance approved by the Parliament of Georgia for the execution of functions and duties assigned to the Central Authorities of Georgia;

Republican Budget of an Autonomous Republic – set of revenues, expenditures and adjusted balance approved by the Supreme Council of the Autonomous Republic for the execution of functions and duties assigned to the Autonomous Republican Authority;

Municipal budget - set of budget revenues, expenditures and adjusted balance approved by the Representative Body of the Municipality - Sakrebulo for the execution of function and duties assigned to the municipal bodies;

Consolidated Budget of Georgia – consolidated budget of the state, autonomous republics and municipalities of Georgia. Consolidated Budget is not subject to the approval by the representative body of any authority;

Aggregated State Budget – consolidated budget of the central, autonomous republics and municipalities. Aggregated State Budget is not subject to the approval by the representative body of any authority;

Legal Entity of Public Law (LEPL) – legal entity of such status as envisaged in the legislation of Georgia, which is:

- Incorporated/established with a respective law, Government Resolution or Administrative Protocol issued on the grounds of the present law, or a Legal Entity of Public Law (LEPL) incorporated by such LEPL;
- Incorporated/established with a normative act by a Supreme Executive Body of the Autonomous Republic or a Legal Entity incorporated by such LEPL;
- Incorporated/established by the representative body of the municipality, in line with the rules defined by the Organic Law of Georgia – Local Self-government Code or a legal entity incorporated by such LEPL;

Legal Entity of Private Law as envisaged by the legislation of Georgia, which is:

- Incorporated/established in line with the rules defined in the legislation of Georgia by a Central Executive Body of Georgia and/or a legal entity incorporated by such;

- Incorporated/established in line with the rules defined in the legislation of Georgia by an Autonomous Republican Authority and/or legal entity incorporated by such;
- Incorporated/established in line with the rules defined in the legislation of Georgia by a municipality/municipalities and/or legal entity subordinated and/or controlled by such.

Budget of a Legal Entity of Public or Private Law – set of revenues to be obtained from all sources permitted under the legislation of Georgia for the execution of functions and duties assigned to legal entities, along with expenditures to be incurred from such sources and adjustment in the balance, which is approved under the rules defined in the legislation of Georgia;

Approved Budget – State, Autonomous Republican or municipal budget approved by the representative body of the respective authority;

Annual Budget – budget approved by the representative body of the central, autonomous republican or local authorities of Georgia, as well as those of the legal entities of public or private law envisaged by the present Code approved for the respective fiscal year in line with the legislation of Georgia;

Budget Appropriation – authority to incur expenditures within the volumes envisaged in the budget during the fiscal year;

Spending Institution – for state and autonomous republican budgets it is a budgetary organization envisaged in tier one of the program budgeting classification, while for the municipal budgets it is a municipality;

Budgetary Organization – organization incorporated and/or accountable or controlled by central, autonomous republican or local authorities of Georgia, also other legal entities of public or private law (if applicable), provided they are entitled to manage the budget allocations within programs/sub-programs of the respective level;

Program – set of measures to be carried out for the achievement of priority goals envisaged in the budget, which are grouped by common substance and implemented for the attainment of a common outcome and whereby a single spending institution is kept responsible over the implementation;

Sub-Program – set of measures to be implemented by a budgetary organization within a program of a spending institution;

Basic Data and Directions (BDD) Document of Georgia - a main plan of development for the country, which captures information on the mid-term macroeconomic and fiscal projections, along with information on the major directions of development within Central, Autonomous Republican and Local Authorities;

Assessment of the expected financial impact of the draft law – financial information, which is based on assumptions about the future events to be occurred as a result of the draft law and possible financial impact on the relevant budgetary organization/spending institution/person.

Assumption – defining the approximate framework conditions for the assessment of the expected financial impact in the short-term (period up to one year) and medium-term periods (the year the draft law enters into force and the following 3 years), which is based on empirical evidence, theoretical assumptions, expert judgment and consideration of relevant past information and/or other similar practices.

Inaccuracy – omission in the information about financial impact assessment provided by the author/initiator of the draft law.

Materiality – information is considered material if its omission or misrepresentation is expected to influence, based on the information presented in the form of financial impact assessment, the decisions of the users of this information, taking into account its objectives.

Adequate definitions – definitions that provide information users/decision makers with sufficient information about assumptions and financial information so that this information can be used appropriately for its intended purposes – to facilitate decision-making and accountability.

Empirical evidence - information that is acquired by observation or experimentation.

THE CONNECTION OF THE LEGISLATIVE PROCESS WITH THE BUDGETARY PROCESS

According to the paragraph 4 of the article 66 “State budget” of the Constitution of Georgia as well as the 1st paragraph of the article 20 of the Budget Code „Compliance of Regulations with Budget Parameters“ and the paragraph 6 of the Article 101 “General procedures for considering a draft law” of the Rules of Procedure of the Parliament of Georgia, “draft Law, leading to the increase of expenditures, reduction of revenues or commitment of new liabilities under the State Budget, may be accepted by the Parliament of Georgia only after the consent of the Government of Georgia, while the draft law related to the following fiscal year – within the Basic Data and Directions (BDD) Document submitted to the Parliament of Georgia or consent of the Government of Georgia”.

COMPONENTS OF FINANCIAL IMPACT ASSESSMENT

According to the “b” subparagraph of the 1st paragraph of the article 17 of the organic law of Georgia on normative acts, an explanatory note shall contain the assessment of a financial impact of the draft law in the medium term (the year the draft law enters into force and the next 3 years) according to the following components:

- b.a) the source of funding of necessary expenses related to the adoption of the draft law;
- b.b) the impact of the draft law on the revenue part of State, Autonomous Republican and/or Municipal budget;
- b.c) the impact of the draft law on the expenditure part of State, Autonomous Republican and/or Municipal budget;
- b.d) new financial commitments of the State, indicating the direct financial liabilities (internal or foreign liabilities) to be assumed by the State or an entity within its system, on the basis of the draft law;
- b.e) expected financial results of the draft law for those persons to whom the draft law applies, indicating the character and the line of the impact on the natural and legal persons that might be directly affected by the actions defined under the draft law;

b.f) the amount of a tax, duty or another fee (financial payment), as determined by the draft law, to an appropriate budget and the principle for determining the amount;

This document defines only the basic requirements according to the above-mentioned components.

RESPONSIBILITIES

ROLE OF THE AUTHOR/INITIATOR OF THE DRAFT LAW

The explanatory note and, accordingly, its component of financial impact assessment should be prepared in accordance with the requirements defined by the organic law of Georgia "On Normative Acts". In order to ensure a proper financial impact assessment, it is recommended that the financial impact assessment be carried out by a person with knowledge in economics and finance.

THE ROLE OF PARLIAMENTARY BUDGET OFFICE

According to the paragraph 5 of the Article 102 "Accepting and preparing a draft law for consideration and committee hearing" of the rules of procedure of the Parliament, "the Legal Department of the Staff of the Parliament shall examine the compliance of the submitted draft law with Article 17(1)(a) and (c) - (f) and paragraphs 2 to 4 of the Organic Law of Georgia on Normative Acts, whereas, the Parliamentary Budget Office shall examine the compliance of the submitted draft law with Article 17(1)(b) of the Organic Law of Georgia on Normative Acts. If the submitted draft law does not comply with the requirements of the abovementioned paragraphs of the Organic Law of Georgia on Normative Acts, the Parliamentary Bureau shall be authorised to return the draft law to its initiator to correct the deficiency, on the basis of opinions of the Legal Department of the Staff of the Parliament and the Parliamentary Budget Office".

GUIDELINES FOR PREPARATION OF FINANCIAL IMPACT ASSESSMENT

PURPOSE OF FINANCIAL IMPACT ASSESSMENT

The purpose of the information about financial impact assessment should be to reflect a proper assessment of the expected financial impact of the legislative initiative, which

should ensure informed and evidence based decision-making by the Parliament regarding the draft law and increase accountability in the process of public finance management.

QUALITATIVE CHARACTERISTICS OF FINANCIAL IMPACT

Qualitative characteristics of the information about financial impact assessment - these are the characteristics that ensure that the presented information is useful in relation to its objectives, thus fostering decision-making process and accountability. For the purposes of this document, such qualitative characteristics are considered: relevance, appropriate presentation, perceptibility, comparability and consistency, verifiability (possibility of verification), materiality, presenting net financial impact.

Relevance

The information about the financial impact assessment is considered relevant if it serves its purpose, in particular, it supports the decision-making process and accountability regarding the legislative initiative.

Appropriate presentation

The information of the financial impact assessment is considered appropriate if it is complete, neutral and does not contain material inaccuracies. Completeness refers to all assumptions and estimates presented in the financial impact assessment. Neutrality refers to impartiality in the selection and presentation of assumptions/estimates and excludes the purposeful presentation of such information that implies obtaining a predetermined desired financial result caused by the draft law. The absence of material inaccuracies does not imply absolute accuracy in all aspects, but indicates that the financial impact assessment should not contain such errors and omissions that may individually or collectively affect the decision-making process.

Perceptibility

The information of the financial impact assessment is perceptible (understandable) when the users of the information are given the opportunity to perceive its meaning and understand it thoroughly. Perceptibility is achieved when financial impact information is

presented in a clear and concise manner. Comparability (see below) also contributes to perceptibility.

Comparability and consistency

Comparability is a characteristic that allows the users of the information to identify similarities and differences between two or more pieces of financial information provided. Consistency refers to a consistent approach to assumptions/estimates used across components and time periods. Comparability is the goal, and consistency is the mean to achieve that goal.

Verifiability (possibility of verification)

Verifiability allows the information users to ensure that the information of the financial impact assessment really corresponds to the intended objectives, thus it contributes to the decision-making process and accountability regarding the legislative initiative. Thanks to this characteristic, various informed and independent observers reach a general consensus, not necessarily complete agreement, that:

- the submitted information corresponds to the intended purpose;
- The method of evaluating/presenting information is used appropriately, without material inaccuracies. Verifiability refers to, among others, verifying the validity of the assumptions and the actual data used in estimations.

Materiality

Information is considered material if its omission or inaccuracy affects the decisions made by the users of the information about financial impact assessment. Each essential component and sub-component should be presented separately in financial impact assessment.

Presenting net financial impact

The components of the expected financial impact assessment should not be presented in such manner, that their net financial impact is estimated. For example, when presenting the information about the impact on revenues and expenses, the impact on each component

should be reflected separately in the relevant component of the financial impact assessment, and not as a net financial result.

RECOMMENDED PRACTICAL GUIDELINES

While assessing financial impact, the budgetary impact of a legislative initiative should be assessed against a baseline/no-action scenario. In particular, the financial impact is assessed between the basic situation existing on the date when the draft law is initiated and the expected situation as a result of the adoption of the draft law, taking into account the date when the draft law enters into force.

The impact can be:

- Direct, which means a result that is directly caused by a concrete action. While analysing direct impacts, direct influences are assessed, including impacts related to administration;
- Indirect, which refers to such an indirect result of the action, which was caused by the impact of the direct results of the action.

When assessing the financial impact, direct and indirect impacts should be identified and evaluated according to the extent of the impact and the expected result (positive, negative, neutral).

While making assessment the qualitative and/or quantitative methods should be used.

In case the legislative initiative is presented as a legislative package, financial impact assessment should be carried out for each draft law included in the package.

The financial impact is assessed for the medium-term period (4-year period, taking into account the year the draft law enters into force).

Financial impact assessment is based on a conservative approach, which aims to present a conservative picture of the financial result - this implies an assessment of the minimum amount of increase and the maximum amount of decrease in revenues, and the maximum amount of increase and the minimum amount of decrease in expenditures.

When the expected financial results of the draft law cannot be quantified and/or monetized (expressed in a monetary unit), it is necessary to describe the nature and timing of the

financial impact, as well as the factors determining the extent of this impact. In addition, it should be justified why the impact cannot be quantified and/or monetized.

If the draft law implies changes in incentives for the persons affected by the draft law, then the financial impact assessment may take into account the impact of these incentives, if the impact assessment is based on existing experience in Georgia or research on international experience. Otherwise, the impact of incentives will not be taken into account when assessing the financial results, and it will only be indicated that the change in incentives may lead to a change in the financial impact in a certain direction, although the quantitative assessment cannot be undertaken.

The information about financial impact assessment for each component should include:

- Assessment of financial impact;
- Description of the main assumptions in a narrative form. Any economic data or projections used in the financial impact assessment should comply with the most recent publicly available estimates. Other assumptions used (such as the number of people who will benefit from a particular relief or estimates related to taxable income) should be made based on best professional judgment. Consistency and transparency of assumptions is important;
- The main risks and probability of error associated with the assumptions;
- Data and information sources;
- details of the official document used in the financial impact assessment (if any);
- description of analytical methods used in financial impact assessment;
- Important factors determining the uncertainty related to the assessment: any assessment is characterized by a certain level of uncertainty about how relevant the assessment will be to the actual results obtained after the enactment of the law. The level of uncertainty depends on the factors like: the quality of data available for the assessment, the number and accuracy of the assumptions used in the analysis, the magnitude of the policy change, and others. Therefore, it is desirable that the author of the assessment indicates information about the factors that have a significant impact on the reliability of the assessment.

When preparing a financial impact assessment, its scale and depth depends on the importance and scale of the issue related to the legislative initiative, as well as on the circle of persons and parties affected by the issue.

If the draft law does not have a financial impact, this information should also be indicated in the relevant fields of the financial impact assessment section of the explanatory note.

FINANCIAL IMPACT ASSESSMENT OF THE DRAFT LAW IN THE MEDIUM TERM (THE YEAR THE DRAFT LAW ENTERS INTO FORCE AND THE NEXT 3 YEARS)

Since, in Georgia, the medium-term period includes 4 years, the financial impact should be assessed for the year of the enactment of the draft law and for the following 3 years.

THE SOURCE OF FUNDING OF NECESSARY EXPENSES RELATED TO THE ADOPTION OF THE DRAFT LAW (B.A)

The relevant budget/budgets¹, as well as other sources of financing, should be indicated in the information about the source of financing of the necessary expenses related to the adoption of the draft law in the medium-term period. It is necessary to provide information about the donor and/or international organization and/or other third parties (if any) that may participate in financing the activities/measures envisaged by the given draft laws.

In case the adoption of the draft law does not require the allocation of necessary expenses and the corresponding financing is not required, this should also be indicated in the explanatory note.

In case the adoption of the draft law requires allocation of necessary expenses, but this will be financed within the budget appropriations allocated to a separate agency and does not require additional budget appropriations, the source of funding should still be indicated.

¹ Budgets defined according to the legislation - State Budget, Municipality Budget, Republican Budget of an Autonomous Republic, Budget of a Legal Entity of Public or Private Law, Aggregated State Budget, Consolidated Budget of Georgia, Central Budget, Consolidated Budget of an Autonomous Republic, Aggregated Budget of an Autonomous Republic, Aggregated Republican Budget of an Autonomous Republic, Aggregated Municipal Budget.

Paragraph “b.a”

Example #1:

- If the draft law envisages additional financing of a new educational program by the state, the source of funding will be the State Budget, since the state educational grants are financed from the state budget.

Example #2:

- If the draft law envisages implementation of environmental activities by municipalities, the source of funding will be the Municipal Budget, since the municipality must allocate funds from its own revenues, within the scope of its authority.

Example #3:

- If the draft law envisages granting of new powers to the X Ministry of the Autonomous Republic, the source of funding will be the Autonomous Republican Budget, since the X Ministry of the Autonomous Republic is financed from the Autonomous Republican budget.

Example #4:

- If the draft law envisages definition of new functions for the X LEPL, the source of funding can be both the State Budget, also LEPL’s own revenues. Since the source of funding of the LEPL can be both the State Budget and (own) income allowed by the legislation.

THE IMPACT OF THE DRAFT LAW ON THE REVENUE PART OF STATE, AUTONOMOUS REPUBLICAN AND/OR MUNICIPAL BUDGET (B.B)

In this part, the impact of the actions envisaged by the draft law on the revenue part of the state, autonomous republican budget and/or municipal budget should be reflected in the medium-term period, including impact on the specific component of budget revenues (revenues, decrease of non-financial assets, decrease of financial assets, except for increase of liabilities) and directions (increase, decrease).

In addition, it is necessary to assess the impact on the budgetary and own revenues of other budgetary organizations ((LEPL), legal entity of private law (if any)).

If the adoption of the draft law does not affect the revenue part of the budget, this information should also be indicated in the explanatory note.

When assessing the financial impact in the medium term, the following recommended practical guidelines can be used:

- Relevant statistics of a specific type of revenue and/or the number of taxpayers in the past period (e.g previous years) are used in the calculation;
 - In case the statistics of payers of relevant payment (tax/fee) for the past years exist, if the draft law implies a change in the amount of tax/fee payable per taxpayer, then the annual amount of taxpayers is used as a base, and the simple product of the adjustment/change of tax/fee per unit and the amount of taxpayers can be used while making annual impact assessment.
 - If the accurate statistics on the number of payers of a specific type of payments are not produced, then the corresponding data on revenue is used as a base.
- If the corresponding statistics are not produced, then the relevant data on total revenue and/or the number of taxpayers are used as the basis of the calculation;
- The calculation of the magnitude of the financial impact should be presented in the form of quantitative assessment, instead of using sentences such as "insignificant/minor/insignificant" etc.
- If, considering the specifics of the content of the draft law, it is not possible to quantify the impact on budget revenues, instead of using such sentences as "impossible to determine it in advance" or "impossible to predict it in advance", a qualitative description of the impact should be made;
- When assessing the impact on revenues, the possible impact on the expenditure part of the budget should also be taken into account. e.g. if a specific revenue (for example, tax) requires additional administration, this will lead to an increase in the expenditure side, which, itself, should be reflected in the paragraph "b.c" in the administrative expenses part.

To assess the percentage distribution of revenues between the state, Abkhazian and Adjarian Autonomous Republican and municipal budgets, the relevant annex of the Budget Code of Georgia should be used.

In addition to the abovementioned, when assessing the financial impact, taking into account the specifics of the content of the draft law, other calculations can be used. The main assumptions, the data used and the sources should be indicated in the relevant calculations.

When assessing the annual impact on budget revenues, it is possible that the average growth rate during the last three years of the base indicator be used, , which is extrapolated² annually for the medium-term period. Calculations for an incomplete years are made proportionally during the year, if there is no monthly data available for the last three years. If monthly data is available, then the weighted average of previous years values is used.

It should be taken into account that if a change in certain types of revenue (for example, changes related to taxes) requires appropriate administration, information on the increase/decrease in administrative costs should be indicated in the paragraph "b.c" of the explanatory note.

² obtaining new data as a result of observing existing data

Paragraph “b.b”

Example #1:

- If the draft law envisages introduction of a new local fee, the impact will be on the revenue part of the municipality's Budget, in the direction of increase, since local fee is directed to the Municipal Budget.

Example #2:

- If the draft law envisages exemption from property tax of a land plot with the status of a windbreak (field protection) strip, the draft law will have an impact on the revenue part of the municipality's Budget in the direction of decrease, since the property tax is a local tax and is fully directed to the local budget.

Example #3:

- If the draft law envisages imposition of fines for committing new type of administrative offenses, the draft law will have an impact on the revenue part of the State Budget in the direction of increase, since fines from administrative offenses are directed to the State Budget.

Example #4:

- If the draft law envisages reduction of the income tax rate, the draft law will have an impact on the revenue part of both the State and the Autonomous Republican Budget in the direction of decrease, since the income tax is directed to both the State and the Autonomous Republican Budget.

THE IMPACT OF THE DRAFT LAW ON THE EXPENDITURE PART OF STATE, AUTONOMOUS REPUBLICAN AND/OR MUNICIPAL BUDGET (B.C)

In this part, the impact of the actions envisaged by the draft law on the expenditure part of the state, autonomous republican budget and/or municipal budget should be reflected in the medium-term period, including impact on the specific component of budget expenditures (expenses, increase of non-financial assets, increase of financial assets, decrease of liabilities) and directions (increase, decrease).

In addition, it is necessary to assess the impact on the expenditure of other budgetary organizations ((LEPL), non-entrepreneurial (non-commercial) legal entity) (if any).

In case the adoption of the draft law does not affect the expenditure side of the budget, this information should be reflected in the explanatory note. Relevant information should also be included, even in case the draft law does not cause additional expenses and the relevant activities will be financed within the allocated budget appropriations.

When assessing the financial impact in the medium term, the following recommended practical guidelines can be used:

- In the calculation, relevant statistics of specific type of total expenditure article/program/sub-program/activity and/or the number of beneficiaries of the past period (eg previous years) are used.
- In the absence of relevant statistics, the data of the article/programme/sub-programme/activity of the relevant total expenditures and/or the number of beneficiaries are used as a basis of calculation.
- The calculation of the magnitude of the financial impact should be presented in the form of quantitative assessment, instead of using sentences such as "insignificant/minor/insignificant" etc.
- If, considering the specifics of the content of the draft law, it is not possible to quantify the impact on budget expenditures, instead of using sentences such as "impossible to determine it in advance" or "impossible to predict it in advance", a qualitative description of the impact should be made.
- While assessing the impact on expenditures, the possible impact on revenue side should also be considered. e.g. if wages increase, this will lead not only to an increase in expenses, but also to an increase in the taxable base for income tax, which itself should be reflected on revenue side of the explanatory note.

If the draft law implies the expansion of the circle of beneficiaries of a specific program/or the increase of expenditure per beneficiary, the amount of beneficiaries of a specific program or sub-program or the amount of expenditures under a specific article can be used as a basis for assessing the financial impact on budget expenditures, namely:

If there are statistics of the users (beneficiaries) of the expenditures provided by the given program or sub-program for the past years and the draft law envisages a change in the

amount to be paid per beneficiary, then the annual number of relevant users (beneficiaries) is used as a base, and a product of the change in the unit and the number of users (beneficiaries) (which, itself, is calculated based on the average growth rate of the past 3 years) is used for the assessment of the annual impact.

If accurate statistics on the number of users (beneficiaries) of specific types of expenditures are not produced, the corresponding data of the payments is used as a base.

If there is no statistics of the users (beneficiaries) of the corresponding expenditures and it is also impossible to identify the amount of payments under a specific article, then the maximum possible level of disaggregation (break down) is used as a base.

The appropriate amount and share for the concrete expenditure is determined based on an assumption, with indicating on the appropriateness of the assumption used (e.g 10% of the specific program payments).

If the draft law implies the assignment of an additional function to the relevant spending institution or the transfer of the function to another institution, which is likely to lead to a change in expenditures related to management and regulation for the relevant spending institution, then it is necessary to make a reference to impact on so-called administrative expenses. The latter is based on the experience of a structural unit with a similar/or comparable function in terms of the need for relevant resources (including human and material resources) within the same spending institution/or, as needed, another spending institution.

If the draft law implies both a change in the scope of the program's beneficiaries or a change in the payment per beneficiary, as well as a change in the expenditures related to management and regulation, both components should be indicated separately.

When assessing the annual impact on budget expenditures, it is possible to use the average growth rate of the last three years of the base indicator, which is extrapolated³ annually for the medium-term period. Calculations for an incomplete years are made proportionally during the year, if there is no monthly data available for the last three years. If monthly data is available, then the weighted average of previous years values is used.

³ Obtaining new data as a result of observing existing data

Paragraph “b.c”

Example #1:

- If the draft law envisages implementation of the municipal environmental activities, the draft law will cause an increase of the expenditure part of the municipality's Budget, since the municipality has to spend funds from its own budget.

Example #2:

- If the draft law envisages additional financing of a new educational program by the state, the draft law will have an impact on the expenditure part of the budget of the Ministry of Education and Science, which is financed by the state budget, in the direction of increase, since educational programs are financed from the allocations assigned from the State Budget of the Ministry of Education and Science.

Example #3:

- If the draft law envisages granting of new powers to X Ministry of the Autonomous Republic, the draft law will have an impact on the expenditure part of the Autonomous Republican Budget in the direction of increase, since the X Ministry of the Autonomous Republic is financed from the Autonomous Republican Budget.

Example #4:

- If the draft law envisages definition of new functions for the X LEPL, the draft law will have an impact on the expenditure part of the LEPL budget.

Example #5:

- If the draft law envisages granting of a special state rank to all employees employed in X Ministry, which is funded by the State Budget, the draft law will have an impact on the expenditure part of the State Budget in the direction of increase, in particular, it will be necessary to assign additional allocations to corresponding X Ministry.

Example #6:

- If the draft law envisages abolition of X Ministry, which is financed by the State Budget, the draft law will have an impact on the expenditure part of the State Budget, in the direction of decrease.

Example #7:

- If the draft law envisages increase in the amount of social allowance for certain categories of beneficiaries, the draft law will have an impact on the expenditure part of the State Budget in the direction of increase, in particular, it will be necessary to assign allocations to the relevant X Ministry.

Example #8:

- If the draft law envisages imposing a fine for committing a new type of administrative offenses, in order to respond to the corresponding offense, X agency will need additional expenses for additional staff, training of employees, and purchase of additional equipment if necessary. Accordingly, the draft law will have an impact on the expenditure part of the State Budget in the direction of increase, in particular, it will be necessary to assign allocations to the relevant X Ministry.

Example #9:

- If the draft law envisages imprisonment as a punishment for a new type of offense, the draft law will have an impact on the expenditure part of the budget of the relevant X Ministry (under which the penitentiary institution is) in the direction of increase, which will be related to the costs of keeping the corresponding person in the penitentiary institution, if necessary.

NEW FINANCIAL COMMITMENTS OF THE STATE, INDICATING THE DIRECT FINANCIAL LIABILITIES (INTERNAL OR FOREIGN LIABILITIES) TO BE ASSUMED BY THE STATE OR AN ENTITY WITHIN ITS SYSTEM, ON THE BASIS OF THE DRAFT LAW (B.D)

The explanatory note should include the information about the new financial obligations of the state⁴ in the medium term, indicating the direct financial obligations (domestic or foreign) accepted by the state or the agency in its system under the influence of the draft law.

These obligations may be related to:

- the loan agreement signed in the previous period, the transfer of which depends on the adoption of the legislative act/acts;
- changes in loans that will subsequently affect government debt;
- Any kind of clarification in terms of new financial obligations, including: name of the creditor, loan amount, duration, interest rate, debited loan amount (for the disbursement period), grace period, deferment period, etc

This does not take into account the possible indirect impact of increase in expenditures or decrease in revenues on the budget deficit and the financial obligations of the state, as a source of financing the budget deficit.

This implies the amount of financial obligations (domestic or foreign obligations) accepted by the state or the agency in its system in connection with the actions envisaged by the draft law.

The author of the draft law may also provide any kind of additional information regarding any kind of clarification in terms of the new direct financial obligations, including the name of the creditor, the loan period, the grace period, information about the interest rate, etc.

Paragraph „b.d“

Example #1:

Resulting from the draft law, the state will take a new financial commitment – a new domestic or external public debt.

⁴ According to the definition given in Article 4 of the Law of Georgia on public debt, " public financial obligations are sovereign and absolute obligations of Georgia for the payment of principal amounts and accrued interest, which are secured by the entire assets of the State".

EXPECTED FINANCIAL RESULTS OF THE DRAFT LAW FOR THOSE PERSONS TO WHOM THE DRAFT LAW APPLIES, INDICATING THE CHARACTER AND THE DIRECTION OF IMPACT ON THE NATURAL AND LEGAL PERSONS THAT MIGHT BE DIRECTLY AFFECTED BY THE ACTIONS DEFINED UNDER THE DRAFT LAW (B.E)

The explanatory note should include the direct and/or law indirect impact of the draft on natural/legal persons in the medium term, indicating the corresponding expected financial results.

When assessing the financial impact in the medium term, the following recommended practical guidelines can be used:

- In this section, it should be indicated whether the actions defined by the draft law will have a direct and/or indirect influence on the persons who represent the party within the activities defined by the legislative initiative. The object of influence may be natural persons, groups or organizations whose interest and activity may be financially affected by the intervention. Financial impact should be measured and presented with a quantitative assessment, instead of using such sentences as "insignificant/small/insignificant" etc.
- If, taking into account the specifics of the content of the draft law, it is not possible to quantify the impact on the natural/legal persons, instead of entries such as "impossible to determine it in advance" or "impossible to predict it in advance", a qualitative description of the impact should be indicated.
- If the object of influence is a certain group of natural or legal persons (e.g. household/industry/field/sub-sector, etc.), then it is reasonable to indicate the direct and/or indirect impact of the actions envisaged by the draft law on the incomes/expenditures of the unit entity of the group, e.g.:
 - Financial results from social assistance/benefits;
 - Financial consequences arising from tax obligations;
 - Financial results related to the use of public services by an individual;
 - Financial consequences related to fines/penalties related to violations;
 - Financial results related to the licensing/registration procedure;

- Financial results related to accounting/reporting process;
- Financial results resulting from the increase in the qualifications of employees/the number of employees or the increase in remuneration;
- Financial consequences that may be related to the arrangement of new infrastructure/renovation of existing infrastructure;
- Financial results related to production process/service delivery;
- Other types of financial results.

Note: persons also include those state institutions that are not budgetary organizations/spending institutions and are not directly financed by budgetary funds, for example: National Bank of Georgia, regulatory commissions, etc.

If there is statistical data on the target group which the draft law applies to and the draft law implies direct change in expenditure/benefits for the unit of this group, which can be expressed in monetary terms, then it is necessary to specify the relevant information and the amount of influence on the relevant group.

In addition, it is necessary to determine the size of the target group, i.e. how large is the group whom the given legislative initiative will have a direct financial impact to, for example, the number of enterprises operating in a specific field, the number of households in a specific territorial unit, the number of beneficiaries of specific social assistance, etc.

While assessing the financial impact on individuals, one should take into account the effects of the significant direct behavioral responses that the legal initiative/policy change may cause. Information about this effect can be obtained from various sources. This could be experience from similar policy changes, academic and other research papers on behavioral effects or price elasticities, and others.

The abovementioned does not include an assessment of the wider economic impact resulting from the policy change, such as, for example, changes in wages or employment level caused by the introduction of a new policy. Such effects are not usually assessed for different reasons, including the difficulty/uncertainty associated with estimating the magnitude and timing of effects. Besides, such effects are expected to occur after a long period rather than within the time frame of assessing the financial impact (the year the draft law enters into force and the next 3 years).

Paragraph “b.e”

Example #1:

- If the draft law bans the advertising on any kind of product, the draft law will have a negative financial impact on the advertiser, producer and distributor; in particular, their incomes will decrease.

Example #2:

- If the draft law envisages imposing a fine for committing a new type of administrative offenses, the draft law will have a negative financial impact on those who commit a new type of offense, in particular, they will have to pay the corresponding fine.

Example #3:

- If the draft law envisages additional financing of a new educational program by the state, the draft law will have a positive financial impact on those who will study under corresponding educational program, since they will not have to pay tuition fees in the amount of the study grant.

Example #4:

- If the draft law envisages increase in the amount of social allowances for certain categories of beneficiaries, the draft law will have a positive financial impact on the corresponding persons, since they will receive additional social allowance in cash.

THE AMOUNT OF A TAX, DUTY OR ANOTHER FEE (FINANCIAL PAYMENT), AS DETERMINED BY THE DRAFT LAW, TO AN APPROPRIATE BUDGET AND THE PRINCIPLE FOR DETERMINING THE AMOUNT (B.F)

Explanatory note should include the information whether the amount and the principles of determination the amount of tax, fee or other type of payment (financial payment) in the corresponding budget level (state, autonomous republics and municipalities) are changed/determined due to the actions envisaged by the draft law in the medium term period. The principle for determining the amount should describe and explain how the amount of a tax, duty or another fee (financial payment) was determined and why the payment (financial payment) is defined in the mentioned amount.

Paragraph “b.f”

Example #1:

- If the draft law sets a new local fee, therefore the draft law determines the amount of this fee and the principle of determining this amount.

Example #2:

- If the draft law envisages imposition of a fine for committing a new type of administrative offenses, accordingly the draft law establishes the amount of the fine as another type of payment (financial payment) and the principle of determining the amount.

Example #3:

- If the draft law envisages doubling the fine imposed for committing X administrative offenses, accordingly the draft law establishes/changes the principle of determining the amount of the fine as another type of payment (financial payment).

Example #4:

- If the draft law envisages cancellation of the fine imposed for committing X administrative offenses, accordingly the draft law changes the principle of determining the amount of the fine as another type of payment (financial payment).

Example #5:

- If the draft law envisages introduction of a fine sanction for violating the established norm of the composition of harmful substances in vehicle emissions, the amount of fine should exceed the periodic technical inspection fee, in order to have a deterrent effect.

APPENDIX: SOURCES

In order to find the information and data needed for the financial impact assessment, the author/initiator of the draft law may use the following sources:

Legislative Herald of Georgia - <https://www.matsne.gov.ge/>

Ministry of Finance of Georgia - <https://www.mof.ge/>

National statistic office of Georgia - <https://www.geostat.ge/>

State treasury, Ministry of Finance of Georgia - <http://treasury.ge/>

Sources according to specific topics:

Budget code of Georgia - <https://matsne.gov.ge/ka/document/view/91006?publication=51>

Tax Code of Georgia - <https://matsne.gov.ge/ka/document/view/1043717?publication=182>

Order of the Minister of Finance of Georgia "On Tax Administration" - <https://matsne.gov.ge/document/view/1167887?publication=0>

Draft law on state budget of Georgia for the corresponding year with the attached documents - <https://www.mof.ge/GovBudget>

Quarterly and annual reports on the implementation of the state budget of Georgia for the corresponding year - <https://www.mof.ge/GovBudget>

Monthly reports on the implementation of the state budget of Georgia for the corresponding year - <https://treasury.ge/ka/StateBudgetReports>

Revenues of the Consolidated Budget of Georgia (state, autonomous republics and municipalities) (without consolidation) - <https://treasury.ge/ka/revenues>

Classification of Economic Activities - <https://www.geostat.ge/ka/modules/categories/125/klasifikatsiebi>

In addition, in order to assess the financial impact, the author/initiator of the draft law can request all non-confidential information and data from the relevant agency in a form of a written request.