

FISR2

STRUCTURAL REFORMS BETTER INTEGRATED
WITHIN FISCAL FRAMEWORKS

Methodological Guidelines for Estimating the Costs of Implementing Structural Reforms

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The structure of presentation

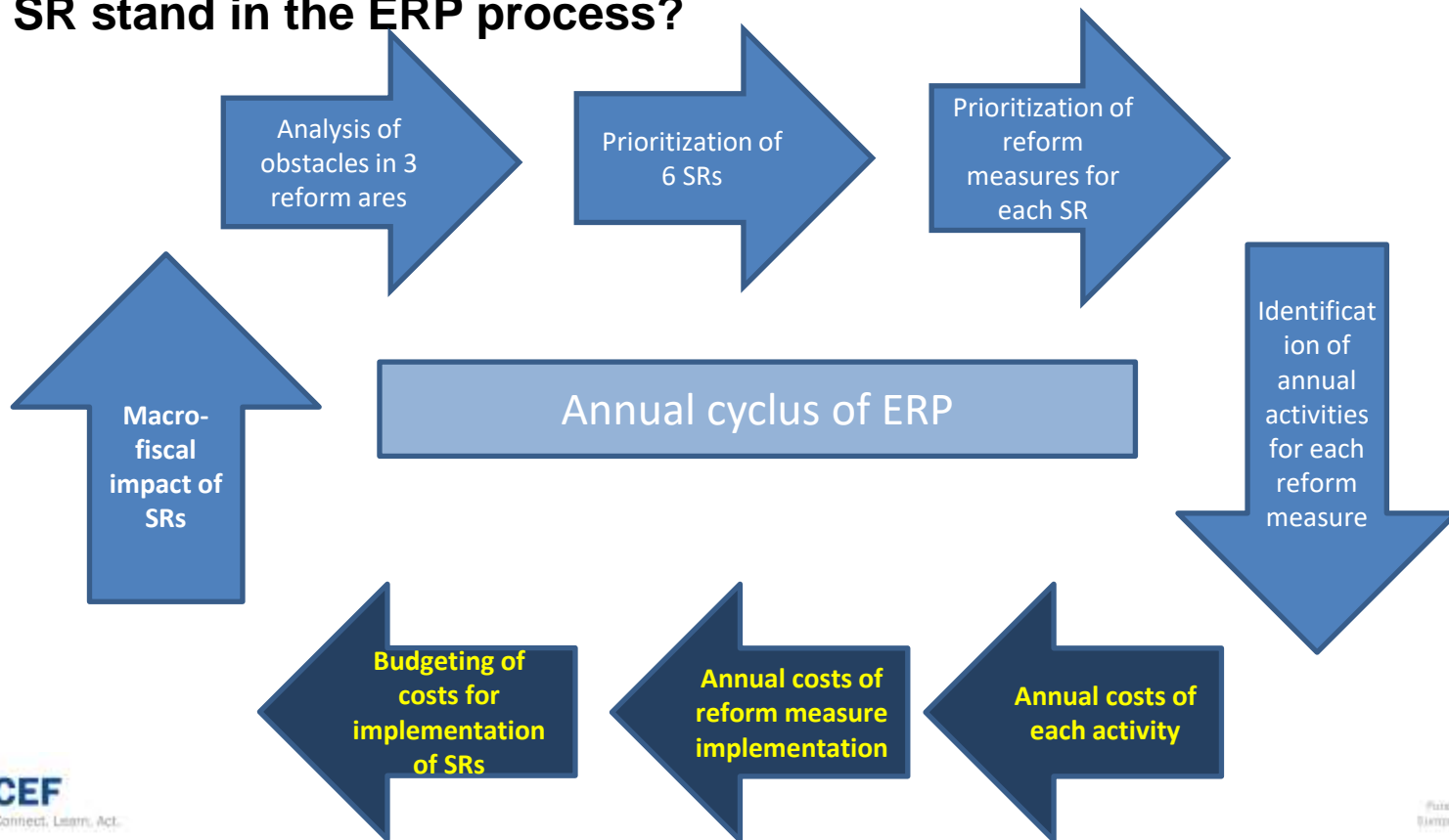
1. Determining costs, budgeting, and fiscal impact
2. Cost estimation in the ERP process
3. Notes for filling out Tables 10a and 10b
4. Lessons on cost estimation to be remembered

1. What is the difference between determining the costs of implementation, budgeting, and the fiscal impact of structural reforms (SR)?

- The cost estimation of SR involves assessing the expenses required for the implementation of SR.
- Budgeting for SR entails incorporating the estimated costs into annual and medium-term state budgets to the extent allowed by fiscal capacity, fiscal rules, and other funding priorities.
- The fiscal impact of SR represents an assessment of the revenues and expenditures (and possibly borrowing) that may result from the implementation of SR.

The methodology relates to the determination of costs and budgeting for SR.

2. Where does the determination of the implementation costs of SR stand in the ERP process?



3. Table 10a of the ERP Guidance Note: costing of SR

Table 10a: Costing of structural reform measure: (NAME OF THE MEASURE) (in EUR) (Fill in one per reform)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X					
Year X+1					
Year X+2					

Methodological explanation of the table:

3. Filling in Table 10a in 9 steps (1)

1. Defined and clearly formulated activity with outcomes.



2. Timeframe for implementing the activity.



3. Base year of implementing the activity (x).



4. Additional costs are calculated in relation to the base year, which is the year before the initial year of implementing the activity (x-1)



5. Only the additional cost of the activity compared to the base year should be entered in Table 10a



3. Filling in Table 10a in 9 steps (2)



6. Additional costs of individual activities are classified and aggregated into one of the 5 standardized categories:

Salaries:	Goods and services:	Subventions:	Transfers:	Capital expenditures:
Gross salaries to be paid for hiring additional employees or for additional work by existing employees necessary for the implementation of Structural Reforms	Training, professional services of experts and consultants, office equipment, and utilities (rental of premises, electricity costs, travel expenses, engagement of consultants), etc.	Non-repayable state assistance to individuals and legal entities in the form of cash or tax incentives (payments during the COVID-19 epidemic, for electric vehicles, export subsidies, subsidies for employing people with disabilities or youth, etc.).	Additional non-repayable direct payments or state aid (state pensions, unemployment benefits, healthcare coverage, pensions for state officials, etc.).	State investments covering acquisitions directly related to the implementation of Structural Reforms (energy infrastructure, schools, hospitals, information systems, machinery, etc.)."



3. Filling in Table 10a in 9 steps (3)



7. When calculating additional costs, consider:

- Costs are expressed in Euros.
- The sign of additional cost: positive - if the activity incurs a cost, and negative - if the activity generates savings.
 - Costs are of the first level, i.e., those that arise directly as a result of implementing the activity.
- Standardized costs are applied for each of the 5 cost categories. If not possible, use professional judgment.
 - If the activity does not generate additional costs, the costs are 0 EUR, and the field is not left blank.



8. The sum of activity costs in individual categories represents the total cost of the reform measure.



9. Balance between Tables 10a and 10b - verify whether the total cost per year in Table 10a matches the funding sources for the respective years in Table 10b

3. Table 10b of the ERP Guidance Note: financing of SR

Table 10b: Financing of structural reform measure: (NAME OF THE MEASURE) (in EUR) (Fill in one per reform)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X								
Year X+1								
Year X+2								

Methodological explanation of the table:

3. Filling in Table 10b in 4 steps

1. Clear cost estimation per activities, i.e., per standardized categories.



2. Ensure that funding sources are **REALISTICALLY PROVIDED** for planned disbursements, not intentions or unauthorized internal plans.



3. Include all public revenue (domestic and foreign/state, entity, and local) in public funding sources: current income, donations, and IPA funds.



3. Filling in Table 10b in 4 steps (2)



4. The estimated costs of activities, or cost categories from 10a, are financed from **REALISTICALLY PROVIDED** funds from one or more standardized categories of funding sources:

Central budget:	Local budgets:	Other public finance sources:	IPA funds:	Other grants:	Project loans:	To be determined:
Funds from the central government budget and in accordance with the medium-term expenditure plan	Funds from local or regional budgets in accordance with the medium-term expenditure plans of local self-governments	Funds from the health insurance fund, pension insurance fund, and investment funds financed by public enterprises	Only confirmed IPA projects, those that are near the beginning of implementation..	Funds from bilateral or multilateral donors, excluding IPA funds.	Funds from foreign bilateral or multilateral donors, regardless of whether they are deposited into the budget or directly to the beneficiaries.	Part of the funds needed for the implementation of Structural Reforms, but the funding source has not yet been determined (in the negotiation phase). According to the 'Guidelines' of the EC, the value must be zero in year X.

3. What means „realistically provided“ funds?

REALISTICALLY PROVIDED

Central and local
budgets

Only funds approved in the budget for year X and approved in the medium-term expenditure framework for X+1 and X+2

Other national
financial sources

Officially adopted financial plan of the institution expected to provide the funds.

IPA funds

Only funds from existing IPA projects or projects near the start of implementation or approved in accordance with IPA strategic documents

Other grants and
project loans

Only approved funds or allocated non-repayable funds. Exceptions are funds that start to be used shortly after the adoption of the draft agreement.

4. Lessons on cost estimation to be remembered (1)

1. A structural reform without established costs is merely a wishlist.
2. The quality of cost determination correlates with the quality of defining the structural reform or reform measure.
3. After the determination of costs, the most significant challenge in budgeting is fiscal constraints.
4. Precise cost determination for each activity enables an accurate assessment of the costs for each reform measure or structural reform.
5. Cost determination involves not only establishing the costs of the structural reform but also defining the public sources from which it will be financed.
6. When national financial plans do not cover costs in years X+1 and/or X+2, do not increase the funding approved for year X.

4. Lessons on cost estimation to be remembered (2)

7. The clearer and more precisely formulated the activities and their costs, the stronger your position in budget negotiations.
8. Collaboration is crucial – the best results in cost determination are achieved when 'financial' and 'sectoral' government officials collaborate as a team (Ministry of Finance with line ministries, experts in the field of structural reforms with employees in the line ministries).
9. Established costs must align with the budget calendar.
10. The fiscal impact of the costs of Structural Reforms should be consistent with the macroeconomic and fiscal framework.

THANK YOU FOR YOUR ATTENTION!