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# **Cost Analysis of the Regulatory Impact Assessment Process**

Kovachev, Goran

Center for Economic Analyses, Institute for Democracy "Societas  
Civilis"

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## **COST ANALYSIS OF THE REGULATORY IMPACT ASSESSMENT PROCESS**

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**Author: Dr. Goran Kovachev**

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## 1. INTRODUCTION

The Regulatory Impact Assessment (RIA) represents a "method for the analysis of public policies, which is intended to help policy makers in the design, implementation and monitoring of improvements in regulatory systems, providing a methodology for assessing the likely consequences of the proposed regulation and the real consequences from the actual one."<sup>1</sup>

Since the beginning of its implementation (1974 in the United States), up until 2014, 34 of the 35 Member States of the Organization for Economic Co-operation and Development (OECD) use the RIA as a method for decision-making in policy-making and regulation.<sup>2</sup>

The beginnings of RIA in Macedonia date back to 2008, as a pilot project first. Since 2009 as mandatory for all legal proposals being part of regulatory reforms with a declarative goal: improving the entrepreneurial environment. In 2011, the Ministry of Information Society and Administration (MISA) became the main institution responsible for implementation, coordination and oversight of RIA, and in 2013 a new Methodology for RIA was introduced. The main feature of the Methodology is a higher level of decentralization and simplification, and it is fully aligned with the existing system for strategic planning in the ministries and for procedures for policy coordination and decision-making in the Government of the Republic of Macedonia. The methodology is an upgrade of the existing practices introduced in 2009, which are also aligned with the positive practices in the European Union (EU) and its Member States, as well as the OECD Member States.<sup>3</sup>

Acts that regulate the RIA matter are: Methodology for Regulatory Impact Assessment (Official Gazette of the Republic of Macedonia No. 107/13), Guidelines on the manner of acting in the work of the ministries in the process of implementation of the Regulatory Impact Assessment (Official Gazette of the Republic of Macedonia No. 106/13) and the Decision on the form and content of the report for the Regulatory Impact Assessment (Official Gazette of the Republic of Macedonia No. 106/13) and Manual for Regulatory Impact Assessment.

## 2. REGULATORY IMPACT ASSESSMENT PROCESS

The RIA process is a series of activities in which analyses are carried out and relevant data are collected, on the basis of which the best solution to the problem is chosen for the

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<sup>1</sup>Colin H. Kirkpatrick and David Parker - *Regulatory Impact Assessment: Towards Better Regulation?* CRC Series on Competition, Regulation and Development, Cheltenham, Edward Elgar Publishing (2008), p. 1

<sup>2</sup>See: Figure 4.3. Trend in RIA adoption across OECD countries, available at: [http://www.keepeek.com/Digital-Asset-Management/oecd/governance/oecd-regulatory-policy-outlook-2015/trend-in-ria-adoption-across-oecd-countries\\_9789264238770-graph39-en#.WNJfYfkrKUK](http://www.keepeek.com/Digital-Asset-Management/oecd/governance/oecd-regulatory-policy-outlook-2015/trend-in-ria-adoption-across-oecd-countries_9789264238770-graph39-en#.WNJfYfkrKUK). Accessed on 30.10.2017

<sup>3</sup>Methodology for the Regulatory Impact Assessment, Official Gazette, No. 107 of 30.07.2013

regulation of a particular area and for achieving the objectives of the draft law in consultation with the stakeholders (legal entities, trade unions, chambers of commerce, associations and foundations, and all other natural and legal persons).<sup>4</sup> The RIA process contributes to **improving economic efficiency** through an analysis to identify those aspects of regulation that can limit consumer choice or reduce the degree of competitiveness in the economy. Also, this process allows for determining and minimizing the possible burdens for legal entities, especially for small and medium-sized enterprises, as well as for citizens. Since the process envisages consultations with stakeholders, the RIA enables **to identify the unanticipated and unwanted effects** that previously could not be perceived. At the same time, the RIA contributes to **the respect of the principles of good governance** as it increases the transparency and the legitimacy of the regulatory process. The involvement of stakeholders in the process ensures the protection of their interests and the ability to model policies according to the needs of the stakeholders, thereby increasing the likelihood of respect and achieving the objectives of the regulation. Finally, this process also contributes to **increasing efficiency and effectiveness** in the public sector by improving the quality of the regulatory preparation process and the analysis of the possible impacts, costs and benefits from the proposed solutions, thus establishing optimum solutions to achieve the goals. Basically, the RIA has a double role:

- Represents a continuous process that allows for the analysis of the reasons for introducing concrete measures, for determining the possible solutions, that is, options for achieving the goal, for examining and understanding the consequences of the proposed measures and for involving the stakeholders in all phases of the process;
- Represents a tool that helps in drafting the draft regulation by analyzing the possible costs and benefits, as well as the risks that could affect citizens, the economy, legal entities, society and the environment in the long run.<sup>5</sup>

According to the Methodology, the RIA process is implemented through the following steps:

- strategic planning of the implementation process - which determines the degree of possible impacts of the draft law, stakeholders, the necessary data for making appropriate analyses and resources needed for the implementation of the RIA process;
- implementation of the RIA process;
- preparing a Report and acquiring the opinion of MISA and
- consultation with stakeholders.

In practice, the design of the RIA implementation process in Macedonia is similar to other countries, with certain specifics characteristic for the different national regulations, the institutional setup and the social-cultural differences (diagram 1). In the diagram, the orange

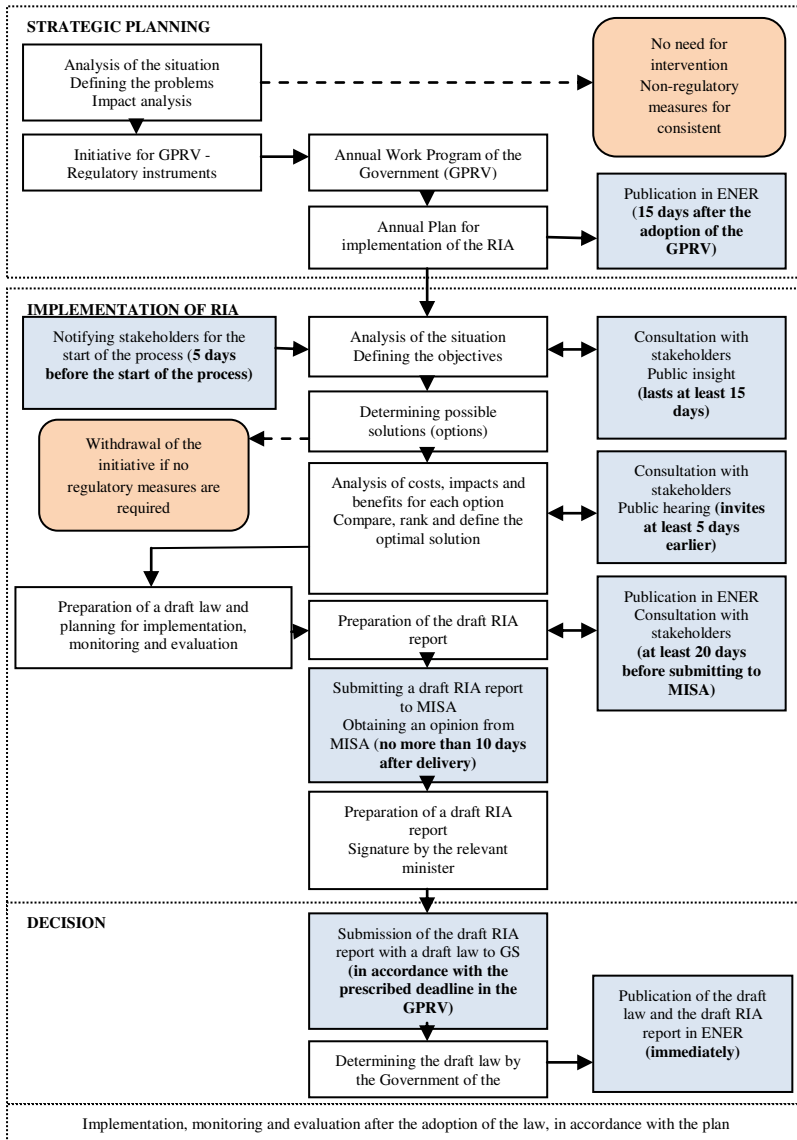
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<sup>4</sup> Guidelines on the manner of acting in the work of the ministries in the process of implementing the regulatory impact assessment, Official Gazette of the Republic of Macedonia no. 106 dated 29.7.2013

<sup>5</sup>Regulatory Impact Assessment Manual - Ministry of Information Society and Administration (2013), p. 6-7

rectangles signify a choice of the option "Do nothing", while those in blue mean respecting the exact and strictly set deadlines that are indicated in parentheses.

**(Diagram 1): Steps to the RRP process**



### 3. THE NEED FOR COST ANALYSIS OF THE REGULATORY IMPACT ASSESSMENT PROCESS

The need for cost analysis of the RIA process stems from one of the basic principles of good governance, which is **effectiveness and efficiency**, that is achieving the desired goals through a thorough analysis and assessment of the impacts of possible ways to solve problems (issues) and finding a solution that will achieve the goals with the lowest costs for the budget, legal entities and citizens.

The RIA methodology provides for an analysis of the costs, impacts and benefits of the identified possible solutions when proposing a particular regulation, as well as the preparation of a RIA Report. It predicts that in analyzing the identified possible solutions (options), various methods and analytical tools are used. Some of them are the following:

a) *Cost and Benefit Analysis* - a method used to determine the monetary value (in MKD) of the benefits and costs and to compare how these values will range in a predetermined period of time.

b) *Cost Efficiency Analysis* - implies the achievement of the most favorable ratio between the funds spent and the results achieved.

c) *Multi-criteria Analysis* - in cases where the benefits cannot be expressed monetary (in MKD), the analysis can be simultaneously made according to several different criteria.

d) *Sensitivity Analysis* - is used to explore how the options that are analyzed would change as a result of variations in key parameters and what their mutual impact is like.

e) *Risk Analysis* - is done in order to determine the best way to deal with risks, in cases where the problem being analyzed is related to risk, that is, when the problem is likely to develop in many possible ways.

f) *Standard Cost Model* - analyzes the administrative costs imposed on legal entities and citizens as a result of compliance with a legal obligation.

The identified possible solutions from all analyses should be analyzed using the same methods and analytical tools so that they can then be compared. The purpose of the analysis is to obtain a clear picture of the costs, the positive and negative impacts and benefits that would arise from each of the possible solutions in order to determine which of the options will lead to the planned objectives with the lowest costs and least adverse effects. Each of the possible solutions identified may give rise to a different type and degree of costs and impacts that are determined as precisely as possible. During the analysis there is a need for determining:

- costs/profits for the budget
- costs/profits for legal entities, especially for small and medium-sized enterprises, other groups and citizens (depending on who the proposal of the law refers to);
- impacts on the economy, the environment and human health, social impacts and other types of impacts depending on the area;
- costs and resources needed for implementation, monitoring and control, as well as evaluation of each of the possible solutions;
- acceptance/resistance that may arise during implementation and
- negative and unwanted effects and influences.

Based on a comparison between the identified possible solutions (options), the ministry proposes a solution that will most effectively contribute to achieving the set goals of the draft law and will achieve the benefits with the least cost and side effects. The text of the draft law

is prepared based on the proposed solution. Practically, RIA is, above all, a tool for microeconomic analysis, a tool that requires a lot of practice and resources.<sup>6</sup>

Unfortunately, the Decision on the form and content of the RIA Evaluation Report does not provide for an analysis of the costs of the RIA process itself. Similarly, this short document for public policy emphasizes the need to make an analysis of the costs of the RIA process, for the simple reason that it is necessary to see how much this costs the state (along with the legal entities and citizens) in preparing the RIA for a draft-law and whether those costs are justified in comparison with the effects that will be caused by the change in the regulation that is subject to assessment.

In order to carry out such an analysis, it is necessary to develop a broad matrix of indicators that will form the basis for the assessment. The choice of indicators must take into account the purpose of the regulation for which the impact is assessed on the availability of quality data.

Taking into consideration the world experiences, it is necessary to build the model for assessing the effectiveness of RIA in Macedonia based on multilayered indicators, based on principles and developed according to social priorities. An example of priorities is found in the OECD's report on regulatory system management indicators, indicators referring to the main features of the process through which the regulation is created, accepted and implemented, taking into account planning, consultation on RIA, reduction of administrative responsibilities and other dimensions and tools.<sup>7</sup>

According to this report, each country in terms of RIA can set four priorities: administrative, economic, democratic and procedural. For the needs of this document, i.e. for the needs of the financial analysis of the RIA, the administrative and economic priorities on the basis of which evaluation indicators can be set are extremely important. Those indicators are represented in the table on next page.

Additionally, as shown in diagram 2, the indicators can be defined as:

- input indicators (related to the aspects of the necessary resources and for introducing and implementing RIA);
- outcome indicators, i.e. regarding the outcome result (related to what is obtained from the implementation of RIA);
- medium-term (inter-phase) indicators based on perceptions of the success of the process and

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<sup>6</sup>Rex Deighton-Smith, Angelo Erbacci and Celine Kauffmann - *Promoting inclusive growth through better regulation: The role of regulatory impact assessment*, OECD Regulatory Policy Working Papers, No. 3, OECD Publishing, Paris. (2016) <http://dx.doi.org/10.1787/5jm3tqwqp1vj-en>, Accessed on 2.11.2017

<sup>7</sup>See more at: Claudio Radaelli and Oliver Fritsch - *Measuring Regulatory Performance, Evaluating regulatory management tools and programmes*, OECD, (2012), pp 38-63

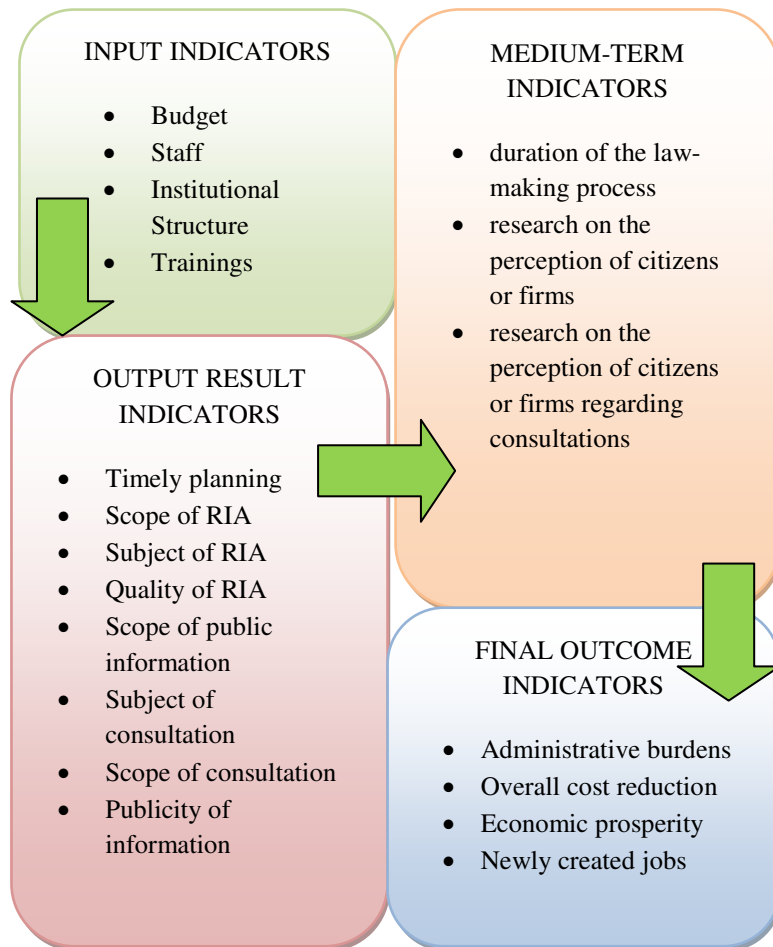


- indicators related to the final result - how really does the overall RIA process contribute to achieving the priorities for which it was created?

Priorities on the basis of which indicators for financial analysis of the RIA process can be set

ADMINISTRATIVE	ECONOMIC
How long does it take to implement the regulatory policy (RP), counting chronologically from start to finish?	What is the ratio between costs and benefits of RP?
How much does the Government spend on implementing RP in terms of human resources, i.e. number of persons, proportionality with regard to employees, etc.?	How efficient are RP, i.e. what are the benefits in terms of money?
How much does the Government spend on implementing RP in terms of financial resources, i.e. monetary costs, proportionality in terms of the budget etc.?	What are the impacts of RP on the overall economy, i.e. employments, competitiveness, innovations, etc.?

**Diagram 2:** Categories on the basis of which indicators can be extracted



#### **4. MODEL FOR COST ANALYSIS OF THE REGULATORY IMPACT ASSESSMENT PROCESS**

It must be recognized that due to the complexity of the RIA process, it is practically impossible to methodologically correctly and financially accurately analyze its costs. Following the aforementioned, this public policy paper will try to elaborate a methodology of a model for a financial analysis of the RIA process, taking into account the steps outlined in the diagram 1. The goal is to approximate how much the RIA process itself costs the state regarding a single draft-law, rather than how much the implementation of that new law made under the RIA would cost the state or its stakeholders as a whole. The cost that would arise from this calculation would be only one input component in the calculation of the cost of the regulation on legal entities and citizens. The total price, as it was already shown above in this paper is calculated in a much more complicated manner.

The methodology for financial analysis of RIA consists of the calculation of the costs of: labor invested in the RIA process; duration of the RIA process; necessary trainings for the preparation of the RIA; consulting services and other operational costs.

##### **4.1. CALCULATION OF LABOR COSTS IN THE PROCESS OF REGULATORY IMPACT ASSESSMENT**

The starting point for the methodology for the financial analysis of RIA is the calculation of labor costs. The cost of labor is one of the most complex categories for calculation due to the fact that it is extremely difficult to determine exactly how many persons worked on the RIA process, how much time they spent, that is, how much time in the working day was dedicated to this issue, where and when they had an overlap in obligations with other colleagues, etc. Furthermore, it is difficult to determine how the level of education and the workplace influence the quality of the individual contribution to the RIA process.

Table 1 presents the calculation of labor costs in the RIA process.

**Table 1:** Calculation of cost of the labor in the RIA process

1	2	3	4	5	6	7	8
Ordinal number	People hired	Institution	Category of the work place	Degree of education	Coefficient of the category of the work place	Coefficient of the degree of education	Phase
1							
2							
3							
<b>Total</b>	<b>a</b>	<b>b</b>					

9	10	11	12	13=11*12	14	15=6*7*13*14
Activity	Date of engagement	Total calendar days	Percentage of daily engagement	Total engagement	Amount of daily allowance (MKD)	Cost of labor (MKD)
				<b>c</b>		<b>d</b>

Below is a brief guide to filling in the table.

- *Column 1*: enter the hired person's ordinal number;
- *Column 2*: enter the hired person's name and surname;
- *Column 3*: enter the hired person's institution;
- *Column 4*: state the category of the job post of civil servants: A (secretaries), B (managerial civil servants, C (expert civil servants) or D (assistant-expert civil servants), pursuant to Article 22 of the Law on Civil Servants (Official Gazette of RM 27/2014) 01]
- *Column 5*: the level of education is entered (ISCED 0-8) according to the International Standard Classification of Education. Usually we are talking about the ISCED 6 (higher education), the ISCED 7 (master's degree) and the ISCED 8 (doctoral degree);
- *Columns 6 and 7*: are filled in according to the matrix represented bellow;

Coefficient matrix

Category of the work place	Coefficient of the category of the work place	Degree of education	Coefficient of the degree of education
A	2,0	ISCED 8	1,5
B	1,5	ISCED 7	1,2
C	1,2	ISCED 6	1,0
D	1,0	ISCED 0-5	1,0

- *Column 8*: states which of the two phases (strategic planning or implementation of RIA) gravitates towards the actual activity;
- *Column 9*: specifies one of the ten specific activities that the person conducts (analysis of the situation, defining the problems, analyzing the impacts, defining the goals, determining possible solutions-options, analyzing the costs and defining an optimal solution, preparing a draft law, preparation of a draft RIA report, drafting an opinion from MISA, preparation of a draft RIA report);
- *Column 10*: enter the starting date when the person is engaged in the RIA process;
- *Column 11*: enter the total number of calendar days in which the hired person worked on the RIA for the relevant law;
- *Column 12*: enter the approximate percentage of the day (part of the daily engagement) that the hired person dedicated on the RIA;
- *Column 13*: is a product of columns 11 and 12, that is, it represents the actual number of working days that the hired person has dedicated to the RIA;
- *Column 14*: enter the amount of daily allowance according to the data for the average gross salary published by the State Statistical Office of the Republic of Macedonia;
- *Column 15*: the labor cost is calculated as the product of columns 6, 7, 13 and 14.

#### 4.2. CALCULATION OF OTHER COSTS IN THE PROCESS OF REGULATORY IMPACT ASSESSMENT

The calculation of the remaining costs in the RIA process should be simpler, as they are more easily measurable and can be expressed in monetary fashion.

If it is necessary for some of the hired engaged in the RIA process from the public administration to attend training in the direction of advancing their RIA expertise, the costs of that training would be presented in a manner as in Table 2.

A similar principle also calculates the costs for possible consulting services (Table 3).

The engagement costs of the institution associated with stakeholder consultation are presented in Table 4.

Table 5 represents the costs made by the stakeholders for the analysis of the conditions and participation in the consultation process. A survey of the stakeholders is filled out.

Finally, the calculation of other operating costs includes: office supplies, utilities, energy sources, possible equipment procured for the needs of the RIA process and the like (Table 6).

After calculating all the individual costs of the RIA process, a summarized systematic table is drawn up which, as a final result, gives the total cost of the RIA process for a particular draft law (Table 7). If individuals or institutions repeat at different stages of the calculation, their number in the summary table is not cumulated, but the real number of persons engaged or institutions is entered.

**Table 2: Training Costs**

o. n.	Name of the training	Participant in the training	Institution	Training Period	Days	Training Costs (MKD)
<b>Total</b>		<b>e</b>	<b>f</b>		<b>g</b>	<b>h</b>

**Table 3: Costs for consulting services**

o. n.	Name of consulting service	Consultant / expert	Institution	Period of use of the service	Days	Service Costs (MKD)
<b>Total</b>		<b>i</b>	<b>j</b>		<b>and</b>	<b>k</b>

**Table 4: Consultation costs of the institutions for stakeholders**

o. n.	Title / name of the affected party	Period of consultation	Days	Costs for consultation costs for stakeholders (MKD)
<b>Total</b>	<b>l</b>		<b>m</b>	<b>n</b>

**Table 5: Stakeholder costs for condition analysis and consultation participation**

<b>Title / name of the stakeholder</b>			
	Number of people included	Days	Amount of costs (MKD)
Condition analysis			
Consultation participation			
<b>Total</b>	<b>o</b>	<b>p</b>	<b>q</b>

**Table 6: Operating costs**

o. n.	Type of operating cost	Amount (MKD)
1	office supplies	
2	utilities	
3	gasoline and other energy sources	
4	equipment	
5	other operational costs	
<b>Total</b>		<b>r</b>

**Table 7:** Cost of the RIA process

<b>o. n.</b>	<b>Type of cost</b>	<b>Number of persons</b>	<b>Number of institutions</b>	<b>Days</b>	<b>Amount (MKD)</b>
1	labor	a	b	c	d
2	training	e	f	g	h
3	consulting services	i	j	and	k
4	consultation with stakeholders		l	m	n
5	stakeholders costs	o		p	q
6	other operational costs				r
	<b>Total</b>			<b>c+...+p</b>	<b>d+...+r</b>

**Note:** In addition to this document, a Microsoft Excel Tool was developed featuring a simulation of the Methodology through a hypothetical example of amending the law in the field of taxes. It consists of five sheets following the economic classification of costs. The last one is actually an accounting sum of previous economic items for the needs of the tool.

## 5. CONCLUSIONS AND RECOMMENDATIONS

The main goal of this policy paper is to determine the cost for the state during the RIA process of a draft-law.

This document does not aim to determine how much the implementation of that new law made under the RIA will cost the state or its stakeholders in full. That is already done by the RIA methodology provides for an analysis of the costs, impacts and benefits of the identified possible solutions when proposing a particular regulation, as well as the preparation of a RIA Report.

However, the Decision on the form and content of the RIA Evaluation Report does not provide for an analysis of the costs of the RIA process itself.

The recommendation of this document is: The Government of the Republic of Macedonia to adopt "Amendments to the Decision on the Form and Content of the Regulatory Impact Assessment Report" as follows:

- In the Appendix "Regulatory Impact Assessment Report", Article 4.5 to be supplemented with line c costs for the RIA process.
- In the "Instructions for Completing the Regulatory Impact Assessment Report", Article 4.5 to be supplemented by line c) costs for the RIA process (the labor costs of the civil servants included in the RIA process, the costs of training, cost of consulting services, costs incurred for consultations with stakeholders and operational costs incurred in the RIA process)
- To adopt "Guidelines for Calculating the Cost of the Regulatory Impact Assessment Process", in accordance with the methodology described in this document.

Thus, the Report will show the costs incurred for the RIA process itself, which will be another entry component when assessing the regulatory impact on the state and the stakeholders.

The main prerequisite for a quality cost analysis of the RIA process is the availability and quality, as well as the update of financial data. Incompatibility with this prerequisite directly affects the correct expression of costs, in accordance with good accounting-financial practices.

Therefore, this document recommends strategic involvement of the State Audit Office (SAO) as a corrector of the cost analysis of the RIA process and its proper display.

If the "Regulatory Calculator"<sup>8</sup> tool is introduced in the near future, the recommendation of this paper is, inter alia, to include the calculation of the costs of the RIA process.

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<sup>8</sup> According to the recommendations of: Jovan Bliznakovski - *Comparative good practices in the application of RIA and possibilities for their implementation in Macedonia (public policy document)*, Institute for Democracy



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