



**Parliamentary Budget Office**

**Methodological guidelines for examination of the financial  
impact assessment of the draft law**

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Examination of the financial impact assessment of the draft law by PBO

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## Introduction

The competency of the PBO to check the financial impact assessment of the draft law's explanatory note is defined in accordance with Article 102, paragraph 5 of the Rules of Procedure of the Parliament of Georgia. The present methodological guideline determines the standards and instructions used by the PBO in the process of checking the financial impact assessment and preparing/submitting the conclusion.

## Definition of terms

The terms used in the document have the following meaning:

**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.

**Short-term period** - the fiscal year when the draft law enters into force.

**Medium-term period** - the year the draft law enters into force and the following three years.

**Analyst** - an employee of the PBO who, within the scope of his authority, is tasked with checking the financial impact assessment of the explanatory note of the relevant draft law in accordance with the guidelines established by the Article 17, paragraph 1, sub-paragraph "B" of the Organic Law of Georgia "On Normative Acts" and the present methodology.

**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.

**Opinion/conclusion** - an opinion expressed by the PBO regarding the information submitted in the form of a financial impact assessment of a specific draft law as a result of the examination of the said impact assessment. Opinion can be unconditional (positive), conditional ("to be discussed") and negative.

**Unconditional (positive) opinion/conclusion** - an opinion expressed by the PBO as a result of checking the information submitted in the form of financial impact assessment of a specific draft law, if the information presented by the author/initiator of the draft law relies on the reasonable assumptions/assumptions matching the purpose of the information, based on which the future financial impact is properly assessed and explanations are adequate.

**Conditional ("to be discussed") opinion/conclusion** - an opinion expressed by the PBO as a result of checking the information submitted in the form of financial impact assessment of a specific draft law, if the information presented by the author/initiator of the draft law relies on the reasonable assumptions/assumptions matching the purpose of the information, but the future financial impact is not properly assessed and the explanations are not adequate either.

**Negative opinion/conclusion** - an opinion expressed by the PBO as a result of checking the information submitted in the form of financial impact assessment of a specific draft law, if the information presented by the author/initiator of the draft law does not rely on the reasonable assumptions/assumptions matching the purpose of the information, or the financial impact is not properly assessed. As a result, the financial justification does not provide a proper picture of the expected financial impact of the draft law and the explanations are not adequate either.

## **Responsibilities**

The purpose of the information presented in the form of a financial impact assessment is to reflect a proper assessment of the expected financial impact of the legislative initiative, which should ensure that the Parliament makes an informed and justified decision on the draft law and increases accountability in the process of public finance management.

## **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.

## **Role of the 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”.

## **Examination of the Financial Impact Assessment by PBO**

During the examination of the information submitted as an financial impact assessment of the legislative initiative, the analyst of the PBO (hereinafter - the analyst) must obtain sufficient and

appropriate evidence about how reliable is the assessment submitted by the author/initiator of the draft law. In particular:

- How well-founded are the assumptions presented by the author/initiator of the draft law;
- How properly is the expected financial impact of the draft law estimated based on the relevant assumptions;
- To what extent is the financial impact assessment presented by the author/initiator of the draft law supported by analytical reasoning and how credible (based on evidences) is it;
- How logical are the estimates and calculations;
- How clear is the analysis/presented information;
- Whether the expected financial impact assessment is properly presented, and all core assumptions are adequately explained;
- How clearly are the content of the assessment, relevant analysis and reasoning conveyed.

Based on the assessment, the conclusion of the PBO can be "positive" or "unconditional", "to be discussed" or "conditional" and "negative".

The expected financial impact of the draft law refers to events and actions that have not yet occurred and may not occur. There may be evidence to support the assumptions underlying the estimate of expected financial impact, but such evidence is itself forward-looking and thus hypothetical in nature, unlike the evidence we rely on to estimate the financial impact of an action/policy change that has already been implemented. Therefore, the analyst is not entitled to express an opinion on whether the results of the expected financial impact assessment will be achieved. However, the analyst needs to assess whether all significant assumptions necessary to estimate the expected financial impact have been identified.

In addition, the analyst should take into account that the assessment of the expected financial impact is carried out for the medium-term (four-year) period, taking into account the date of implementation of the draft law. This is noteworthy because as the length of the period increases, the possibility of making realistic assumptions by the author/initiator of the draft law decreases.

## Examination procedures

When checking the financial assessment, the analyst needs to take into account the extent to which the submitted financial impact assessment complies with the qualitative characteristics (relevance, appropriate presentation, perceptibility, comparability and consistency, verifiability, materiality, presenting net financial impact) and the methodological guidelines, which are defined in the document developed by the PBO "Methodological guidelines for preparing the financial impact assessment of the draft law"<sup>1</sup>.

When estimating error probability and checking the financial impact assessment, the analyst should:

- (a) verify, if necessary, the accuracy of the data used in estimating the expected financial impact;
- (b) evaluate the source of evidence supporting the assumptions presented by the author/sponsor of the draft law and their credibility. Sufficient and appropriate evidence confirming the validity of such assumptions is obtained from internal and external sources, by implementing appropriate analytical procedures;
- (c) Regardless of whether the evidence confirming the validity of the assumptions is obtained, the analyst needs to make sure that the said assumptions are realistic and consistent with the purposes of the information presented in the form of the financial impact assessment;
- (d) ensure that the financial impact assessment is properly prepared based on the assumptions used by the author/initiator of the draft law. For example, based on technical checks, such as recalculations and verification of calculation consistency;
- (e) apply quantitative and qualitative methods in testing assumptions/estimates of expected financial impact;
- (f) focus on those areas and relevant assumptions that are particularly sensitive to changes and that have a material impact on the results presented in the form of expected financial impact;
- (g) ensure that the submitted assumptions and information are not biased to obtain a specific desired financial result;

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<sup>1</sup>[http://pbo.parliament.ge/images/Methodological%20guidelines%20for%20preparing%20the%20financial%20impact%20assessment%20of%20the%20draft%20law.pdf?\\_t=1662444303](http://pbo.parliament.ge/images/Methodological%20guidelines%20for%20preparing%20the%20financial%20impact%20assessment%20of%20the%20draft%20law.pdf?_t=1662444303)

In addition, in relation to the presentation and explanations of the information presented in the form of the financial impact assessment, the analyst should check:

h) Whether the information reflected in the financial impact assessment is properly presented. Information will be considered properly submitted 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 information that implies obtaining a predetermined desired financial result of the draft law. The absence of essential inaccuracies means that the financial impact assessment does not contain such errors and omissions that may individually or collectively affect the decision-making process. In addition, it is important that the information presented in the financial impact assessment is perceptible (understandable) so that the users of the information have the opportunity to access and thoroughly understand its meaning.

i) Whether the assumptions are adequately explained in the relevant components of the financial impact assessment of the explanatory note of the draft law (the components of the sub-paragraph "b" of the explanatory note). It is necessary that there is clearly explained for which period (short-term, medium-term) are the assumptions presented by the author/initiator of the draft law applied. Besides, when the draft law is related with the issues characterized by a high level of uncertainty, the said uncertainty and the sensitivity of the results due to its influence should be adequately interpreted.

Below is shown the so-called decision tree, which reflects the different opinions/conclusions of the PBO as a result of the examination of the financial impact assessment of the draft law by the PBO.

