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STANDARD COST MODEL

MEASURING AND REDUCING ADMINISTRATIVE BURDENS

PRISTINA, OCTOBER 2018



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FOREWORD

Legislation imposes rules. These rules serve a purpose: to protect consumers and the environment and to make sure that businesses can thrive in a fair marketplace.

However, these rules also impose obligations and costs. They are justified as long as the legislation is designed well, the implementation is efficient and the rules add clear value.

The Standard Cost Model (SCM) provides insights into the way that companies have to comply with legislation. It shows whether, from the perspective of these companies, legislation is implemented efficiently. If this is not the case, the model provides the information that is needed to improve the legislation and its implementation.



Box 1: SCM as International Best Practice for Policy Development

The Standard Cost Model is widely used in policy development around the globe. Countries such as Germany, the UK, the Netherlands, Sweden and Denmark have integrated it into their policy development and law-making processes. These countries also implemented a comprehensive program to reduce administrative burdens with data provided through the SCM.

The European Commission has integrated the SCM into its Better Regulation Guidelines and Toolbox. The model is used for Impact Assessments and Evaluations.

The World Bank has declared the SCM to be an international best practice and is supporting the implementation of the model on a global scale.

The SCM can be used to calculate the costs of implementing legislation for businesses, citizens, NGOs and administrative bodies. At this stage, the SCM is only obligatory for calculating the costs for businesses.

Society and legislation are continuously changing. What was deemed efficient five years ago might not be seen as efficient nowadays. The improvements in information technology, for example, can make many processes far more efficient than ever before.

The Standard Cost Model empowers policy development by putting the focus on the most important activities of companies: run their businesses, invest and create jobs. With this in mind, the introduction of the Standard Cost Model was announced in the Better Regulation Strategy 2.0 (2017-2021).

The Government Coordination Secretariat within the Office of the Prime Minister has developed this Manual to assist the government institutions to apply the SCM. The ultimate goal is to upgrade the legal framework, to make legislation more efficient and to increase competitiveness of Kosovo's economy.

For any questions about this manual, training on the application of the SCM and support with performing SCM measurements, please contact:

Arben Krasniqi

Director of Government Coordination Secretariat within the Office of the Prime Minister.

E: arben.krasniqi@rks-gov.net

T: 038 200 14 078

Arjeta Sahiti

Head of Policy Division at the Government Coordination Secretariat.

E: arjeta.sahiti@rks-gov.net

T: 038 200 14 166

This Manual is comprised of the following three parts:

- **Part I – Standard Cost Model: Description and Definitions**
- **Part II – Step-By-Step Description: Ex-Post Administrative Cost Measurement**
- **Part III – Step-By-Step Description: Ex-Ante Administrative Cost Assessment**

PART I – STANDARD COST MODEL: DESCRIPTION AND DEFINITIONS

To be able to apply the Standard Cost Model, it is essential to understand what administrative costs are; how they are defined and how they are calculated.

REGULATION AND INFORMATION OBLIGATIONS

The Government and other public authorities set out rules that (1) require businesses and citizens to carry out activities in certain way; (2) forbid specific actions or behaviour; (3) protect and safeguard public interests.

Regulation

Any act that establishes a norm in relation to an activity or behaviour which has been or can be issued in accordance with the Constitution of the Republic of Kosovo.

Normative acts:

Law, sub-legal act issued by competent bodies.

To ensure that legal requirements are adhered to, the Government and public authorities often require businesses to develop, provide and/or store information. Such requirements are referred to as Information Obligations (IO).

Information to third parties often includes details about a product or service

Information Obligation

A legal obligation to make or have information available to public authorities and/or third parties.

The definition includes information that is actively submitted by businesses to one or more public authority. It also covers the obligations to store and maintain information available to public authorities upon request.



Figure 1: Example of Information Obligations

INFORMATION OBLIGATION		
To Public Authorities		To Third Parties
Financial Statements	Keeping Documents	Product Specifications
Tax Statements	Sales Register	Expiry Date
Application for Permit	Invoices	User Guides
Application for License	Guest Register	
Work Safety Report	Employee File	

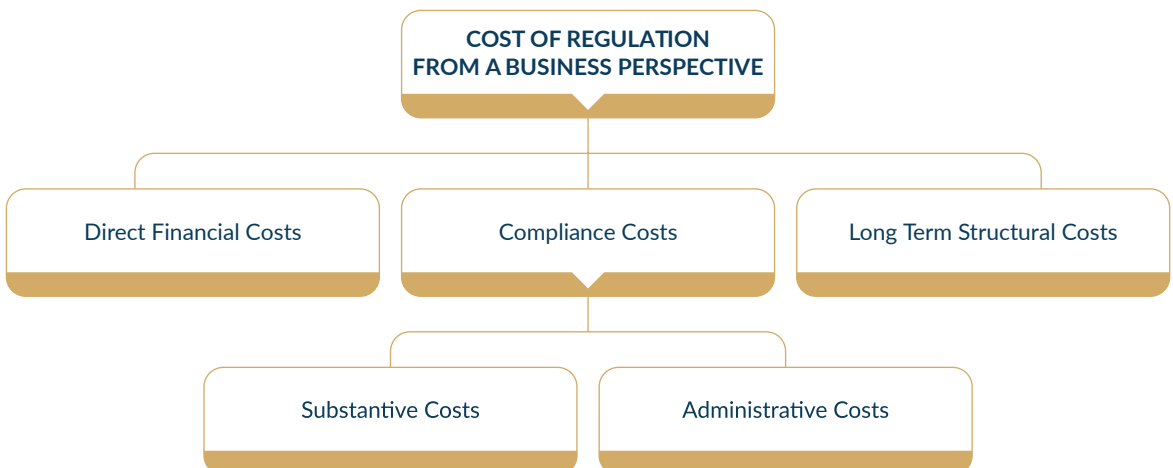
Cost of Regulation

Regulation is implemented by public authorities. It causes costs which must be covered by the Budget of Kosovo.

On the other side, businesses are targeted entities of regulation. As a result, they face a series of costs because they must comply with legal obligations. These costs are illustrated in Figure 2 below.



Figure 2: Cost of Regulation



Direct Financial Costs

Direct Financial Costs are the result of an obligation to transfer an amount of money to public authorities. Examples of such obligations are taxes and social contributions that must be paid.

Compliance costs

Compliance costs are all the costs that are caused to businesses as a result of complying with requirements set out in a normative act. There are 2 types of compliance costs:

- **Substantive costs** that include the cost of complying with legal requirements set out in normative acts;
- **Administrative costs** that result from making information available.

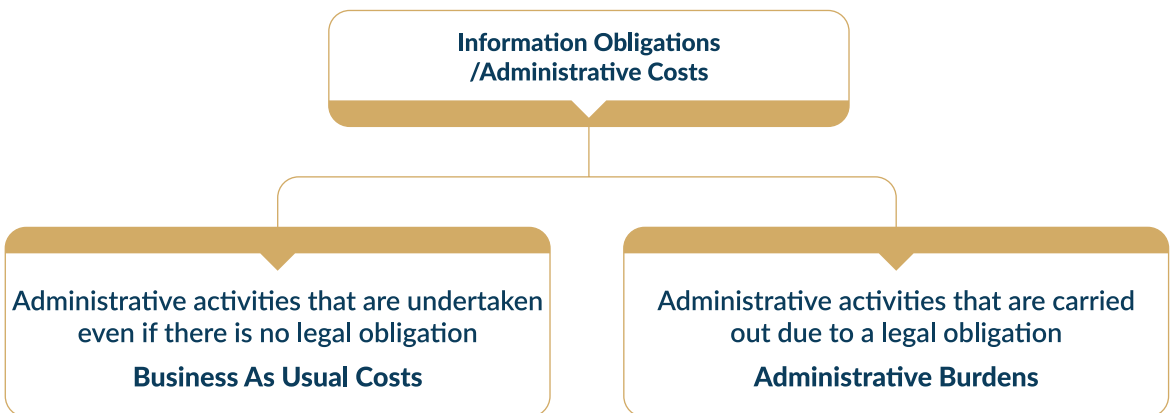
Every business has to deal with administrative costs. Administrative costs are divided in **Business-As-Usual Costs (BAU)** and **Administrative Burdens**.

Example of substantive costs:

- Filtering equipment
- Work facilities in compliance with safety standards



Figure 3: Administrative Costs, BAU and Administrative Burdens



- » **Business-As-Usual Costs (BAU)** are costs related to collecting, developing and processing information that is essential to businesses. Such information is always created even when there is no legal obligation.

Example:

Businesses collect data on the number of employees and their qualifications in order to prepare plans for the future.

- » **Administrative Burdens (AB)** are the costs that relate to complying with a legal requirement by creating, maintaining and / or making information available to a public authority and/or third parties. Businesses carry out activities only because they must comply with legal requirements. Application fees, license fees and permit fees, and any other fee related to information obligation must be part of the calculation as well.

Example:

Businesses provide information on the wage level of employees for income tax purposes. Companies provide their employees with information on the tax withheld and social contributions.

Long Term Structural Costs

Certain normative acts may have long term impact on the structure of the businesses. These impacts can relate to business restructuring to safeguard the public interest, such as incorporation of large businesses to ensure transparency for investors, and ultimately for the public. Restructuring consumes costs and can affect the capital of businesses. Restructuring may also be required in order to ensure competition in the market. Examples of long term structural changes that create costs to businesses include:

- Unbundling of companies to maintain competition;
- Incorporation to ensure transparency of business operations and financial performance;
- Merging for the purpose of strategic investments, etc.

The Standard Cost Model does not take into account Long Term Structural Costs as they do not represent administrative costs.

STANDARD COST MODEL

Administrative Burdens can be measured in a uniform and open manner. The Standard Cost Model provides the methodology to carry out measurement of Administrative Costs.

The Standard Cost Model provides:

- 1 A basis for measuring administrative burdens;
- 2 A tool for identifying cost-effective measures to reduce administrative burdens;
- 3 A mechanism to integrate Better Regulation practice into the policy development process.

Baseline Measurement

The Standard Cost Model can be used to measure the baseline of administrative burden, known as Ex-Post Measurement. Such measurement provides the total of administrative costs that businesses face in complying with existing normative acts. Ex-Post measurement can be used to measure the baseline for:

- A single information obligation;
- A specific part of a normative acts;
- An individual normative act;
- A group of normative acts that are related to each other.

Ex-Ante Assessment

The Standard Cost Model can also be used to measure anticipated administrative burdens from draft normative acts. Such a measurement provides a prediction of future Administrative Costs based on the expected administrative consequences of policy proposals when they aim at introducing new normative acts or amending or supplementing the existing normative acts. The results of an Ex-Ante Assessment need to be part of the overall assessment of the impacts of proposed normative acts.

Normative acts should never be considered as objectives on their own. They are tools for implementing policies, safeguarding the public interest and achieving public policy goals.

SCM AS EFFICIENCY MEASUREMENT

The SCM measures the efficiency of the process for implementing legislation. It does not assess the reasons for legal requirements.

Example:

A company must pay taxes, thus it must collect and store sales information, and report this information by using the relevant forms. It is clear that there is a need to provide information, and the SCM takes this need for granted. However, the model assesses the efficiency of the process through which the information has to be collected and communicated. It also looks into detailed requirements which need to be fulfilled by the company. As such, the Standard Cost Model assesses the quality of law enforcement requirements and provides data needed to determine whether the implementation of the legal requirement can be made more efficient.

STANDARD COST MODEL: MEASUREMENT COMPONENTS

The Standard Cost Model breaks down normative acts into manageable components that can be measured. This takes place through the focus on administrative activities that need to be carried out in order to comply with legal obligations to provide information.

Information Obligation (IO): the legal obligation to make information available to public authorities and/or third parties or to keep information readily available at the request of public authority.

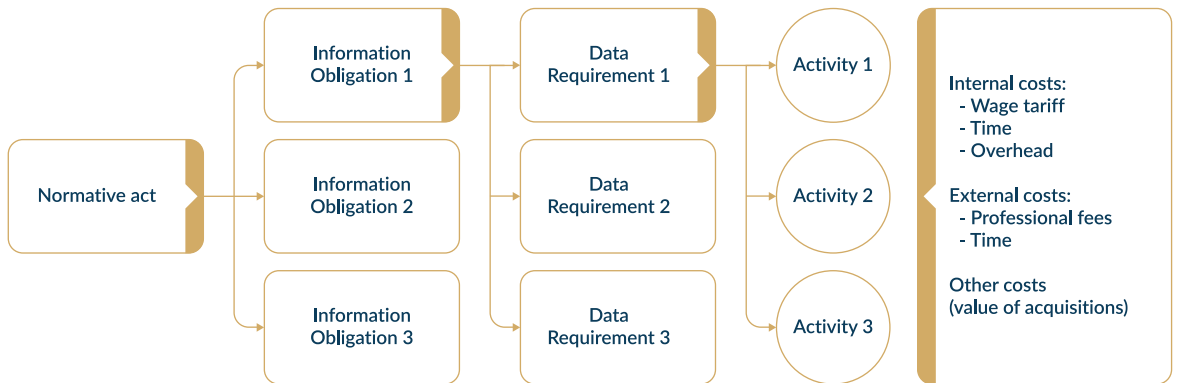
Data requirements (DR): the concrete data that has to be provided in order to comply with legal requirements set forth in the Information Obligation.

Administrative Activities: all activities that must be carried out to fulfil the Data Requirements. The cost of each activity must be calculated. Activities cover all the work that needs to be performed within the company or that must be outsourced.

Cost Parameters: Each activity consumes resources of human (staff time) and material nature (equipment, materials).



Figure 4: Components for Measurements of the Standard Cost Model



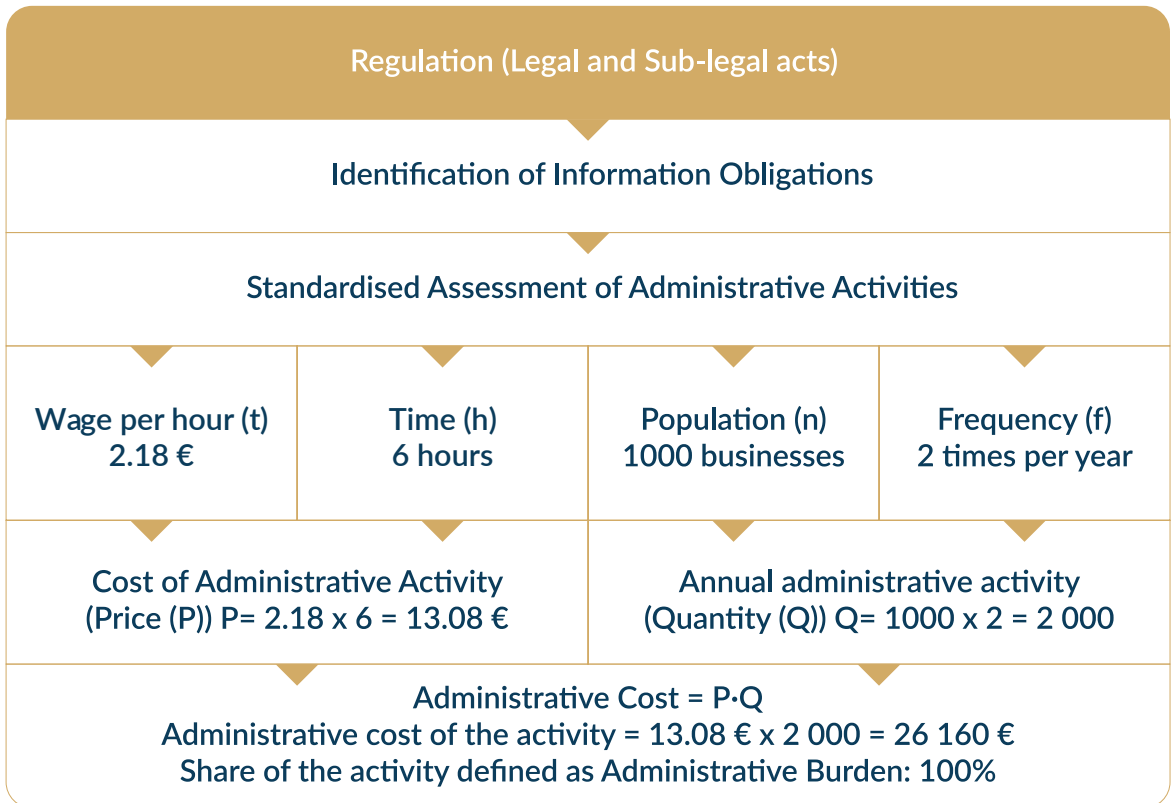
The Standard Cost Model identifies the following cost parameters:

- **Price (P)** composed of:
 - » **Tariff (t)** which is the wage tariff, plus overhead of administrative activities carried out internally or externally. The tariff is expressed as wage or service fee per hour.
 - » **Time (h)** is the amount of time required to complete an administrative activity.
- **Quantity (Q)** composed of:
 - » **Population (n)** is number of businesses who must undertake an administrative activity.
 - » **Frequency (f)** is the average number of times an activity needs to be completed. Frequency is calculated based on the annual recurrence of an administrative activity.

Combining the above parameters gives the SCM formula that is presented in Figure 5. The illustration also uses hypothetical values to show what the calculation looks like.



Figure 5: The formula for Standard Cost Model



NORMALLY EFFICIENT BUSINESS (NEB)

The Standard Cost Model assumes that businesses have a normal level of efficiency. This implies that administrative activities are carried out in a comparable manner, regardless of the specific characteristics that businesses might have. The aim is to identify the standard situation for complying with Information Obligations. The SCM does not take into account the businesses that – for various reasons – are either particularly efficient or inefficient.

ONE-OFF AND RECURRING COST

The SCM makes a distinction between One-Off Costs and Recurring Costs.

- One – Off Costs are the costs that occur only once in connection with the business adapting to a new or amended legislation / regulation.
- Recurring Costs are the costs that occur to businesses on a regular basis in complying with IOs. They are presented as a frequency of an Information Obligation during a calendar year.

One-Off costs are not taken into account when carrying out Ex-Post Measurement. They are only relevant as part of an Ex-Ante Assessment and therefore when a Concept Document is developed

FULL OR PARTIAL COMPLIANCE

SCM measurements are based on the assumption that businesses comply fully with an Information Obligation set out in a normative act. Therefore, no distinction is made between fully compliant businesses, partially compliant and non-compliant businesses.

However, there might be reasons why (a significant part of) a target group is not complying with Information Obligation(s). Lack of understanding of legal requirements or conflict between legal obligations may have a significant impact on the level of compliance. When this is the case, the issue needs to be raised with the Government Coordination Secretariat to ensure proper treatment of exceptional cases.

STANDARD COST MODEL FOR CONCEPT DOCUMENTS

The Standard Cost Model provides measurement approach for identifying, defining and calculating administrative costs that would follow from a new proposed policy or the changes to an existing policy. In line with the Rules of Procedure of the Government, such proposals must be prepared through Concept Documents.

Information obtained through the application of the SCM supports reducing exiting administrative burden. The information that the model provides can also be used for drafting of normative acts.

Part III of this Manual contains instructions on applying the Standard Cost Model for new Information Obligation(s) or changes to existing ones. By definition, any normative act must be preceded by an analysis in the form of a Concept Document.

Factors That Must Be Considered

Prior to applying the Standard Cost Model, it is important to understand why a new policy proposal or changes to an existing policy are initiated. The Standard Cost Model needs to be applied for policy proposals that include regulatory measures. Secondly, for the SCM to be obligatory to use, the foreseen regulatory measures must affect the businesses. When these conditions are fulfilled, the SCM must be used for each option of Concept Documents that involve introduction, removal or change of Information Obligations as stipulated in Figure 6 below.



Figure 6: Information Obligations in the Concept Document

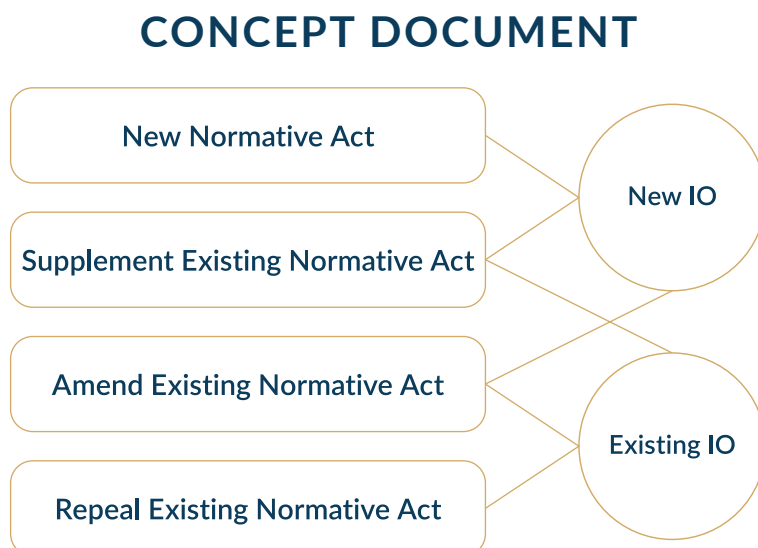


Figure 6 above illustrates that:

- When New Information Obligations are proposed through normative act, a SCM Ex-Ante Assessment must be performed;
- When New Information Obligations are proposed through supplementing or amending existing normative acts, a SCM Ex-Post Measurement for the existing Information Obligations that will be changed must be performed, and this needs to be combined with SCM Ex-Ante Assessment for the proposed information obligation;
- When a modification to an existing Information Obligation is proposed through new normative acts or supplementing or amending existing ones, a SCM Ex-Post and Ex-Ante must be performed;
- When an existing Information Obligation is eliminated by repealing it, a SCM Ex-Post Measurement must be performed.

Finally, results from SCM Measurements have to be presented in the Concept Document.

PART II: EX-POST ADMINISTRATIVE COST MEASUREMENT

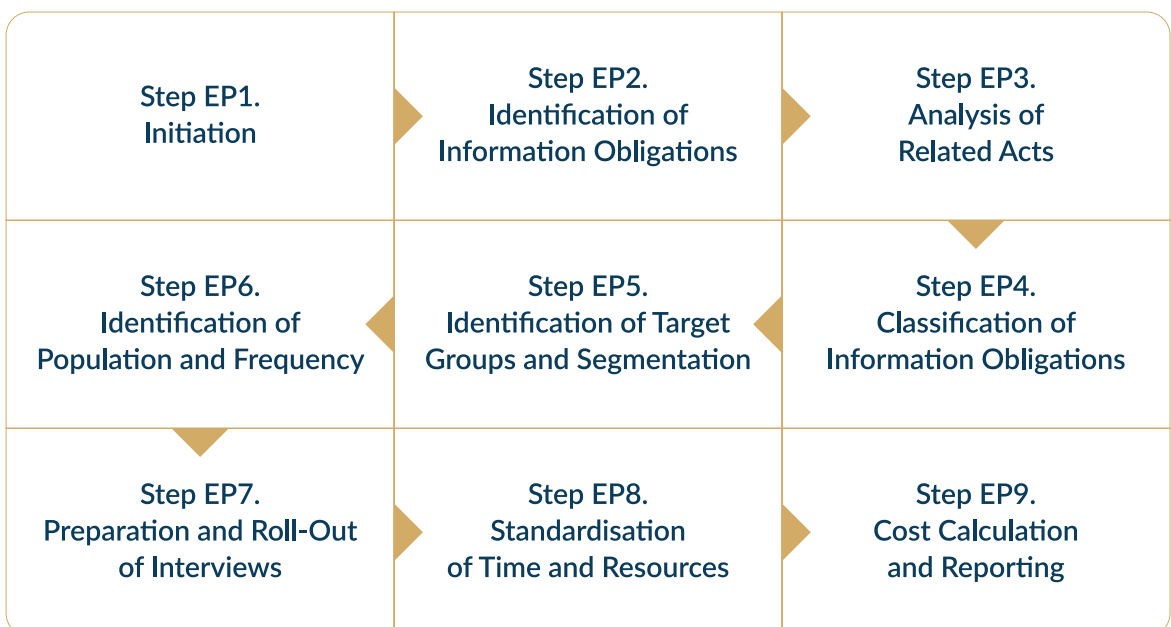
The Ex-Post measurement process is about identifying Information Obligations and the data required for measuring administrative costs resulting from the articles of existing normative acts.

Measuring administrative costs correctly means that the person(s) engaged in this work must have detailed knowledge of Standard Cost Model as well as the normative act which is being measured. The relevant ministry or public institution which is responsible for the act will have to take the lead for the measurement process and perform the SCM measurement.

A SCM measurement can be best done by ministerial teams and other institutions responsible for policies that regulate policies with normative acts being measured, in which experienced and trained individuals have full knowledge about the SCM and the regulated area. Measurements should also be carried out in close cooperation with the Government Coordination Secretariat (GCS). The GCS supports line ministries with training, hands-on support and advice during the measurement process.



Figure 7: Ex-Post Measurement Process Steps



STEP EP1 - INITIATION

Before initiating a measurement, the scope of measurement needs to be defined. The measurement process starts with defining the (parts of) normative acts that will be measured.

Example:

An institution may want to measure administrative costs caused to business entities operating in:

1. Road Transportation market: this choice requires screening of all transport related normative acts (laws and sub-legal acts) and selecting all for inclusion in the measurement.
2. Goods Road Transportation market: this choice requires screening of all transport related normative acts but only 7 normative acts would be selected for inclusion in the measurement. The scope of the measurement would be limited to business entities operating in the goods transportation market which is regulated by the Law on Road Transport and 6 sub-legal acts.
3. If the initiating institution wants to measure the total administrative costs of business entities in the goods transportation market it would need to examine other normative acts such as the Law on Business Organization as well.

Step EP1. Initiation

Purpose	Activities	Outcome
Identification and clarification of normative acts that will be included in the SCM measurement	<ul style="list-style-type: none"> • Screening of normative acts • Informative meetings, with: <ul style="list-style-type: none"> » Government Coordination Secretariat » Legal Office » Other institutions responsible for implementation 	<ul style="list-style-type: none"> • List of normative acts for inclusion in the measurement • Justification of the final list of selected acts

STEP EP2 – IDENTIFICATION OF INFORMATION OBLIGATION

After the scope of the SCM is determined, the selected normative acts are analysed in order to identify:

- Information Obligation;
- Data requirements;
- Administrative activities (as much as possible at this stage).

Reading and examining the selected legal texts and accompanying / supporting documents of the normative act results in an overview of identified Information Obligations

The analysis must include all secondary normative acts that result from selected primary acts, for example Regulations and Administrative Instructions.

After the identification of Information Obligations, these need to be broken down into Data Requirements and these requirements have to be split into administrative activities. The list of standard activities provided in Table 1 shows the most common activities. However, since not all administrative activities can be defined at this stage, they need to be verified during the actual measurement process (See Steps EP7 and EP8).

Step EP2. Identification of Information Obligation

Purpose	Activities	Outcome
Break down selected normative acts into Information Obligations, Data Requirements and Administrative Activities	<ul style="list-style-type: none"> • Analysis of normative acts: primary and secondary legislation; • Identification of Information Obligations, Data Requirements and Administrative Activities • Identification of overlaps; • Identification of departments responsible for implementation 	<ul style="list-style-type: none"> • List of Information Obligations, Data Requirements, and Administrative Activities



Table 1: Overview of most common administrative activities to be used for SCM Measurements

1

Familiarization with the Information Obligation

Businesses need to read and understand the requirements before they can provide the necessary data and comply with Information Obligation (for Ex-Ante Assessment only).

2

Gathering data

Businesses need to collect data to comply with Information Obligation. Some data exists within their business organization, while other data needs to be collected, e.g. by obtaining documentation from public authorities.

3

Checking data

Businesses need to check gathered data in order to ensure their relevance to fulfilling Information Obligation in line with the defined legal requirements.

4

Calculation

Some data require structuring and calculating in order to generate figures that meet the acceptability criteria for Information Obligations (for example calculation of turnover for the last three years).

5

Presentation of information

Businesses need to make sure that calculated figures are presented in the format that is required by the public authority (e.g. providing information in a certain format).

6 Verification

Calculated data must be prepared in the format required and needs to be verified in order to ensure that it is correct (for example, financial statements prepared in the format required by public authority must be checked to see whether they are correct).

7 Internal meetings

Meetings that are held between staff of businesses whose discussion topic is required for complying with Information Obligations.

8 External meetings

Meetings held with external parties – such as auditors or lawyers – to ensure compliance with Information Obligations.

9 Processing payment

Activities that are undertaken to process payments for application fee, license and permit fees, taxes, charges and similar.

10 Copying and archiving

Information Obligations may involve copying, printing and distributing. For example, all required documentation may have to be submitted in 2 copies and archived in order to make it available for future inspections or audits.

11

Audits and inspections by public authorities

Businesses need to cooperate and assist inspectors and auditors when they carry out auditing at the business. Mainly, cooperation is shown by assigning a person to respond to the requests of auditors for information, and assist them with the inspection, e.g. by replying to questions, provide additional data and fulfil other demands.

12

Corrections required following a public audit

When audits or inspections conclude that there are faults / defects, businesses are required to make corrections. In case findings during the audit and inspection are justified, the changes that need to be made and reported are not classed as administrative burdens. However, when an auditor or inspector makes a mistake, the process to correct this is an administrative activity that causes administrative burdens.

13

Training, updating on statutory requirements

Some requirements change frequently, and the public authority organizes public training events which need to be attended by the employees of businesses.

14

Reporting/submitting/distributing information

Submission of information to public authority and distributing information to external parties.

STEP EP3 – ANALYSIS OF RELATED ACTS

During the preparation phase it is important to clarify whether an Information Obligation exists in only one normative act. In case an Information Obligation is stipulated in two or more normative acts, it is important that such costs are properly assessed.

It is possible that two IOs look the same, but in practice are not overlapping since they differ in timing or because different public bodies are responsible. There could thus be a double information stream from public institutions. The additional administrative costs resulting from two similar or overlapping IOs need to be properly attributed to the relevant normative act.

Step EP3. Analysis of Related Acts

Purpose	Activities	Outcome
Identification of normative acts that impose the same or similar Information Obligation	<ul style="list-style-type: none">• Review of related normative acts• Identification of Information Obligations• Comparison of Information Obligations	<ul style="list-style-type: none">• Overview of normative acts imposing the same or similar IOs.• Administrative costs are attributed to specific normative acts to avoid duplication.

STEP EP4 - CLASSIFICATION OF INFORMATION OBLIGATION

Information Obligations must be classified in different forms in order to get a proper overview about the kind of costs that are being imposed on businesses. In addition, the origin of administrative costs needs to be defined. Administrative Costs can originate from national laws, international obligations (such as EU Directives and Regulations) or a combination of the two.

Classification of Information Obligation is essential to obtain a proper overview of the type of existing IOs and for assessing whether and where similar Information Obligation exists. In addition, the classification is needed to show which administrative body is responsible for implementation of the IOs in practice.

The classification of Information Obligation is done based on the issue they relate to:

- Licenses
- Permits
- Authorizations
- Subsidies
- Grants
- Reporting
- Inspection
- Audit
- Public Procurement
- Other Classification

In addition, IOs need to be linked to the public body that is responsible for its implementation. This will most commonly be a ministry or agency. Examples of responsible institutions are shown in Table 2 below.



Table 2: Example of institutions responsible for implementation of IOs

Assembly of the Republic of Kosovo	Independent Regulatory Agencies such as: <ul style="list-style-type: none">• Energy Regulatory Office• Water Service Regulatory Authority• Independent Media Commission
Central Government	Ministries and Agencies such as: <ul style="list-style-type: none">• Ministry of Finance• Ministry of Infrastructure• Civil Aviation Agency• Ministry of Health• Kosovo Medicines Agency;• Ministry of Education, Science and Technology• Food and Veterinary Agency
Local Governments	Municipalities

The third classification of Information Obligations covers the origin. IOs can originate from national laws, international obligations (such as EU Directives and Regulations) or a combination of the two. The origin affects the actual influence that public bodies have to change IOs. National laws and sublegal acts can be amended in line with the applicable procedures, while EU laws cannot be amended. The classification of the origin is presented in Table 3 below.



Table 3: IO Classification by Origin

Category	Explanation
A	The IO originates from international law and must be implemented without possibilities to adjust or influence the implementation. EU Regulations are good examples of international laws that set prescriptive regulatory standards and define IOs in detail.
B	The IO originates from international law, but its implementation depends on the interpretation and choices on national level. General requirements and options defined in EU Directives are good examples of international laws, the implementation of which is determined to a great extent through decisions on a national level.
C	The IO originates in national laws or sub-legal acts. Its implementation thus is under full national control.

Step EP4. Classification of Information Obligation

Purpose	Activities	Outcome
Ensuring full classification of Information Obligation	<ul style="list-style-type: none"> • Classification of IOs by type • Classification of IOs by responsibility for implementation of individual IOs • Classification based on origin 	<ul style="list-style-type: none"> • Classification of IOs completed

STEP EP5 – IDENTIFICATION OF TARGET GROUPS AND SEGMENTATION

Businesses that must comply with Information Obligations need to be identified and segmented. This can often be done through the analysis of the text of the normative act.

Segmentation of businesses must be made based on the following two criteria:

1. Business size
2. Economic (sub) activity

Segmentation by Size

Business size is based on the number of employees. Four different sizes are identified by Law no. 04/L-220 on Foreign Investments:

- Micro-Enterprises – Businesses with up to nine (9) employees;
- Small Enterprises – between ten (10) to forty-nine (49) employees;
- Medium-sized enterprises – between fifty (50) to two hundred and forty – nine (249) employees;
- Large enterprises – 250 or more employees.

The scope of each IO needs to be defined. An IO can apply to all companies or to companies of a specific size.

Segmentation by Economic Activity

Businesses, depending on their economic activity, face varying levels of administrative costs.

For example, companies dealing with chemical treatment must follow the rules related to safety and environmental protection. This is in addition to the general requirements that every business needs to follow.

The segmentation of the target group based on the size needs to be complemented with a NACE¹² classification regarding economic activity. Kosovo produces statistical data based on this classification.

NACE is used for statistical classification of economic activities in the European Union and applied in Kosovo

Step EP5. Identification of Target Groups and Segmentation

Purpose	Activities	Outcome
Identification of a group of businesses and their characteristics to which IOs apply	<ul style="list-style-type: none"> Segmentation of Information Obligation by size and economic activity 	<ul style="list-style-type: none"> Clear overview of businesses that needs to comply with the IOs

¹ Government Decision no. 04/123, 5 April 2013, approving the Regulation for Implementation of the Standard for Classification of Economic Activities (NACE Rev. 2).

² NACE – „Nomenclature statistique des activités économiques dans la Communauté européenne“

Example:

The normative act on Road Transport requires all goods transportation companies to be licensed. When measuring the administrative burden caused to Goods Transportation companies, all companies registered for Road Transportation of Goods (4941) comprise the group that is affected by the relevant IO.



Box 2: NACE and classification of businesses by economic activity:

The main NACE classification sectors are as in following:

- A. Agriculture, Fishing and Mining;
- B. Mining and Quarrying
- C. Manufacturing
- D. Electricity, Gas, Steam and Air Conditioning Supply
- E. Water Supply, Sewerage, Waste Management and Remediation Activities
- F. Construction
- G. Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles
- H. Transportation and Storage
- I. Accommodation and Food Service Activities
- J. Information and Communication
- K. Financial and Insurance Activities
- L. Real Estate Activities
- M. Professional, Scientific and Technical Activities
- N. Administrative and Support Service Activities
- O. Public Administration and Defense; Compulsory Social Security
- P. Education
- Q. Human Health and Social Work Activities
- R. Arts, Entertainment and Recreation
- S. Other Activities
- T. Activities of Households as Employers; Undifferentiated Goods-and Services-Producing Activities of Households for Own Use
- U. Activities of Extraterritorial Organizations

STEP EP6 – IDENTIFICATION OF POPULATION AND FREQUENCY

Population

Each Information Obligation is meant to regulate activities and behaviour of businesses. The group of businesses that are targeted by an Information Obligation (see Step EP5) is the population for the IO. The actual number needs to be defined through statistical data and the data sources need to be identified, analysed and documented.

Potential sources of information on the population for an IO

Different sources provide data that are useful to define the population for IOs.

- Business Statistics published by the Kosovo Agency of Statistics are a good example of data that can be used to determine the population.
- Relevant institutions, especially those identified as responsible for implementation (see Step EP4), can provide information on the number of businesses that are obliged by a normative act to provide information.
- If the data cannot be obtained through two previous sources, consultations or surveys should be made. For example, consultation with representatives of business associations might yield a useful overview of the number of companies that are active in a specific sector.
- If it proves to be impossible to identify the population by using the source described above, a credible calculation by experts can provide an estimate of the population.



Table 4: Example of determining population for subsidy/grant schemes

Type	Description	Population
I.	Grant/Subsidy Schemes based on fixed criteria. For example, land surface area in hectares	Applicants that meet the specific criteria (in this case land surface)
II.	Scheme of grants/subsidies distributed on the basis of evaluation of applications. For example, innovation schemes for which businesses prepare project proposals Applicants do not know whether they will receive the grant or subsidy, but they must meet the requirements of the scheme.	All competing entities or the number of project proposals submitted or expected to compete

Frequency

As far as frequency is concerned, finding the data should be quite straightforward. The frequencies of IOs are usually set out in normative acts, i.e. by defining the time intervals at which information must be submitted.

To illustrate this, some information is submitted once a year, some twice a year, and some once in 2 or more years. These frequencies are included in the SCM calculation as follows:

- » When information needs to be provided once a year then the frequency is 1;
- » When the information needs to be provide twice a year then the frequency is 2;
- » When information needs to be provided once in 2 years then the frequency is $\frac{1}{2}$ or 0.5.

Frequency:

Shows how many times a year the Information Obligations must be completed and how often administrative activities must be performed.

Example:

The Law on Road Transport (04/L-1799 requires all road transport operators to renew their licence every 5 years. This means that each road transport operator has to provide the information needed for the license every five years. In this case, the frequency is $\frac{1}{5}$ or 0.2

- The data sources must be documented, regardless of the method chosen to determine the target population.
- If the population is based on calculations, the formula and criteria used for the calculation must be explained

Step EP6. Identification of Population and Frequency

Purpose	Activities	Outcome
Identifying the number of businesses that must comply with Information Obligations.	<ul style="list-style-type: none"> • Identifying population • Defining frequency. 	<ul style="list-style-type: none"> • Population and frequency of the IO are identified.
Identifying time intervals (frequency) at which the information needs to be provided.		



Box 3: Example of a calculation based on the Standard Cost Model

If we assume that:

- A business must be licensed to undertake the activity for each year, which means that frequency is $f=1$;
- The number of businesses is 1000 (population $n = 1000$);
- The average salary is 350 euros per employee per month, and average working hours per month is 180 (based on official ASK statistics) which means that the wage per hour is €2;
- To prepare license documentation, 95 hours of work are needed ($h=95$);
- The licensing process presents 100% administrative burdens.

The Standard Cost Model combines this data to calculate the administrative burden caused to businesses for this licence in a particular period, as follows:

$$1 (f) \times 1000 (n) \times €2 (t) \times 95 (h) = €190,000$$

The administrative burden for these businesses can be reduced by decreasing the frequency and extending the licence validity period from 1 to 3 years.

This adjustment means that the frequency becomes $f=1/3$ or 0.33. The SCM calculation shows the effect on the level of administrative burdens as follows:

$$0.33 (f) \times 1000 (n) \times €2 (t) \times 95 (h) = €62,700$$

The total administrative burdens under the unchanged licensing process is €190,000. After simplification, the level is €62,000, which means a difference of €127,300 per year. The resulting savings enable businesses to:

- Improve services and/or products;
- Market products and services to boost sales growth;
- Employ professional staff to promote business growth, etc.

In addition to adjusting the frequency, the Data Requirements can be reduced as well. For example, instead of demanding original Business Certificates and Staff Certificates, the requirement might be reduced to only demanding the business number. This affects the time needed to prepare the application for licenses.

The time saved through elimination of the demand for original Business Certificates and Staff Certificates is estimated to be 5 hours. This means that the time for preparing the license application is reduced from 95 hours to 90 hours. When this is included in the SCM calculation, administrative burdens are further reduced:

$$0.33 (f) \times 1000 (n) \times €2 (t) \times 90 (h) = €59,400$$

After reducing the frequency and reducing the demand for documentation, the new administrative burden level is €59,400. This compares well to the original level of administrative burden at €190,000. The administrative burdens have been reduced by more than two-thirds.

STEP EP7 - PREPARATION AND ROLL-OUT OF INTERVIEWS

The cost parameters are determined through interviews with business representatives. The previous step provides information on frequency and population. The time needed to complete the administrative activities still needs to be defined, as must the actual level of wage tariff. In addition, through the interviews, the administrative activities that are needed to complete an IO must be verified.

The cost parameters used for SCM measurements are presented in Figure 8 below.



Figure 8: Cost parameters for SCM calculations

Internal costs	<ul style="list-style-type: none">• Time required for carrying out administrative activities (per hour)• Hourly wages for the employees carrying out administrative activities• Overhead costs
External costs	<ul style="list-style-type: none">• Time required for carrying out administrative activities (per hour)• Service providers fee for administrative activity (per hour)
Other costs (Acquisitions)	<ul style="list-style-type: none">• Cost of acquisitions to ensure compliance with Information Obligations and Data Requirements. Example: materials, equipment purchased to comply with IO.

Interviews serve mainly to determine the time needed to complete an administrative activity. This is the factor that is least known. It is sufficient to interview five companies to obtain a sufficient understanding of the factors needed to make SCM calculations.

The hourly wage is based on statistics and is standardized for the economy of Kosovo as a whole in Box 4. The hourly wage needs to be verified during interviews.

*Box 4: Standardized values for hourly wages*

The Kosovo Agency of Statistics produces statistical data on the employment and salaries in Kosovo. The data is produced for the public sector, such as salaries paid by the Kosovo State Budget, as well as salaries for publicly-owned enterprises and for the private sector.

According to ASK Data, the average gross salary (monthly) in 2016 was €371 or 1.09% higher than in the previous year. The same data shows that the average working time per week in 2016 was 47 hour per week and thus 188 hours per month. Therefore the wage per hour to be used as a reference point for SCM calculation purposes is 1.97 euro.

The preferred approach to carrying out SCM measurements is to establish direct contact with businesses that must comply with the selected IOs and interview them. Three interview methods prevail and these are presented in Figure 9, together with a description of the situation in which they can best be applied. Individual interviews are the preferred interview method.

*Figure 9: The three interview method for SCM calculations*

Individual interviews	It is a preferred method for the identification of administrative costs. Usually they last 1 to 2 hours for each business, but the interview duration depends on the complexity of the IOs in question. It is recommended to have two interviewers.
Phone interviews	This type of interview can be used when the costs of a small number of IOs need to be defined or when interviews are expected to be shorter than 30 minutes.
Focus groups	Interviews can be held in the form of focus groups involving a number of businesses and experts. This is useful especially for highly complex Information Obligations and when the identification of administrative activities needs to be improved.

Prior to carrying out the interviews, it is important to develop a proper interview plan. This plan should contain what approach should be used, i.e.:

- Overview of SCM data identified so far (IOs, data requirements, frequency, population)
- Interview planning
- Interview questionnaire
- Businesses to be interviewed (normally five)
- Persons conducting the interviews
- Data from previous measurements
- Contact details of staff at the responsible public body

The questionnaire for the interviews is crucial and needs to contain all questions that must be asked. It must be accompanied by the SCM calculation completed as far as possible at this stage of the process. It must be structured in such way that businesses can provide short and precise answers. In addition to collecting quantitative data on cost parameters, it is important to ensure an understanding of qualitative aspects such as:

- Whether the overview of administrative activities is complete
- Whether the information is prepared only because of the existing legal requirements (to define the level of administrative burdens)
- Whether the information is used by the company itself (to define the level of administrative burdens)
- Whether data that need to be provided have to be provided in relation to other IOs as well
- Proposals for simplification and identification of unnecessary burdens
- Best practices within businesses on complying with IOs.

Step EP7. Preparation and Roll-Out of Interviews

Purpose	Activities	Outcome
Complete the data needed for SCM measurement	<ul style="list-style-type: none"> • Development of the Research Plan: : <ul style="list-style-type: none"> » Defining interviewing method » Selecting businesses for interview » Developing the interview questionnaire » Conduct interviews 	<ul style="list-style-type: none"> • Interviews concluded • Frequency and hourly wage verified and validated • Overview of administrative activities verified and validated • Time needed for each administrative activity determined

STEP EP8 – STANDARDIZATION OF TIME AND RESOURCES

The data that are gathered through the interviews most likely need to be standardized. This needs to be done based on the concept of the Normally Efficient Business.

The gathered data need to be evaluated to assess how much time it takes to carry out each administrative activity. This does not mean calculating the average. The standardization must be based on the validation of the collected data. When necessary, an assessment by GCS must be provided. Illustrations of standardization are provided in Figure 10 below.



Figure 10: Examples of standardized time needed for completing administrative activities

Administrative activity (A)

Business 1	5 h
Business 2	5 h
Business 3	5 h
Business 4	5 h
Business 5	10 h

5 hours

Administrative activity (B)

Business 1	10 h
Business 2	20 h
Business 3	10 h
Business 4	20 h
Business 5	15 h

15 hours

Administrative activity (C)

Business 1	20 h
Business 2	40 h
Business 3	5 h
Business 4	15 h
Business 5	10 h

Other
interviews

Administrative activity (D)

Business 1	5 h
Business 2	10 h
Business 3	15 h
Business 4	10 h
Business 5	20 h

15 hours

Activity A

In this activity it is obvious that Business 5 is different from the others. It can be considered that it is under-performing and not normally efficient in the range. Therefore Business 5 should be deleted from the sample, and the remaining 4 are sufficient to determine the normal efficiency. Therefore no other business needs to be reviewed.

Activity B

The information provided by businesses is not as conclusive as with Activity A. However, 15 hours can be expected to be a Normally Efficient value. It falls perfectly in the middle of the range.

Activity C

The answers vary significantly from each other. This might be the result of interviews not being performed well. It may also be that the sample chosen is not representative enough due to different factors. This makes it clear that the Normal Efficient value cannot be determined. Therefore, a better study of the population is required in order to expand the sample so additional interview need to be conducted.

Activity D

Variations in responses to Activity D are not the same magnitude as for Activity C. Since the responses are closer to 15, one may consider that only one business is slightly over-efficient (Business 1 – 5 minutes), while the other businesses are near 15. This eliminates the necessity for additional interviews. However further inputs from experts might be required in order to establish the Normally Efficient value.

Step EP8. Standardization of Time and Resources

Purpose	Activities	Outcome
Defining the definitive value for the time needed to complete administrative activities	<ul style="list-style-type: none">Assessing the values obtained during interviews	<ul style="list-style-type: none">The Normally Efficient Business value is determined for each administrative activity

STEP EP9 – COST CALCULATION AND REPORTING

The data collected during the research steps and interviews are used to calculate the total administrative costs caused by Information Obligations.

Under the SCM, the standardized time, hourly wage, population and frequency are multiplied. The calculation can best be done with the standardized excel sheet in which calculations are made automatically.

The results of calculations must be used for:

1. Preparation of the measurement report
2. The Concept Document to assess the expected impacts of proposed options.

PART III – EX-ANTE ADMINISTRATIVE COST ASSESSMENT

This section of the manual has been developed specifically to assist proposing bodies (ministries and other public bodies) in assessing the consequences of Information Obligations contained in proposed policy proposals.

In addition to measuring administrative costs caused by current normative acts (Ex-Post measurements), future administrative costs should be assessed. This part of the manual provides additional guidance on how to perform Ex-Ante measurement. The approach is similar to the Ex-Post measurement process. The difference is that Ex-Ante assesses the consequences of future Information Obligations, while Ex-Post measures the costs of Information Obligations that are in force.

Any institution proposing a new normative act should aim for the least burdensome option for businesses.

STEP EA1 – PRELIMINARY ASSESSMENT

The Standard Cost Model assists with identifying and measuring administrative costs caused by normative acts. The main goal is to reduce burdens by making the legislation more efficient.

The Manual and Guidelines for Developing Concept Documents contain instructions and tools on how to undertake policy analysis. With regard to Information Obligations and administrative costs, it is important to analyse best practices through the Regulatory Competitiveness Check. This check can provide insight into the following issues:

1. Do other countries regulate the area?
2. If yes, how? Through licences, permits or authorizations or other means?
3. What are requirements that they set?
4. What are the fees that they impose?

Answers to such questions provide information on how to regulate the issue which is analysed.

Step EA1. Preliminary Assessment

Purpose	Activities	Outcome
Justifying the need for new Information Obligation	<ul style="list-style-type: none"> • Carry out preliminary research through, for example, the Regulatory Competitiveness Check 	<ul style="list-style-type: none"> • Detailed description of possible future Information Obligation support by a clear justification

STEP EA2 – DEFINING INFORMATION OBLIGATION

If the new policy proposal addresses an Information Obligation that affects businesses, Data Requirements and administrative activities must be defined. This is necessary in order to identify cost parameters to perform the cost calculations through the SCM.

Classification of Information Obligations

The Information Obligation must be classified by origin, type and responsibility for implementation. For more information on how to perform classification of Information Obligations see also Step EP4 of this Manual.

Defining the Frequency and Population

The frequency of Information Obligations needs to be defined since it is a vital component for SCM measurements. The Regulatory Competiveness Check, for example, can provide ideas about the frequency used for the same or similar Information Obligations.

In addition, the target group should also be defined in order to define the population. The target group in this case are the businesses operating in the market for which the policy proposal is initiated. Step EP5 provides further explanations on defining the target group and the population.

Step EA2. Defining Information Obligation

Purpose	Activities	Outcome
Defining Information Obligation	<ul style="list-style-type: none"> Carry out preliminary research 	<ul style="list-style-type: none"> Detailed description of Information Obligation, with justification Overview of Data Requirements and administrative activities

STEP EA 3 – MAKING INDICATIVE CALCULATIONS

After defining a new Information Obligation, the next step is to use your knowledge and available materials to make a first estimate of the expected administrative costs.

Performing an Indicative Calculation

Before performing the calculation it is important to define the price and quantity. According to the SCM definition, price is comprised of Wage per Hour and Time needed to perform the administrative activity. On the other side, Quantity is comprised of Frequency and Population. However, when introducing new Information Obligations, other costs also occur to business. Therefore, the Standard Cost Model for Ex-Ante Assessment should include Recurrent and One-Off Costs.

One-Off Costs

Companies need to invest time and resources in order to be able to comply with Information Obligations. For the Ex-Ante SCM Assessment, two factors need to be taken into account. These are (1) the time needed to get acquainted with the new Information Obligations by reading the legal requirements and implementing necessary changes, and (2) training requirements of staff that need to be fulfilled in order to make sure that the company is able to systematically comply with the Information Obligation. These are One-Off Costs.

Recurring Costs

As described in Step EA2, the occurrence of Recurring Costs is linked to the frequency, and costs occur to the businesses. Recurring costs can be easily included in Price (P) (Wage per Hour x Time + recurrent cost) and this allows us to calculate the Cost.

Step EA3. Making Indicative Calculations

Purpose	Activities	Outcome
Creating an indicative overview of the administrative burden of new Information Obligations	<ul style="list-style-type: none"> Define cost parameters to perform SCM calculations 	<ul style="list-style-type: none"> Indicative administrative cost estimate of new Information Obligation

In order to make a preliminary SCM calculation, the following factors need to be identified:

- Frequency and population of the Information Obligation;
- Time needed to complete each information activity;
- Wage level of the person performing the activity;
- Out-of-pocket investments companies will have to make;
- Classification of administrative activities as BAU or administrative burden.

STEP EA4 - INTERVIEWING BUSINESSES

Consultation with affected businesses is essential for carrying out a SCM measurement. The purpose is to validate or correct the parameters used for SCM assessments, as well as collecting new ideas that would help identify the least burdensome option.

Usually, regulating markets will receive various responses from businesses. There will be some businesses that support the changes. Other businesses will reject proposals for new or amended Information Obligations. Considering the fact that the SCM is policy neutral, the need of the IO is not addressed since the aim is to identify the best way to implement it. The justification and need for Information Obligations is determined as part of the development of Concept Document.

Step EP7 shows the issues that need to be considered when developing an Interview Plan and carrying out interviews.

Step EA4. Interviewing Business

Purpose	Activities	Outcome
Verify the indicative SCM calculations with businesses to finalize them	<ul style="list-style-type: none"> • Interview businesses • Discuss least burdensome implementation possibilities 	<ul style="list-style-type: none"> • Interviews conducted • All information needed for final SCM calculations is collected • Implementation possibilities for IOs discussed

STEP EA 5 - DETERMINING LEAST BURDENSOME INFORMATION OBLIGATIONS

Based on the defined Information Obligations, and indicative calculations and interviews, Information Obligations can be detailed into different options which can be compared.

The options that should be considered may include, but should not be limited to, different combinations of options such as:

- Information Obligations with less data requirements:
 - » Licensing criteria that do not require documentation that exists within other public institutions
- Information Obligations with reduced frequency:
 - » Licensing time intervals: 2 years, 5 years, 10 years.

Step EA5. Setting Detailed Options for IO

Purpose	Activities	Outcome
Defining options for Information Obligations and calculating their costs	<ul style="list-style-type: none">• Consider Options for IOs• Use confirmed cost parameters to calculate the cost for each option	<ul style="list-style-type: none">• Cost for each option calculated and presented in report• Choose least burdensome options for IOs• Report sent to GCS for quality scrutiny and approval

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