

COSTING GUIDANCE AND CHALLENGES

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Purpose of the Costing Guidance

- Complements the European Commission's *ERP Guidance Note*
- Provides a detailed methodological tool for costing structural reforms
- Addresses the challenges from a thorough review of country experiences
- Supports use by all line ministries and also for other policy documents



Key features of the Costing Guidance

- Focus on costs (not revenues)
- Only „additional costs“ of measures
- Only direct, first-level costs of measures
- Systematic classification of costs
- Systematic classification of funding sources

A practical example of methodology

Description of the measure

Parliament approved a law on compulsory pre-school education at the age of 5, with accompanying measures to increase enrolment from 75 to 100 % in 3 years.

Activities, costs and funding sources:

- Opening of 100 pre-school centres at average cost of 250.000 EUR (80% investment, covered by WB loan; 20% equipment)
- Hiring of 300 additional teachers at average gross salary of 600 EUR
- Subsidy to poor families provided by local governments, estimated to cover 20% of all children at annual cost of 960.000 EUR

Costing table 10a (in 1000 EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
X	360	1,000	192	4,000	5,552
X+1	1,080	2,000	480	8,000	11,560
X+2	2,160	2,000	960	8,000	13,120
TOTAL	3,600	5,000	1,632	20,000	30,232

X: 20 centers; X+1, X+2: 40 centres

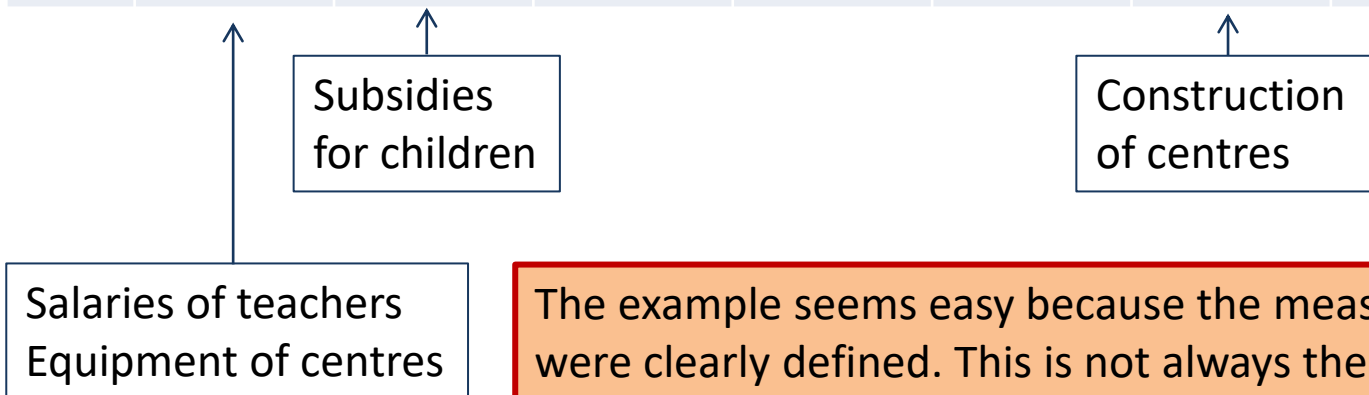
X: 50 additional teachers; X+1: 100; X+2: 150

X+1 and X+2: *costs include all newly employed teachers* (i.e. also those employed in X and X+1), because they were not employed in the year before the reform was introduced (X-1), which is the base year for the table.

Subsidies for poor families are also introduced gradually.

Funding table 10b (in 1000 EUR)

Year	Central budget	Local budgets	Other national public	IPA funds	Other grants	Project loans	To be determined	TOTAL
X	1,360	192				4,000		5,552
X+1	3,080	480				8,000		11,560
X+2	4,160	960				8,000		13,120
TOT.	8,600	1,632				20,000		30,232



The example seems easy because the measure and the costs were clearly defined. This is not always the case!

Use footnotes to table and the text of the measure whenever you feel the numbers may not be fully clear to a reader.

Challenges related directly to implementation of costing guidance

- Understanding of „additional costs“ and „base year“ concepts
- Drawing the line between direct and indirect costs
- Realistic planning of funding sources and their availability (e.g. SBS sources conditioned on performance)
- Minimizing the use of „to be determined“ in the financing table – it inflates the costs and delays implementation
- Involving both „content“ and „financial“ officials in developing of measures and their costing and budgeting
- Cooperation and information exchange between LMs, SR coordinator and MF Budget Department

Challenges related to the broader context of costing

- Imprecise specification (planning) of measures and activities
- Linking costing of SR with budgetary planning processes
- Integrating costs of SR with the fiscal scenario of ERP
- Assessing broader fiscal implications of SR and their economic and social impact
- Excessive dependance on external (donor) funding
- Continuity of staff working on ERP in LMs
- Lack of awareness about ERP process at political level and excessive interference in developing of measures