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SME TEST GUIDELINES FOR BUSINESS REGULATIONS

FINAL REPORT

USAID GOVERNING FOR GROWTH (G4G) IN GEORGIA

10 April 2019

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SME TEST GUIDELINES FOR BUSINESS REGULATIONS

USAID GOVERNING FOR GROWTH (G4G) IN
GEORGIA

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ACRONYMS

BAG	Business Association of Georgia
CIT	Corporate Income Tax
CSOs	Civil Society Organizations
ETM	Electricity Trading Mechanism
EU	European Union
FDI	Foreign Direct Investment
FOG	Fat, oil, and grease
G4G	Governing for Growth in Georgia
GCCI	Georgian Chamber of Commerce and Industry
GDP	Gross Domestic Product
GEA	Georgian Employer's Association
GEL	Georgian Lari
GEOSTAT	National Statistics Office of Georgia
GITA	Georgian Georgia's Innovation and Technology Agency
GoG	Government of Georgia
GSMEA	Georgian Small and Medium Enterprise Association
MoES	Ministry of Education and Science
MoESD	Ministry of Economy and Sustainable Development
MoJ	Ministry of Justice
OECD	The Organization for Economic Co-operation and Development
RIA	Regulatory Impact Analysis
SMEs	Small and Medium Size Enterprises
UK	United Kingdom
USAID	United States Agency for International Development
VAT	Value-Added Tax

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1 EXECUTIVE SUMMARY

According to the Small and Medium Enterprise (SME) Development Strategy of Georgia 2016-2020, the private sector plays an important role in the development of the economy, contributing significantly to sustainable and inclusive growth.

Despite improvements in the business environment, Georgia faces similar challenges in terms of SME development as many other developing countries, where SMEs do not perform well and have marginal contributions to gross domestic product (GDP).

The Government of Georgia (GoG) recognizes the importance and role of SMEs in economic development and is committed to further improve the business environment to enable SMEs to develop and grow. The main aim of the SME Development Strategy, which is based on the “Think Small First” principle, developed in the “Small Business Act” communication from the European Union (EU) Commission COM(2008) 394, is the enhancement of SME competitiveness and to establish a solid base for inclusive and sustainable economic growth.

An important component of the “Think Small First” principle is a rigorous assessment of impacts of forthcoming legislative and administrative initiatives on SMEs (“SME test”) and taking relevant results into account when designing proposals.

Given their small size, SMEs are usually disproportionately affected by regulations, which can be assessed as regulatory costs per employee or unit of turnover. The SME Test is designed to identify affected SMEs, assess the impacts on SMEs, explore and consider a wide range of possible mitigation measures to reduce those impacts, and consult stakeholders, primarily SMEs, to enhance and validate the analysis. The SME Test is carried out for any draft regulation which could potentially affect businesses.

This report describes the stages of the SME Test, provides guidance on how to conduct it, and recommends the format and content of a SME Test report.

2 BACKGROUND

G4G supports the GoG to make informed policy decisions by increasing the role of data and evidence. Regulatory Impact Assessment (RIA) has proved to be an effective policy-making tool and has been integrated into the policy and legislative processes in an increasing number of countries. Donor organizations, including USAID, have made significant efforts in recent years to raise the GoG's awareness on RIA benefits and increase the capacity of the GoG and civil society organizations (CSOs) for RIA implementation.

As opposed to previous ad-hoc interventions, the GoG is now taking a systemic approach to RIA and considers methods for its incorporation into national policy-making framework. In October - December, 2015, G4G, in coordination with the Government's Administration, conducted a gap assessment and developed the report *Recommendations on RIA National Framework of Georgia*. Recently, the Ministry of Justice (MoJ) prepared the draft of the legal amendments to the Law on Normative Acts that envisions institutionalizing RIA. The draft Law was approved by GoG and was sent to the Parliament for adoption.

G4G implemented RIAs on selected priority policy reforms through its grant activities, particularly, the following RIAs were implemented: *RIA on Crop Insurance Reform*, *RIA on Irrigation Tariff Methodology*, *RIA on Estonian Corporate Income Tax (CIT) Model Implementation in Georgia*, *RIA on Water Resources Management Law*, *RIA on Value Added Tax (VAT) Reform*, and *RIA on Energy Trading Mechanism (ETM)*. G4G also developed the *Ex-Post Assessment on the Tax Payment Simplification Reform* using its in-house resources. As part of GoG capacity building on RIA activity, G4G supported the Ministry of Economic and Sustainable Development (MoESD) and Ministry of Education and Science (MoES) in implementation of two pilot RIAs, particularly, the *RIA on Consumers' Rights Protection Law* and *RIA on Professional Education Law*.

This report was prepared under the G4G assignment to build the GoG's and CSOs' capacity in RIA methodology and to implement RIA on a selected priority policy reform and prepare guidelines on the SME Test's implementation and conduct a workshop on the SME Test's implementation for civil servants.

3 METHODOLOGY

The guidelines proposed in this report were drafted according to the following approach/methodology:

1. Discussion with Georgian stakeholders (civil servants) about SME Test international best practices and expectations for Georgia during a session on the SME Test within the “Community of Practice¹” training program organized with participation of USAID/G4G and other technical assistance projects.
2. Discussion and validation with Georgian stakeholders (civil servants) of the first draft of the SME Test for Georgia during a one-day training program on the SME Test, organized by USAID/G4G.
3. Research of international best practices about the SME Test and other relevant reports and information, including:
 - 3.1. Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee, and the Committee of the Regions “Think Small First.” A “Small Business Act” for Europe. COM(2008) 394
 - 3.2. European Commission Better Regulation Guideline (SWD (2017) 350) and its "Toolbox", including tool no. 22 “The SME Test”, tool no. 19 “IDENTIFICATION/SCREENING OF IMPACTS”, tool no. 21 “COMPETITION”, tool no. 53 “THE CONSULTATION STRATEGY”, tool no. 54 “CONDUCTING THE CONSULTATION ACTIVITIES AND DATA ANALYSIS”, tool no. “TYPOLOGY OF COSTS AND BENEFITS”, tool no. 59 “METHODS TO ASSESS COSTS AND BENEFITS”, tool no. 60 “THE STANDARD COST MODEL FOR ESTIMATING ADMINISTRATIVE COSTS.”
 - 3.3. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions. Smart regulation - Responding to the needs of small and medium - sized enterprises. COM(2013) 122.
 - 3.4. EU member states reporting about their SME-test. Summary and analyses on how they assess the impact of their new regulations on SMEs, ECONOMIE, Brussels, May 2015.
 - 3.5. SME Test Benchmark 2017. Assessment of the application of the SME test by the European Commission, EUROCHAMBRES, October 2017.
 - 3.6. Small Business Lens Checklist, Canada.
 - 3.7. Small Business Test, Commercial Law Center, USAID, Kiev 2015.
 - 3.8. Better Regulation Framework. Guidance. United Kingdom (UK). August 2018.
 - 3.9. Guidelines on accounting for the needs of SMEs in regulatory impact assessment (SME test), The Federal Government, Germany, 30 December 2015.
 - 3.10. The Green Book. Central Government Guidance on Appraisal and Evaluation. HM Treasury. UK. 2018.
 - 3.11. Organization for Economic Cooperation and Development (OECD) Regulatory Compliance Cost Assessment Guidance, OECD, 2014.
 - 3.12. SME Development Strategy of Georgia 2016-2020.
 - 3.13. Recommendations for Georgia’s SME Development Strategy 2016-2020, March 2016, Project Report, Working Group on SME Development Strategy, OECD.
 - 3.14. National Statistics Office of Georgia (GEOSTAT) methodology and data on SMEs.

¹ ‘Community of Practice’ is the group of civil servants trained in various aspects of the RIA implementation through the series of trainings.

4 SME TEST GUIDELINES

4.1 NEED FOR SME TEST IN GEORGIA

According to the SME Development Strategy of Georgia 2016-2020, the business sector and especially SMEs play an important role in developing the economy, contributing significantly to sustainable and inclusive growth. SMEs, having enormous potential in job creation, as well as in fostering economic growth, could be considered as a backbone of each country's economy. A strong and well-developed SME sector significantly contributes to exports, innovation, creation of a modern entrepreneurial culture, and achieving prosperity in the country.

Usually in advanced economies, SMEs constitute an overwhelming share of operating enterprises, generating more than 50% of turnover and providing two out of three jobs in the private sector. In OECD countries, more than 99% of companies are SMEs and generate about two-thirds of GDP on average. In developing countries, or in countries in transition, SMEs represent more than 90% of the total number of companies, but their contribution to GDP is generally quite low – in many cases less than 20%.

During recent years, Georgia has undertaken broad and comprehensive reforms, including economic reforms, which have touched upon every aspect of peoples' lives. The main aim of those reforms was the creation of favorable environment for doing business and foreign direct investment (FDI) via liberalization of the economy, reduction of administrative barriers and tax burden, streamlining public services, and fighting against corruption. Due to these reforms, Georgia achieved high rates of economic growth and significant FDI inflows.

Despite the improvement of the general business environment, Georgia faces the same challenges in terms of SME development as many developing countries. Notwithstanding the fact that SMEs constitute the largest share of operating enterprises, their contribution to GDP is still very low and their performance remains weak.

The GoG recognizes the importance and role of SMEs in economic development and is committed to the further improvement of the business environment in order to enable SMEs to develop and grow. The main aim of this SME Development Strategy, which is based on the "Think Small First" principle, developed in the "Small Business Act" communication from the EU Commission COM(2008) 394, is the enhancement of SME sector competitiveness, which will create a solid base for inclusive and sustainable economic growth.

An important component of the "Think Small First" principle is a rigorous assessment of impacts of forthcoming legislative and administrative initiatives on SMEs ("SME test"), and taking relevant results into account when designing reform proposals.

4.2 DEFINITION OF SMEs

SMEs are usually defined based on the number of employees, turnover, and value of assets. Below are the definitions of SMEs and large enterprises according to GEOSTAT and the EU Commission Recommendation of 6 May 2003 concerning the definition of micro, small, and medium-sized enterprises (2003/361/EC):

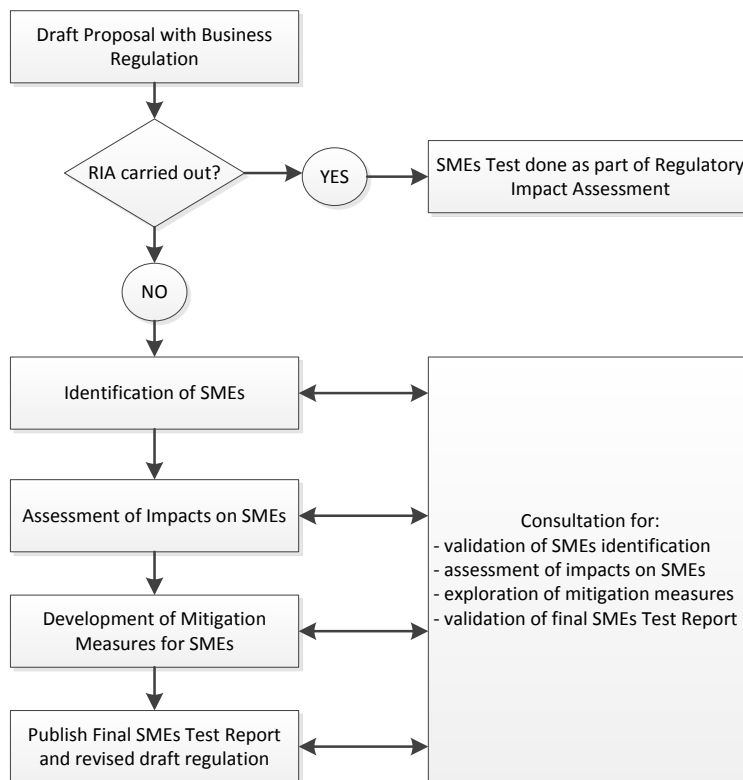
- **Micro-enterprise**, according to the EU, has fewer than 10 employees and the average annual turnover does not exceed two million Euros. Such enterprises are not defined in Georgia.
- **Small-size enterprises**, according to GEOSTAT, are enterprises where the average annual number of employed personnel does not exceed 50 and average annual turnover is 12 million

GEL. In the EU, these are enterprises with between 10 and 49 employees and up to 10 million EUR in terms of turnover or balance sheet value.

- **Medium-size enterprises**, according to GEOSTAT, are enterprises where the average annual number of employed personnel ranges from 50 to 250 and the average annual turnover is from 12 to 60 million GEL. In the EU, the number of employees ranges from 50 to 249, a turnover value of up to 50 million Euros, and the value of the balance sheet is up to 43 million Euros.
- **Large-size enterprises**, according to GEOSTAT, are enterprises where the average annual number of employed personnel exceeds 250 and/or the volume of average annual turnover is 60 million GEL. In the EU, these are enterprises with 250 and more employees, a turnover value exceeding 50 million Euros and balance sheet value exceeding 43 million Euros.

4.3 SME TEST

Given their small size, SMEs are usually disproportionately affected by regulations, which can be assessed as regulatory costs or other impacts per employee or unit of turnover. The SMEs Test is designed to identify affected SMEs, assess the impacts on SMEs, explore and consider a wide range of possible mitigation measures to reduce those impacts, and consult stakeholders, primarily SMEs, to enhance and validate the analysis. The SME Test is carried out for any draft regulation which could potentially affect businesses. The stages of the SME Test are presented in the chart below and described in the following sections. When a RIA is carried out, an SME Tests are done as part of the RIA, as explained in the next section.



4.4 SME TEST AND RIA

The SME Test can be carried out as a stand-alone exercise, summarized in an SME Test report, such as the model presented in Appendix 1, or it can be part of a RIA, in which case it is being described within different sections of the RIA report, as presented in the chart below.



The analysis of SMEs starts at the beginning of a RIA and, at the problem definition stage, where SMEs could be part of the affected population, e.g. in policies dealing with regulatory constraints for businesses, or could be part of the groups of businesses causing the problem, e.g. in policies dealing with negative consequences of business operation, such as pollution, public safety, etc. At this stage, it is important to understand the extent to which SMEs participate in causing problems and whether exempting them from compliance with proposed regulations could still enable the policy to sufficiently solve the problem.

At the stage of setting objectives, a RIA could combine policy objectives with the objective to exclude or reach the lowest possible disproportionate impacts on SMEs.

When exploring options, policymakers could consider combining objectives with measures to mitigate negative consequences for SMEs, starting with complete exemption of SMEs, and continuing with such measures as temporary and partial exemption, compensating for losses, reducing compliance costs, and other likewise provisions.

In assessing impacts of each proposed option, particular attention should be paid to the extent to which SMEs could be affected, including disproportionately compared to large businesses.

The impacts on SMEs should also be considered in comparison of options as an important factor in recommending options.

A proper SMEs analysis across the RIA process involves collection of sound evidence and validation of conclusions, which is done in a transparent and engaging process with SMEs and other stakeholders that represent their interests or are knowledgeable about their situation.

4.5 IDENTIFICATION OF SMEs

At this stage, the authors should establish whether and which SMEs are among the businesses likely to be affected by a proposed initiative. When done as part of a RIA, identification of affected SMEs starts at the problem definition stage, when the businesses whose behavior causes the problem or who are going to be affected by a regulation are identified. It is important also in understanding to what extent the problem addressed in a RIA is caused by SMEs and thus, whether they can be exempt from provisions of the proposed intervention.

When exploring potentially affected SMEs, the following dimensions should be considered:

- **Size** – micro, small, and medium.
- **Business sector** – the type of business sector in which SMEs operate could influence the way businesses are affected and their capacity to adapt to regulatory changes. For instance, SMEs in the consulting sector could be more skillful to adapt to new legal requirements to submit information through specially developed online platforms. On the other hand, small farmers might find it more burdensome and costly to comply with such requirements.
- **Regional distribution** – SMEs could be concentrated mostly in some regions or communities of certain size and type (such as urban or rural). This could be important in planning consultation activities and understanding the extent and nature of the effects the intervention could have on SMEs.
- **Relationship with business sector targeted or directly affected by proposed intervention** – SMEs could be part of the targeted business sector or could be indirectly affected by the intervention, being in a business relationship with targeted companies as their clients or suppliers. Thus, the authors must also consider the indirect impacts on SMEs as clients and suppliers of the targeted sector.
- **Potential entrepreneurs that may initiate start-ups in near future** – this could be especially important in cases of deregulation of certain markets in which SMEs currently do not operate. If not considered, the market could become dominated by large businesses.

Identification of SMEs starts with information at hand, research of available statistics, existing reports related to potentially affected businesses sectors and, depending on preliminary findings, time and resources available, and can continue with consulting stakeholders. The main sources of information in identification of SMEs which might be potentially affected are:

- **GEOSTAT.** Information published by GEOSTAT is reviewed first. Additionally, information about data submitted by businesses to GEOSTAT and questionnaires used to collect such information need to be considered to find out whether there is additional information in addition to the current information presented in an aggregated format, and, which could provide more insights about the prevalence and nature of SMEs in potentially affected business sectors.
- **Existing reports and studies from Georgia and other countries on potentially affected sectors.** In case data about certain sectors in Georgia is not available, information of this kind from other countries could be explored and used to make assumptions about the situation in Georgia.
- **State institutions involved in interaction with potentially affected sectors, which provide support to relevant business sectors, SMEs, start-ups, and interact with businesses through inspections, issuing permits and rendering public services.** These institutions might have relevant statistical data, or at least provide expert opinions on the prevalence and nature of SMEs in relevant sectors.
- **Organizations potentially representing SMEs.** These may be small business associations and associations of certain professions.

- **Other business associations.** Even if not representing SMEs, a business association could be knowledgeable about the prevalence and nature of SMEs in the sector or about those in relationship with the sector, such as clients and suppliers.
- **SMEs.** Direct discussions with few SMEs which might be potentially affected are very important in getting a firsthand opinion about the proposed intervention.
- **Larger businesses.** In potentially affected sectors, larger business may have information about their SMEs' competitors and/or suppliers or clients.
- **Potential entrepreneurs.** If possible and primarily in sectors which are going to be open for competition or deregulated, it would be important to try to identify potential entrepreneurs who might be entering the market as SMEs. This could be people of relevant professions, recent graduates, or SMEs from other business sectors which might consider diversifying activities by entering a new market.
- **Organizations which might have some knowledge about SMEs in potentially affected sectors.** These could be think-tanks, consulting companies, universities, experts, and donor organizations involved in assistance and development for SMEs, start-ups, and other similar activities.

The SME identification results need to be validated in proportionate consultation with stakeholders, as explained in the section on consultation.

If the assessment leads to the conclusion that one or more classes of SME are affected, further analysis should be carried out.

4.6 ASSESSMENT OF IMPACTS ON SMEs

If the SME Test is carried out as part of a RIA, and there were several options assessed, impacts on SMEs should be assessed for each option. In cases when the SME Test is carried out separately, as a stand-alone assessment, it is done solely for a proposed regulation.

At the impact assessment stage, the SME Test must determine what the impacts will be for SMEs and whether SMEs will be disproportionately affected compared to larger businesses. This can be done based on comparing the overall costs or other impacts identified for the number of persons employed to obtain the average cost or impact per employee. In addition or alternatively, comparison can be made by costs identified to the total turnover of the company.

The most accurate approach would be to carry out a comparison based on a representative sample of companies. However, depending on the proportionality of analysis and time and resources available, the assessment can be carried out based on a group of businesses considered representative by authors. In any way, the approach used must be elaborated.

In order to understand how and to what extent SMEs will be affected, as well as how disproportionate the effect would be compared to those of large businesses, impacts need to be assessed based on typical businesses of different sizes differentiated by number of employees: 0-9, 10-49, 50-249 and more than 250 employees. For each group of businesses, the mean number of employees can be chosen for a business typical for that group, if such statistics exist, or the number can be assumed based on discussions with experts and/or businesses and finally, if no clear evidence exists, the average number from the definition can be used, such as 5, 30, 150 and 750 employees.

The analysis should be proportionate, taking into account the potential magnitude of impacts or their importance to SMEs. Where resources for conducting assessment are limited, or data is scarce, adopting a largely qualitative rather than quantitative approach may be appropriate, particularly in respect of small-scale regulatory proposals. However, the reason for conducting a more qualitative assessment must be explained.

It is recommended to assess impacts for one representative year, i.e. a year when the proposed intervention is supposed to be fully functional and having the assumption that all businesses are compliant with it.

Impact assessments should be based on evidence or explained assumptions, collected from sources similar to the ones listed in the previous section on identification of SMEs. Information gaps could be covered by consultations and final conclusions validated with stakeholders as explained in the section on consultation.

GROUPS OF POTENTIAL IMPACTS

It is recommended to assess the following groups of potential impacts:

Impacts on SMEs related to market access and competition. In this section, it is important to assess what kind (micro, small and medium) and how many SMEs will be affected by a proposed regulation, being refrained from entering business or forced to leave the business, including in comparison to larger businesses. The disproportionality of such impacts is estimated by determining the share of affected SME classes compared amongst themselves and with that of large businesses. This can include the following categories of impacts:

- Limitation of number or range of micro, small, and medium enterprises, including in comparison to large enterprises. Regulations could limit entrance of new SMEs into certain markets or force SMEs to leave the market. This is likely to be the case if the policy option:
 - Grants 'exclusive rights' for a number of enterprises to provide goods or services (central or local government organizations can sign a long-term contracts with one or just few larger suppliers for some goods or services, thus excluding access of SMEs to those markets. Government can provide subsidies to farmers of certain size only).
 - Establishes a license, permit, or authorization process as a requirement of operation (requirements that only companies which fulfil certain minimum criteria for formal education may perform a certain service).
 - Limits, in other ways, the ability of certain types of suppliers to provide a good or service (public procurement requirement for suppliers to have many years of experience, will keep out new business and start-ups).
 - Significantly raises costs of entry or exit by a company (if it takes too long due to administrative requirements to set up a new firm or too long to close an inefficient firm).
 - Creates a geographical barrier to the ability of companies to supply goods or services or to invest capital (e.g. by strict rules for regional development projects).
 - Introduces other measures of similar impact.
- Limitation of ability of micro, small, and medium enterprises to compete, including in comparison to large companies. This is likely to be the case if the policy option:
 - Limits companies' ability to set the prices for their goods or services (e.g. minimum and maximum prices).
 - Limits freedom of companies to advertise or market their goods or services (particularly for potential entrants).

- Sets standards for product quality that provide an advantage to some companies over others (e.g. by requiring a particular technology or by setting unduly strict standards that are difficult or impossible for the large majority of existing producers to meet) that are above the level that some well-informed customers would choose.
- Significantly raises costs of production for some companies relative to others (especially by treating incumbents more favorably than new entrants, for instance exempting incumbents from new rules for a certain period of time or under specific conditions).
- Introduces other measures of similar impact.

Compliance costs. Compliance costs are created by the obligation to pay fees or duties; costs created by the obligation to adapt the nature of the product/service and/or production/service delivery process to meet economic, social, or environmental standards (e.g. the purchase of new equipment, training of staff, additional investments to be made); and administrative costs, created by the obligation to provide information on the activities or products of the company including one-off and recurring administrative costs (e.g. resources to acquire or provide information). The following compliance costs should be considered in an assessment:

- **Charges.** Regulations could affect SMEs by imposing the payment of fees, levies, or taxes. These costs are often easy to calculate, as their extent is by definition known. What is sometimes more difficult to assess is who will bear those costs, as this might depend on the extent to which these costs are passed-on to entities other than those targeted by the legal rule. For example, copyright levies might be passed-on downstream on to SMEs in the form of higher prices for certain hardware devices.
- **Administrative costs.** These are the costs of complying with information obligations stemming from a policy option under consideration. Information obligations could include:
 - Notification of (specific) activities or events (e.g. for transportation of dangerous cargoes; when an accident affects the environment).
 - Submission of (recurring) reports (e.g. annual accounts).
 - Information labelling for third parties (e.g. energy labelling of domestic appliances; price labelling).
 - Non-labelling information for third parties (e.g. financial prospectus; disclosure obligation of employers towards employees).
 - Application for individual authorization or exemption i.e. obligation to fulfill each time a particular task has to be carried out (e.g. building permits).
 - Application for general authorization or exemption (e.g. license granting permission to engage in an activity such as banking or liquor selling).
 - Registration (e.g. entry in a business register or a professional list).
 - Certification of products or processes, i.e. obligation to deliver a certificate (e.g. treatment facilities having to issue a certificate of destruction of a vehicle) or to get a certificate.
 - Inspection on behalf of public authorities (e.g. businesses having to monitor conditions for employees).
 - Cooperation with audits and inspections by public authorities or their appointees (e.g. obligation to cooperate with workplace inspection), including maintenance of appropriate records (e.g. obligation for treatment facilities to keep records about waste electronic equipment entering and leaving the treatment facility; obligation for hotels to keep a visitor log; these records must be presented during the inspection).
 - Application for a subsidy or grant.
 - Other information obligations.

Costs are incurred in the form of actions undertaken to comply with those information obligations, which include effort spent by employees to deal with actions (time multiplied by wage per unit of

time) and other costs associated with it, such as transportation, consultancy, etc. The following actions might be required:

- Familiarization with information obligations.
 - Training members and employees about the information obligations.
 - Retrieving relevant information from existing data.
 - Adjusting existing data and producing new data.
 - Designing informative materials (e.g. leaflet conception).
 - Filling forms and tables (including recordkeeping).
 - Holding meetings (internal/external with an auditor, lawyer, etc.).
 - Inspecting and checking (including assistance to inspection by public authorities).
 - Copying (reproducing reports, producing labels or leaflets).
 - Submitting information to the relevant authority.
 - Filing the information.
 - Buying equipment (e.g. labelling machines, IT) and supplies (e.g. print materials) to specifically used to fulfil information obligations.
 - Other actions.
- **Substantive compliance costs.** These are the incremental (i.e. non-business as usual) costs to the target group of complying with regulation other than fees and administrative costs. They can be one-off or recurrent and can be broken down in further sub-categories:
 - **Implementation costs.** The costs regulated entities incur in familiarizing themselves with new or amended regulatory compliance obligations, developing compliance strategies, and allocating responsibilities for completing compliance-related tasks. In a large part, therefore, they are short-term one-off costs.
 - **Direct labor costs.** The costs of staff time devoted to completing the activities required to achieve regulatory compliance. Only the costs of staff directly involved in undertaking these activities should be included: The costs of staff supervision/management are included in the overhead cost category (see below). Direct labor costs include two main elements: The cost of wages paid, non-wage labor costs, and payroll taxes, pension fund contributions, and other similar costs.
 - **Overhead.** The costs of rent, office equipment, utilities, and other inputs used by staff engaged in regulatory compliance activities, as well as corporate overhead, such as management inputs that are attributable to compliance activities.
 - **Equipment costs.** The costs incurred by businesses whenever they need to purchase items of capital equipment to comply with a regulation. This can include both machinery (e.g. equipment to treat the emissions from a production facility to conform to new emissions standards) and software (e.g. programs required to undertake real-time monitoring of actual emissions).
 - **Material costs.** The incremental costs incurred in changing some of the material inputs used in the production process in order to ensure regulatory compliance (thus, they are sometimes called “input costs”). They are therefore ongoing costs.
 - **Cost of external services.** The cost of payments made to external suppliers providing assistance in achieving regulatory compliance. For example, faced with more stringent emissions controls, a firm may hire consulting engineers to advise on the available means of reaching compliance.

Benefits. These might include allocation of resources (such as subsidies, better access to finance and other benefits). On the other hand, it could be about removal of regulatory barriers for businesses

and cost savings generated by new initiatives/regulations. Within this category, benefits can be mapped using the same classification as for costs explained above (e.g. reductions in administrative burden or compliance costs, removal of entry barriers for businesses). Benefits are important to be assessed as sometimes they can be disproportionately distributed among enterprises of different sizes to the disadvantage of some SMEs. For instance, a policy supporting certain vocational education and training programs could benefit primarily large companies, which have better capacity to participate in such programs, but at the same time, creates a shortage of the newly-developed skills on the labor market for SMEs.

METHODS TO ASSESS COMPLIANCE COSTS

The compliance costs are assessed according to the following methods:

- **Charges.**
 - Identify charges proposed in regulation. Regulations often affect businesses by imposing the payment of fees, levies, or taxes. These costs are often easy to calculate, as their extent is by definition known.
 - Estimate the population of SMEs that must pay charges.
 - Estimate the annual charges to be paid by a typical business from each size group (i.e. micro, small, medium and large) within each affected sector and determine how disproportionately each group will be affected comparing the overall costs identified to the number of persons employed to obtain the average cost per employee and/or costs identified to the total turnover² of the company.
 - Sum up and extrapolate all annual charge costs to reach a total estimate for each of the SME type (multiplying annual cost per typical company by number of companies for micro, small, medium companies).

Example of assessing costs of charges

Presence of fat, oil, and grease (FOG) in wastewater is an ever-growing concern to municipalities and sewage system operators. FOG enters the sewer system mainly from food service companies, causing high costs to sewage companies in treating wastewater, pollution and eventual blockage of sewer pipes. The Minister of Environment Protection is proposing to oblige all food service companies to pay a pollution fee of about GEL 30,000 per year per restaurant. The food service sector consists of 10,000 SMEs and 50 large companies.

If the average number of employees of an SME is 10 and they usually own one restaurant and that of large companies is 300 and they on average own 15 restaurants, the average annual fees to be paid by one SME would be GEL 30,000 and per employee – GEL 3,000, and per large company GEL 30,000 * 15 = GEL 450,000, and per employee GEL 1,500.

Alternatively, the disproportionate impact on businesses of different size could be assessed based on turnover³.

If the average amount of annual turnover of an SME restaurant is GEL 300,000 and that of a large business restaurant is GEL 600,000, the average annual turnover of an SME would be GEL 300,000 and fees to be paid per 1 GEL of turnover – 0.1 GEL (10% of turnover), whereas the average turnover of a large business would be GEL 9,000,000 (GEL 600,000 * 15 restaurants), fees paid by a large business – GEL 450,000 (GEL 30,000 fee * 15 restaurants) and per 1 GEL of turnover fees would

² The data on the various economic sectorial and cluster turnovers is possible to request and receive from the Revenues Service (RS).

amount to GEL 0,05, or 5% of turnover.

- **Substantive compliance costs**

- Identify obligations for businesses proposed in the draft regulation (e.g. regulation can reduce the maximum allowed level of pollutants in exhausted air or wastewaters, request installation of cash registers, introduce charges for use of plastic bags, introduce licenses for sales of tobacco products etc.).
- Identify required actions. These include costs created by the obligation to adapt the nature of the product/service and/or production/service delivery process to meet economic, social, or environmental standards (e.g. the purchase of new equipment, training of staff, additional investments to be made etc.).
- Estimate the population of SMEs that will incur substantive compliance costs.
- Estimate the annual costs (implementation costs, direct labor costs, overheads, equipment costs, material costs, costs of external services) to be incurred by the regulation/policy as a change from the baseline scenario to a typical business from each size group (i.e. micro, small, medium and large) within each affected sector. To do that, the current operations of typical businesses need to be understood, including the extent to which they already operate in compliance with proposed provisions (e.g. in case typical businesses already employ workers of necessary skills, making those skills mandatory by law will basically not impose costs on businesses related to building skills for workers. In other cases, if typical businesses are required to provide workers with certain protection equipment, and at the moment that is not common in the industry, the costs of doing that will be attributed to the proposed regulation and reflected in SME Test). It must also be determined how disproportionately each group of businesses will be affected comparing the overall costs identified to the number of persons employed to obtain the average cost per employee and/or costs identified to the total turnover of the company.
- Sum up and extrapolate all substantive compliance costs to reach a total estimate for each SME type (multiplying annual costs per typical company by number of companies for micro, small, medium companies).

Example of assessing substantial compliance costs

Based on the issue from the previous example, the Minister of Environment Protection is proposing to oblige all food service companies to treat wastewaters to an acceptable degree of FOG content before it is released into the sewage system. The food service sector consists of 10,000 SMEs and 50 large companies.

Currently, 50% of large company restaurants and 20% of SMEs have wastewater treatment equipment and produce wastewaters which would be of an acceptable quality according to proposed regulation.

On average, per restaurant operated by 10-20 employees, the cost of equipment to treat wastewater is about GEL 100,000. The annual running costs of equipment, which include training personnel and hiring part-time experts for maintenance costs, additional energy costs and other expenses, would be around GEL 30,000.

If the average number of employees per SME is 10 and they usually own one restaurant, and for large companies the number of employees is 300 and they on average own 15 restaurants, the average annual costs related to buying equipment and maintenance cost per one year incurred by one SME would be GEL 100,000 per equipment + GEL 30,000 per maintenance = 130,000 and per employee – GEL 13,000; and per large company the cost would be GEL 130,000 * 15 = GEL 1,950,000 and per employee would be GEL 6,500.

It is important also to consider in the Benefits section whether there will be any savings for SMEs, such as those related to reduce pollution fees paid for wastewaters or reduced fees paid to water

sewage companies for treating polluted wastewaters.

Alternatively, the disproportionate impact on businesses of different size could be assessed based on the turnover.

If the average amount of annual turnover of an SME restaurant is GEL 300,000 and that of large business restaurant is GEL 600,000, the average annual turnover of an SME would be GEL 300,000 and substantial compliance costs for the first year (one-off equipment cost and one year maintenance costs) incurred by an SME per 1 GEL of turnover – 0.43 GEL (43% of turnover), whereas the average turnover of a large business would be GEL 9,000,000 (GEL 600,000 * 15 restaurants), substantial compliance costs incurred by a large business – GEL 1,950,000 and per 1 GEL of turnover a large business would incur GEL 0,22, or 22% of turnover.

- **Administrative costs**

- Identify information obligations (e.g. certification of products) and data requirements (e.g. the certificate must provide the date of production and composition of the product).
- Identify required actions (e.g. training employees about the information obligations, filling forms, collecting necessary documents, applying for licenses, dealing with inspections etc.).
- Identify target group(s) (e.g. micro enterprises that have to fulfil obligation 'A' and small enterprises that have to fulfil obligation 'B').
- Identify frequency of required actions (e.g. small enterprises have to fill a form once a year, small enterprises have to fill a form quarterly).
- Identify relevant cost parameters (e.g. labor costs and other external costs, such as external auditing, travel, laboratory tests, consultancy etc.).
- Estimate the annual costs (labor time to deal with actions, external costs) to be incurred by the regulation/policy as a change from the baseline scenario by a typical business from each size group (i.e. micro, small, medium and large) within each affected sector. To do that, the current operation of typical businesses need to be understood, including the extent to which they already operate in compliance with proposed provisions (e.g. in case typical businesses already prepare certain type of information for internal use, such as internal reports, requiring such reports by law will not generate costs of preparing them, but only of submitting them). It must also be determined how disproportionately each group of businesses will be affected comparing the overall costs identified to the number of persons employed to obtain the average cost per employee and/or costs identified to the total turnover of the company.
- Assess of the number of entities concerned (e.g. 100,000 SMEs).
- Extrapolate of costs at the national level, by multiplying the costs per typical enterprise by the number of businesses and annual frequency of costs/actions. The final result will be total annual administrative burden for SMEs or for each category separately (micro, small, medium).

Example of assessing administrative costs

Based on the issue from the previous example, the Minister of Environment Protection is proposing to oblige all food service companies to treat wastewaters to an acceptable degree of FOG content, before it is released into sewage system. Food service sector consists of 10,000 SMEs and 50 large companies.

Currently, 50% of large company restaurants and 20% of SMEs have wastewater treatment equipment and produce wastewaters which would be of an acceptable quality according to the proposed regulation. To prove compliance, regulation would require wastewaters to be tested in laboratories, reports submitted on wastewater treatment equipment, and its operation and state

inspection carried out every year.

The information obligation and actions in this case would be:

(i) From discussions with food service companies and laboratories, it was assessed that the laboratory test of wastewater would require one restaurant employee to apply for the laboratory test, accompany laboratory staff, follow-up, and collect laboratory reports, spending a total of 10 hours. The cost of one hour of employee would be composed of an hourly wage of 12 GEL, and 25% overhead, resulting in 15 GEL.

(ii) From discussions with food service companies, it was assessed that preparation and submission of the annual report would require 15 hours from a similar restaurant employee.

(iii) From discussions with state inspection bodies and food service companies, state inspectors would spend on average three hours at a restaurant, requiring a company employee to accompany them, follow up with questions, and submit an inspection report requiring involvement of another three hours of employee time.

(iv) On average, one laboratory test would cost 1,000 GEL.

The costs per restaurant would be $((10 \text{ hours} + 15 \text{ hours} + 3 \text{ hours} + 3 \text{ hours}) * \text{GEL } 15 * 1 \text{ frequency per year}) + \text{GEL } 1000 \text{ laboratory costs} = \text{GEL } 1,465$

If the average number of employees of SMEs is 10 and they usually own one restaurant and large companies have an average of 300 employees and they own 15 restaurants on average, the average annual administrative burden per SME would be GEL 1,465 and per employee – GEL 146.5; and per large company would be $\text{GEL } 1,465 * 15 = \text{GEL } 21,975$ and per employee would be GEL 73.25.

Alternatively, the disproportionate impact on businesses of different size could be assessed based on the turnover.

If the average amount of annual turnover of an SME restaurant is GEL 300,000 and that of large business restaurant is GEL 600,000, the average annual turnover of an SME would be GEL 300,000 and administrative costs for one year incurred by an SME per 1 GEL of turnover – 0.0048 GEL (0.48% of turnover), whereas the average turnover of a large business would be GEL 9,000,000 (GEL 600,000 * 15 restaurants), administrative costs incurred by a large business – GEL 21,975 and per 1 GEL of turnover a large business would incur GEL 0,0024, or 0.24% of turnover.

All impacts described above need to be considered both from an direct and indirect perspective, i.e. those affected directly by regulation and possible spillover effects on their clients and suppliers.

It is important to mention that the final SMEs report should include the impacts which take into account the mitigation measures included in the assessed draft regulation.

4.7 EXPLORATION OF MITIGATION MEASURES FOR SMEs

The abovementioned analysis may show that micro, small, and/or medium sized enterprises could face a relatively high burden compared to large companies and that the measures proposed in the draft regulation would not sufficiently or adequately address those disproportionate effects on SMEs. In such cases, there is a range of specific measures which could be used to ensure a level playing field.

The choice of specific measures will be made on a case-by-case basis, including an assessment whether they should apply to all SMEs or, for example, to the microenterprises only. However, if there is clear evidence that excluding micro-enterprises would mean that the initiative would not be able to

achieve its goals or would undermine some existing legal provisions or fundamental rights, they might need to be covered, but the possibility to apply adapted solutions should be assessed.

A non-exhaustive list of mitigating measures to be considered includes:

- Complete or partial size-related exemptions (e.g.: businesses below certain thresholds do not have to comply with certain specific obligations).
- Temporary reduction or exemptions (Example: transition periods during which SMEs are exempted or longer intervals for certain obligations).
- Tax reductions or direct financial aid to compensate costs incurred provided this is compatible with existing legislation on competition or international trade.
- Reduced fees (Example: when these fees are particularly high and/or represent a fixed cost that would be felt disproportionately by SMEs).
- Simplified reporting obligations (Example: in the area of statistics, explore possible synergies with already existing reporting obligations).
- Specific information campaigns or user guides, training, and dedicated helpdesks/offices (Example: specific help-desks providing tailored information for small businesses).
- Systematically consider general simplification initiatives which can particularly benefit SMEs (Example: possibility to use on-line facilities such as digital compliance assistance tools, simplified inspections).
- Benefits (subsidies, better access to finance, removal of regulatory barriers and other) provided only to certain classes of SMEs; or higher benefits provided to them compared to those of large businesses; or benefits provided for a period of time to SMEs only before being offered to all businesses.
- Other mitigation measures, which could be identified in discussions with stakeholders, experts and learned from international best practices.

4.8 CONSULTATIONS

The consultation is important to:

- Gather and validate information on identification of potentially affected SMEs. In the respective section, based on secondary data and existing knowledge of authors, SMEs are identified. However, those sources are often not sufficient and need to be verified for accuracy. This information is gathered and checked in discussions with stakeholders. For this purpose, interviews, roundtable discussions, or written requests of information by email or post are carried out.
- Gather information on potential impacts. This information could be gathered through interviews, discussion panels, surveys and other consultation methods.
- Explore wider range of options to mitigate negative impacts on SMEs, including innovative and creative options that stakeholders might suggest which could be marginally invasive and costly for SMEs.

Even if it seems that SMEs will not be affected by proposed intervention or SMEs are exempt from complying with proposed regulatory provisions, this need to be validated in proper, but proportionate consultation. Proportionality of validation consultation depends on sensitivity of the draft regulation to the public and stakeholders and overall potential impacts on businesses from proposed intervention. The consultation can be carried out at a less extensive scale also based on certain limitations, such as available resources, time, and urgency of the proposed regulation. The proportionality of the issue and existing limitations are determined by the authors and need to be explained in the SME Test report. The validation consultation could be carried out during data collection when identifying potentially affected SMEs.

The authors should explain how, given the limitations and proportionality of the issue, relevant stakeholders were selected for consultation, how they were consulted to ensure that potentially affected SMEs are identified, and what were their opinions.

For the purpose of validation on whether SMEs could be potentially affected, it is necessary to clearly explain provisions of regulation to stakeholders and ask proper questions, such as:

- Are the provisions of proposed regulation clear to you? If not, what kind of clarification do you need?
- Are the objectives of proposed regulation clear to you?
- Are the definitions of businesses by their size clear to you (micro, small, medium, large)?
- Do you have the knowledge of the business sector which will be potentially affected?
- Do you know whether and which SMEs (medium, small, and micro enterprises) are among the businesses likely to be affected by proposed initiative? Could you give an assumption about the number of SMEs, their share of market, employment, specialization on the market, regional concentration, vulnerability of SME stakeholders (founders, employees, suppliers, clients)?
- Do you know the extent to which SMEs are causing the problem which the proposed regulation is intended to solve or the extent to which SMEs are important in achieving objectives of proposed regulation?
- Do you know whether impacts on business sectors from proposed regulation might have spillover effects on SMEs from other sectors as well, which might include suppliers and clients of concerned sector?
- Do you think the proposed regulation might have impacts on start-ups in the SME category?

The validation consultation could be combined with consultations to assess impacts and explore mitigation measures.

For the purpose of impact assessment, specific questions are being asked about the potential impacts on SMEs from the proposed regulation and their possible magnitude, compared to larger businesses. For this, you need to explain the range of potential impacts:

- Are the provisions of proposed regulation clear to you? If not, what kind of clarification do you need?
- Are the objectives of proposed regulation clear to you?
- Are the definitions of businesses by their size clear to you (micro, small, medium, large)?
- Do you think there might be compliance costs (charges, administrative costs or substantial compliance costs – investments, labor, etc.) for SMEs because of the regulation and what would be the size of those per typical SME of each affected type, including compared to large enterprises?
- Do you think there would be impacts on market access and competition for SMEs of each affected type, including compared to large enterprises?
- Do you think there will be any benefits related to the proposed regulation for SMEs of each potentially affected type and what would be their size, including compared to large enterprises?
- What do you think would the number and/or share of SMEs potentially affected directly and indirectly by each of the impacts mentioned above?

For the purpose of identifying mitigating solutions, the following questions are useful:

- Are the provisions of the proposed regulation clear to you? If not, what kind of clarification do you need?
- Are the objectives of proposed regulation clear to you?
- Are the definitions of businesses by their size clear to you (micro, small, medium, large)?

- Are the types of SMEs to be potentially affected by proposed regulation clear to you?
- Are the potential impacts on SMEs (compliance costs, market access and competition impacts, benefits) clear to you?
- Is it possible to exempt certain categories of SMEs (micro, small and medium) from provisions of proposed regulation without affecting significantly the potential to reach objectives or solve problems targeted by the initiative?
- What could be the best way to exempt SMEs?
- Is it possible and important to compensate certain categories of SMEs for potential negative impacts? For how long it can be and would be reasonable to do?
- Is it possible to ensure awareness about and understanding of proposed provisions by all or most of the SMEs?
- What are other possible measures to mitigate negative impacts on SMEs and what would be their impacts (you can refer to the list of potential measures from the section on mitigation measures)?

The following are the target groups for consultation:

- **SMEs.** This is the main group of stakeholders; however, it is usually most difficult to reach out to a representative group of SMEs. This is because they might be regionally distributed or difficult to identify. It might also take more effort to properly prepare the consultation documents and events, as such businesses could be less skilled to participate in policy analysis discussions. Thus, clear and concise explanations should be made about the potential regulation and guidance with well targeted questions provided to help them understand whether and how they might be affected. SMEs can provide information and participate in validation on identification of affected SMEs, assessing impacts and identification of potential mitigation measures. It has to be explained in the report to what extent a representative group of SMEs was consulted. They are usually consulted through interviews, focus groups, or workshops.
- **Organizations potentially representing SMEs, such as small business associations, associations of certain professions etc.** Among important organizations are the Georgian Small and Medium Enterprises Association (GSMEA), Georgian Chamber of Commerce and Industry (GCCl), Georgian Employers' Association (GEA), and Business Association of Georgia (BAG). Such organizations can provide the whole range of necessary data and help validate assumptions and conclusions. However, attention needs to be paid to the extent associations are representative of all kinds of potentially affected SMEs. This has to be explained in the report, as well as what other consultation efforts have been carried out to compensate for poor representatives of SME stakeholders. They can be consulted through written requests of information or interviews and discussions.
- **Other business associations and large businesses.** Associations representing larger businesses of the potentially affected sector, even though not representative of SMEs, are still knowledgeable about the sector and can be helpful when SME associations do not exist or to understand indirect/spillover effects of proposed regulation on other sectors, as affected businesses might pass on the effects to SMEs suppliers or clients. They can be consulted through written requests of information or interviews and discussions.
- **State institutions involved in interaction with potentially affected sectors,** which provide support to relevant business sectors, SMEs, start-ups, and interact with businesses through inspections, issuing permits and rendering public services. Among the main institutions are Enterprise Georgia, Innovation and Technology Agency (GITA) and the MoESD. These institutions might be helpful in understanding whether SMEs might be affected, what could be certain impacts on SMEs, and whether mitigation measures are feasible and what could be those. They can be consulted through written requests of information or interviews and discussions.
- **Potential SME entrepreneurs (SME start-ups).** Consulting this group is important in sectors which are going to be open for competition or deregulated. This could be people of relevant professions, recent graduates, SMEs from other business sectors which might consider

diversifying activities by entering new markets, or other potential SMEs. They are usually consulted through interviews, focus groups, or workshops.

- **Organizations which might have some knowledge about SMEs in potentially affected sectors.** These could be think-tanks, consulting companies, universities, experts and donors organizations involved in assistance and development for SMEs, start-ups and other similar activities. They can compensate for lack of resources and time, when it is difficult and costly to reach out to individual SMEs. They can be consulted in interviews, workshops, or by written questionnaires.

Authors must ensure that necessary arrangements have been made to identify proper stakeholders; offer them with an explanation about the potential regulation and purpose of consultation; ask relevant, clear, and intelligible questions; and allow sufficient time for them to provide answers and make public the results of consultation, including their opinions.

It is recommended to create databases of consulted SMEs and other stakeholders and to keep contacts with them, as it would save significant time and effort for possible future ex-post evaluation of proposed regulations and other ex-ante assessments of draft regulations with potential impacts on SMEs.

4.9 SME TEST REPORT

The results of the SME Test are described in a report according to a form presented in Appendix 1. In case potentially affected SMEs were not identified, the report includes sections on identification of SMEs and consultation only, which explain how identification was conducted and validated with potential stakeholders.

In case of a fully-fledged SME Test, which includes an assessment of impacts on SMEs and exploration of mitigation measures, the SME Test report must be consulted with stakeholders for final validation and results of such consultations described in the final version of the report.

APPENDIX 1: SME TEST REPORT FORM

SME Test Report (completed for draft proposals which include business regulations or provisions with potential impact on businesses)
1. Title of Proposal/Regulation.
2. Objectives of Proposal/Regulation.
3. Brief summary of main provisions with potential impacts on businesses.
4. Description of exemptions and special arrangements for micro, small, medium enterprises, if included.
5. IDENTIFICATION OF AFFECTED SMEs
5.1. Business sectors affected and checked for potential impacts on SMEs.
5.2. Regions potentially affected, if relevant.
5.3. Other sectors potentially indirectly affected, i.e. those in relationship with targeted sector, such as suppliers or clients of affected businesses.
5.4. Share of SMEs in each affected sectors of which: micro, small, medium.
5.5. Future SMEs which might be affected (future start-ups).
5.6. Assumptions made or explanation why SMEs are not affected or identification could not be done.
IF POTENTIALLY AFFECTED SMEs NOT IDENTIFIED, SKIP SECTION ON IMPACTS AND MITIGATION MEASURES
6. ASSESSMENT OF IMPACTS ON SMEs. Provide assessment of impacts or explain why such impacts are not likely to occur. Support assessment with sources of evidence and/or explained assumptions. For more details use annexes.
6.1. Estimation of share of micro, small, and medium enterprises in causing the problem targeted by regulation or in size of objectives to be achieved by proposed regulation.
6.2. Impacts on market access and competition of micro, small and medium enterprises, including in comparison to large businesses.
6.2.1. Limitation of number or range of SMEs. Description of impacts, estimation of number and/or share of micro, small, medium enterprises which might be excluded from market or prevented to enter the market because of regulation, in comparison with large companies.
6.2.2. Limitation of ability of micro, small and medium enterprises to compete. Description of impacts, estimation of number and/or share of micro, small, medium enterprises which might be excluded from market or prevented to enter the market because of regulation, in comparison with large companies.

6.2.3. Compliance Costs.
<u>6.2.3.1. Charges</u>
6.2.3.1.1. Size of charges per typical business (if different, by micro, small, medium and large and per unit of employee and/or unit of turnover).
6.2.3.1.2. Number of affected micro, small and medium enterprises.
6.2.3.1.3. Total costs for micro, small and medium enterprises.
<u>6.2.3.2. Substantive compliance costs</u> (implementation costs, direct labor costs, overheads, equipment costs, material costs, cost of external services and other substantive compliance costs).
6.2.3.2.1. Size of costs per typical business (if different, by micro, small, medium and large and per unit of employee and/or unit of turnover).
6.2.3.2.2. Number of affected micro, small and medium enterprises.
6.2.3.2.3. Total costs for micro, small, and medium enterprises.
<u>6.2.3.3. Administrative costs</u>
6.2.3.3.1. Size of costs per typical business (if different, by micro, small, medium and large and per unit of employee and/or unit of turnover).
6.2.3.3.2. Number of affected micro, small and medium enterprises.
6.2.3.3.3. Total costs for micro, small and medium enterprises.
<u>6.2.3.4. Benefits</u>
6.2.3.4.1. Allocation of resources (such as subsidies, better access to finance and other benefits) to micro, small, medium enterprises, compared to large businesses. Number and share of potentially affected micro, small and medium enterprises.
6.2.3.4.2. Market access and competition benefits for micro, small, medium enterprises, compared to large businesses. Number and share of potentially affected micro, small and medium enterprises.
6.2.3.4.3. Benefits related to reduction in compliance costs for micro, small, medium enterprises, compared to large businesses. Number and share of potentially affected micro, small and medium enterprises and size of impact.
7. MITIGATION MEASURES. Describe below measures which are applied or explain why they are not applicable.
7.1. Complete or partial size-related exemptions for micro, small and medium enterprises described. If not considered, explain why not applicable.
7.2. Temporary reduction or exemptions for micro, small and medium enterprises described. If not

considered, explain why not applicable.
7.3. Tax reductions or direct financial aid to compensate costs incurred by micro, small and medium enterprises. If not considered, explain why not applicable.
7.4. Reduced fees for micro, small and medium enterprises. If not considered, explain why not applicable.
7.5. Simplified reporting obligations for micro, small and medium enterprises compared to large businesses. If not considered, explain why not applicable.
7.6. Specific information campaigns or user guides, training and dedicated helpdesks/offices for micro, small and medium enterprises. If not considered, explain why not applicable.
7.7. Simplification initiatives which can particularly benefit micro, small and medium enterprises. If not considered, explain why not applicable.
7.8. Benefits (subsidies, better access to finance, removal of regulatory barriers and other) provided only to certain classes of SMEs; or higher benefits provided to them compared to those of large businesses; or benefits provided for a period of time to SMEs only before being offered to all businesses. If not considered, explain why not applicable.
7.9. Other measures to mitigate negative/disproportionate impacts on micro, small and medium enterprises.
8. CONSULTATION AND DATA GATHERING
8.1. Micro, small and medium enterprises which were consulted, including when, how, what was their opinion.
8.2. Organizations representing SMEs which were consulted, including when, how, what was their opinion.
8.3. Business associations from affected sectors which were consulted, including when, how, what was their opinion.
8.4. State institutions involved in interaction with potentially affected sectors which were consulted, including when, how, what was their opinion.
8.5. Research institutions, donor organizations, experts and other stakeholders with potential knowledge about SMEs in affected sectors, which were consulted, including when, how, what was their opinion.
8.6. Other potential stakeholders which were consulted, including when, how, what was their opinion.
8.7. List of sources of information used in SME Test.
8.8. Explanation of limitations and proportionality in data gathering (limitations based on available time, resources and urgency of draft regulation and proportionality based on public/stakeholders sensitivity to and significance of potential effects/impacts from proposed regulation).
8.9. Explanation of limitations and proportionality in consultation (limitations based on available time, resources and urgency of draft regulation and proportionality based on public/stakeholders sensitivity to and significance of potential effects/impacts from proposed regulation).

8.10. Explanation of how SME Test Report was consulted (when, where and for how long published, opinions of those consulted).

9. ANNEXES FOR ADDITIONAL INFORMATION

USAID Governing for Growth (G4G) in Georgia

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