

# FISCAL IMPLICATION OF STRUCTURAL REFORMS (2-nd YEAR OF FISR PROJECT)

## INTEGRATION OF STRUCTURAL REFORMS INTO BUDGET

(E-learning: 3-12 June, 2020)

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**Local Consultant**



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## THE APPROACH FINDING FISCAL SPACE FOR NPIS:



### “Basic Definitions”:

- Baseline vs. New Policy Initiative (NPIs);
- *Graph*: “Baseline Budgeting methodology”
- The road of choosing a “NPI” in the budget;



### “Costing of the New Policy Initiatives (NPIs)”:

- Specific templates for costing NPIs;
- Cost savings - Unit cost;
- *Scheme*: KNOW-HOW of costing process;



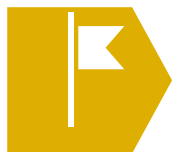
### Suggestions – Summary - Open Discussion:

- Suggestions to strengthen internal capacities of LMs to develop and articulate NPIs into Budget proposals;
- Summary slide of identified challenges;
- Room for questions;

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## THE APPROACH TO INTEGRATION OF BUDGET PREPARATION WITH POLICY PLANNING :



### “Basic Definitions”:

- The process of prioritizing NPIs at the LMs;
- The Link of Costing of Reform Measures and Budget Programmes;



### “LMs submission of the New Policy Initiatives (NPIs)”:

- Joint Activity: Who does WHAT?
- Are SR/ NPIs externally driven?



### Suggestions – Summary - Open Discussion:

- Suggestions to improve the link between Gov priorities – Budget preparation - ERP;
- Summary slide of identified challenges;

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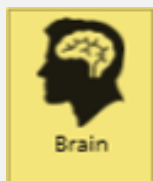
# THE APPROACH FINDING FISCAL SPACE FOR NPIs:

## “Basic Definitions”:

- Baseline vs. New Policy Initiative (NPIs);
- *Graph*: “Baseline Budgeting methodology”
- The road of choosing a “NPI” in the budget;
- Different criteria's of “NPIs” and “Baseline”;



## SAYING:



**“KNOWLEDGE IS NOT KNOWING IN GENERAL, BUT AT THE RIGHT  
MOMENT”**

***Umberto Eco***



## ALBANIA – ERP: 2020-2022 OVERVIEW;

1. **DRAFTERS**: MINFIN => LM => SB → approved by DCM;
2. **PRESENTS**: MACRO & FISCAL Policies => (i) sustainable growth; (ii) employment growth; and (iii) reduced budget;
3. **Reform Sectors (8)**  
*Energy/ Agriculture/ Climate business and reduction of informal economy/ Research, development and innovation, and digital economy/ Trade/ Education and Skills/ **Employment and labour market**/ Social protection and inclusion.*
4. ***Identification of barriers*** => detailed screening of barriers to competition and further economic growth and development of Albania, and included reform measures to address them
5. **MINFIN Objective => Implement PFM Strategy 2019-2022:**  
(i) *enhance mid-term macro-fiscal framework; (ii) establish fiscal rules in LOB LOB; (iii) improve MTBP process; and (iv) Public statistics;*
5. 2020 costs = € 2.47 million (35% Central Budget);
6. 2020 foreign funds = € 1.85 million

# MACRO-FISCAL FRAMEWORK – ERP

## 1. MACRO Framework => CAPTURES (3): SCENARIOS and RISKS

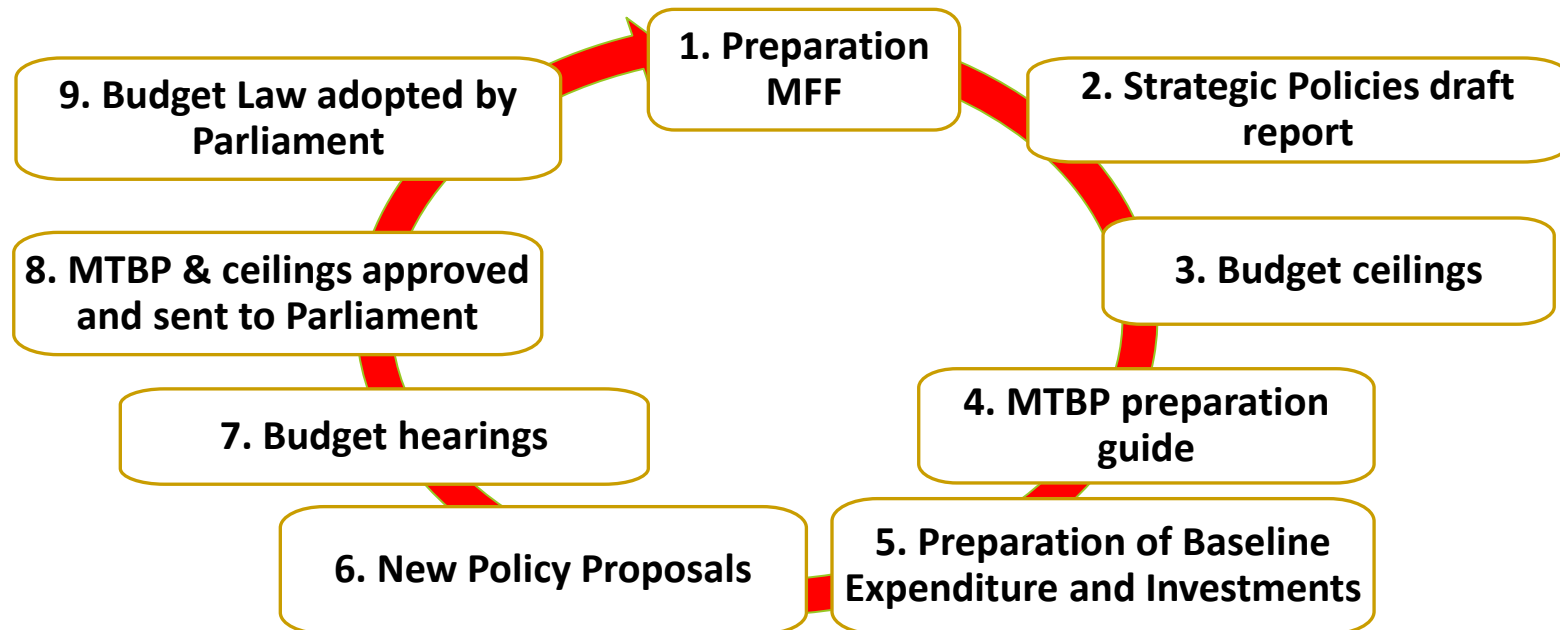
- *Expected SR effects in ECO to be included in the “BASELINE” scenario that supports fiscal projections;*

## 2. FISCAL Framework => CAPTURES (4): Strategic Policies and Fiscal Rules

- **COSTS** => *RS must have planned them in the annual budget or in the mid-term expenses framework;*
- **REVENUE** => *RS must enter them in the mid-term income framework;*
- **FISCAL RISKS** => *consider revenue projections based on assumptions of (i) economic and inflation growth; (ii) performance of foreign trade the previous year.*
- LMs assess SR implementation in terms of budget expenses incurred; assessment of revenue generation from their implementation is made by Ministry of Finance and Economy.

## ERP AND BUDGET CYCLE

1. Budget allocation and planning for SR/NPIs complies with budget preparation procedures and process.
2. There exist models/formats to represent NPI costing sent together with Budget Requests. Mandatory: legal acts and bylaws must be accompanied by an “Impact Assessment” and ai Strategy costing format.
3. MTBP describes “LM strategic priorities in the relevant period (i) activities; (ii) costs and (iii) performance indicators”;





## **STRUCTURAL REFORMS – ERP;**

- 1. The European Commission's ERP Guidance defines SR as:** mean public policies that tackle obstacles to the fundamental drivers of growth, that facilitate the use of resources and productive factors as efficiently as possible or that contribute to a more equitable and inclusive economy.
- 2. SR should include policies that modernise labour markets and make them more adaptable and responsive, make product and service markets more efficient, simplify the regulatory environment for businesses while increasing transparency overall in the economy, as well as policies that create equal opportunities and ensure social inclusion.**
- 3. ERP includes the priority reform measures of the Albanian Government in the short-term period aimed at boosting domestic production, fostering new investments and ensuring sustained development and improved competition**
- 4. SR have been used for over two decades as the most important instrument for open dialogue with the EU in the context of accession efforts;**

## BASELINE VS. NEW POLICY INITIATIVE;

### BASELINE

1. Total amount of resources needed to support the government's present quantity and quality of public goods and services in the medium term;
2. *No-policy* change scenario;
3. Will be adjusted only in order to ensure constant supply of public goods and services to maintain the real value of benefits at the present service quality levels;



## BASELINE VS. NEW POLICY INITIATIVE; (cont.)

### NPI:

1. Introduce a completely new policy (no previous budget programme);
2. Significant change in the level of services associated within an existing expenditure programme (increase in quality or expanding coverage of the programme);
3. A significant change in implementation plans of an expenditure programme => in an increase in spending patterns in some years and / or a reduction in others;
4. New capital investment/ projects;



## BASELINE VS. NEW POLICY INITIATIVE; (cont.)

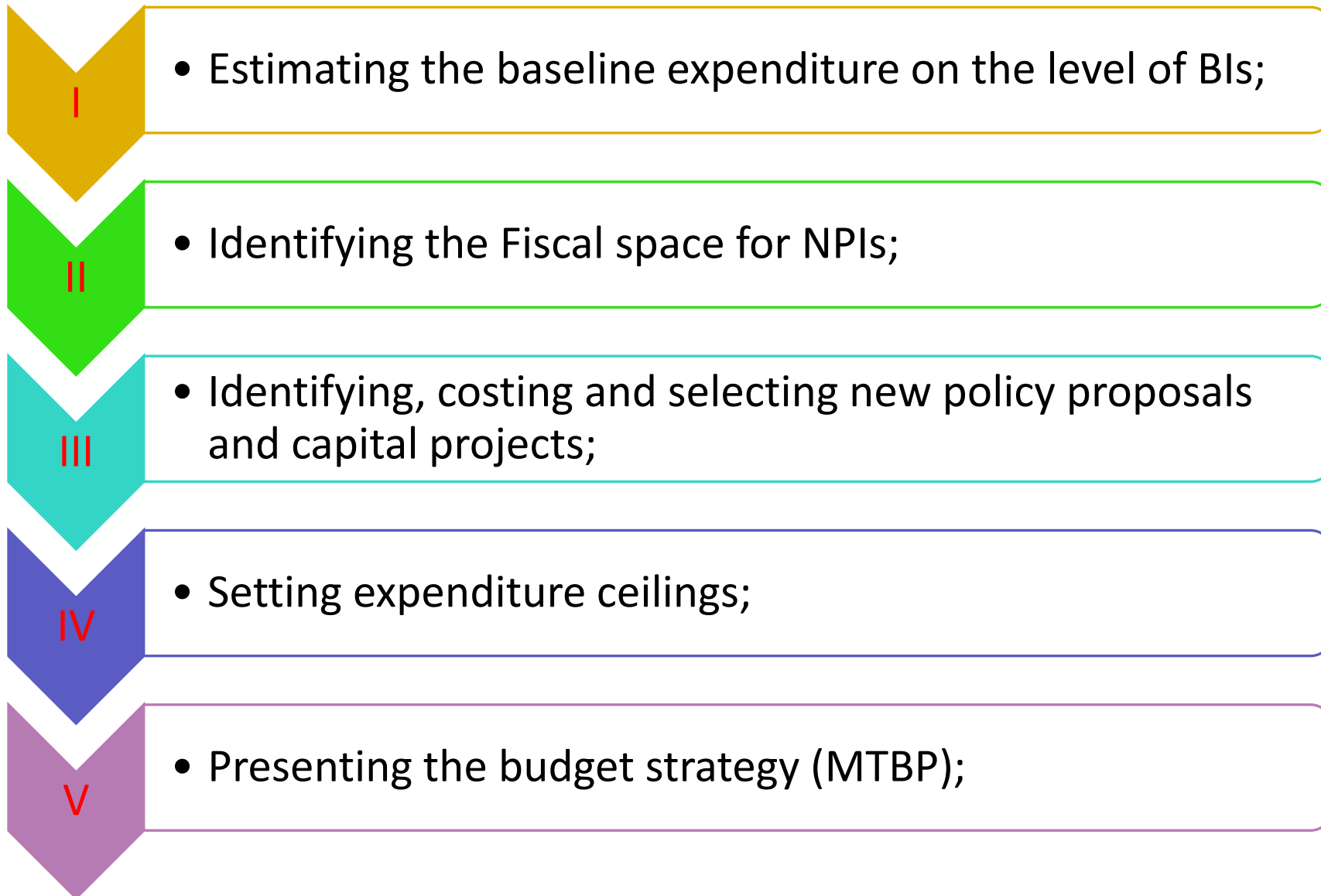
### EXAMPLE:

1. An increase from 10 to 11 year education is a ***new policy***, while having more pupils due to demography is the ***baseline***);

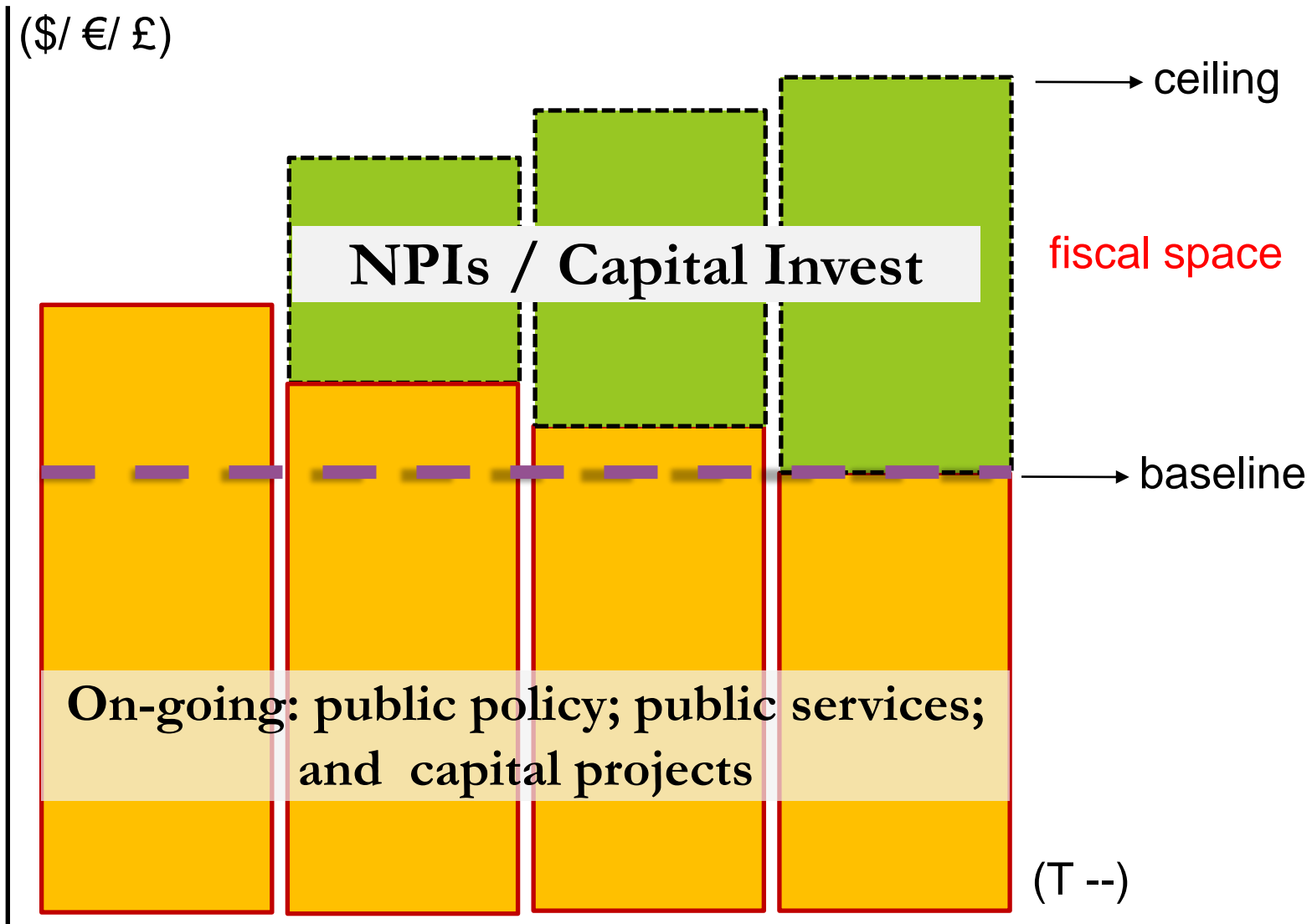
2. Increasing a pension amount is a ***new policy***, having more pensioners due to demography is the ***baseline***;



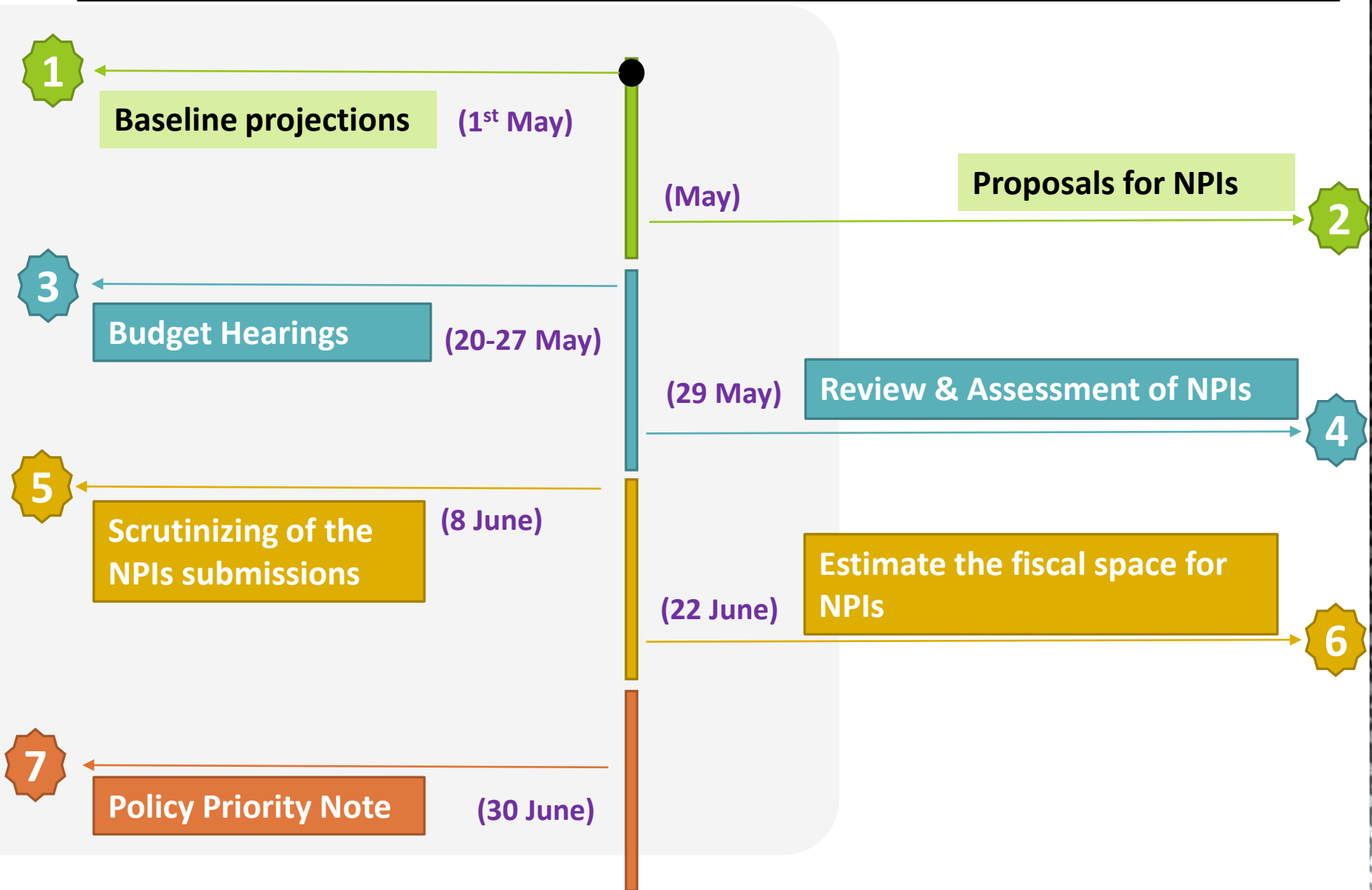
## “BASELINE BUDGETING METHODOLOGY”



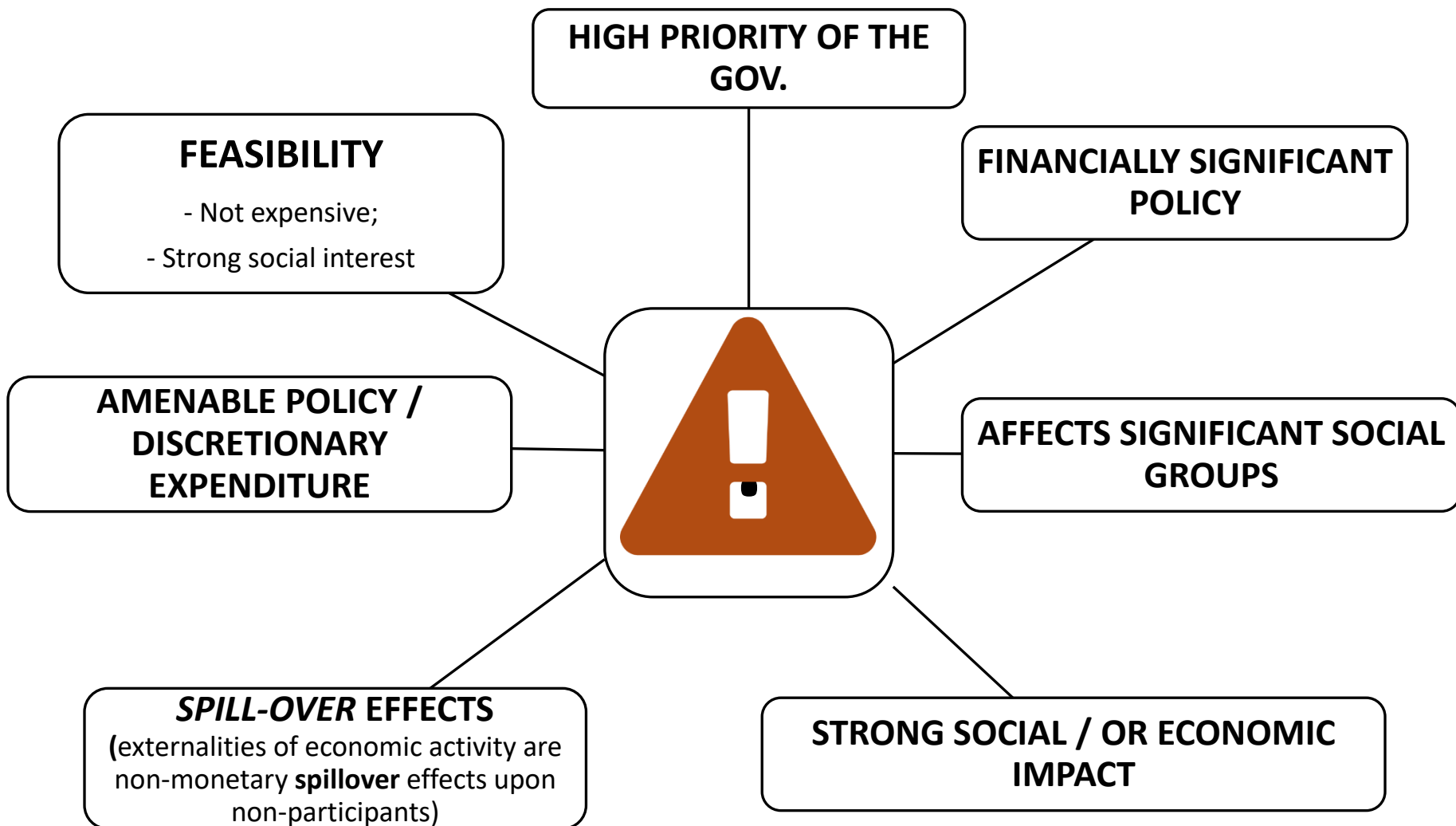
# “BASELINE BUDGETING METHODOLOGY” (cont.)



# THE ROAD OF CHOOSING A “NPI” IN THE BUDGET;



# **THE CRITERIAS TO ASSESS THE PRIORITY OF THE PROGRAMMES (POLICIES)**





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# THE APPROACH FINDING FISCAL SPACE FOR NPIs:

## “Costing of the New Policy Initiatives (NPIs)”:

- Specific templates for costing NPIs;
- Cost savings
  - Unit cost;
- *Scheme*:  
KNOW-HOW  
of costing  
process;



## COSTING OF NPIS;

### PMO

- Order no. 93 (07/08/2012) - “for the preparation of national sectorial and cross-cutting strategies for the period 2013-2020”;
- Approval from the DEBASKON - the Department of Coordination of Strategies and Coordination of Foreign Assistance within **CoM**;

### Appendix (1)

- The leading/responsible institution;
- Sectorial and cross-cutting strategies for the same timeline;

### Appendix (2)

- (i) Current conditions; (ii) vision, policies and strategic aim;
- (iii) Policy objectives and major outputs; (iv) financial resources; and
- (v) accountability, monitoring & evaluation analysis;

### Appendix (3)

- The LMs have the possibility to add other priorities which cannot be covered by the expenditure ceilings of the MoFE as an annex after consultations with DEBASKON;

### Appendix (4)

- Transparency of the process; and
- Open consultations with the social society;

# COSTING OF NPIs; (cont.)

Table 1: Cost of implementation of strategic document according to objectives 2017-2021 (model)

Strategic objectives and sub objectives covered by the strategic document	Total Costs (ALL/Euro)	Financing Source		Financing GAP	Comments on Financial Gap Objectives
		Budget	Donors		
<b>TOTAL</b>					
Objective 1 (Name of objective)					
Sub-objective 1.1 (name of each sub-objective)					

Table 2: Strategic Document Monitoring Indicators (model)

Objective 1 (name of the objective)														
Nr.	Description of Indicator	Unit (%/value)	Responsible institution	Base year 2014	Aim of year 2016	Aim of year 2017	Aim of year 2018	Aim of year 2019	Aim of year 2020	Aim of year 2021	Aim of year 2022	Aim of year 2023	Aim of year 2024	Aim of year 2025
1														

Table 3. Action Plan of the Strategic document (model)

ACTION PLAN FOR IMPLEMENTING THE STRATEGIC DOCUMENT (2017-2021)						
Total Costs (ALL / Euro): Total value of the Strategic Document						
Strategic Goals						
OBJEKTIVI 1 (emërtimi i objektivit)						
TOTAL Cost of OBJECTIVE 1 (ALL / Euro): ... (determining the figure as a sum of all products of all objectives, part of the strategic objective 1)						
Nr	Objectives	Outputs/Activities	Responsible Institution	Implementati on period	Costs (/000 ALL)	Coverage Source

## **COST SAVING – UNIT COST;**

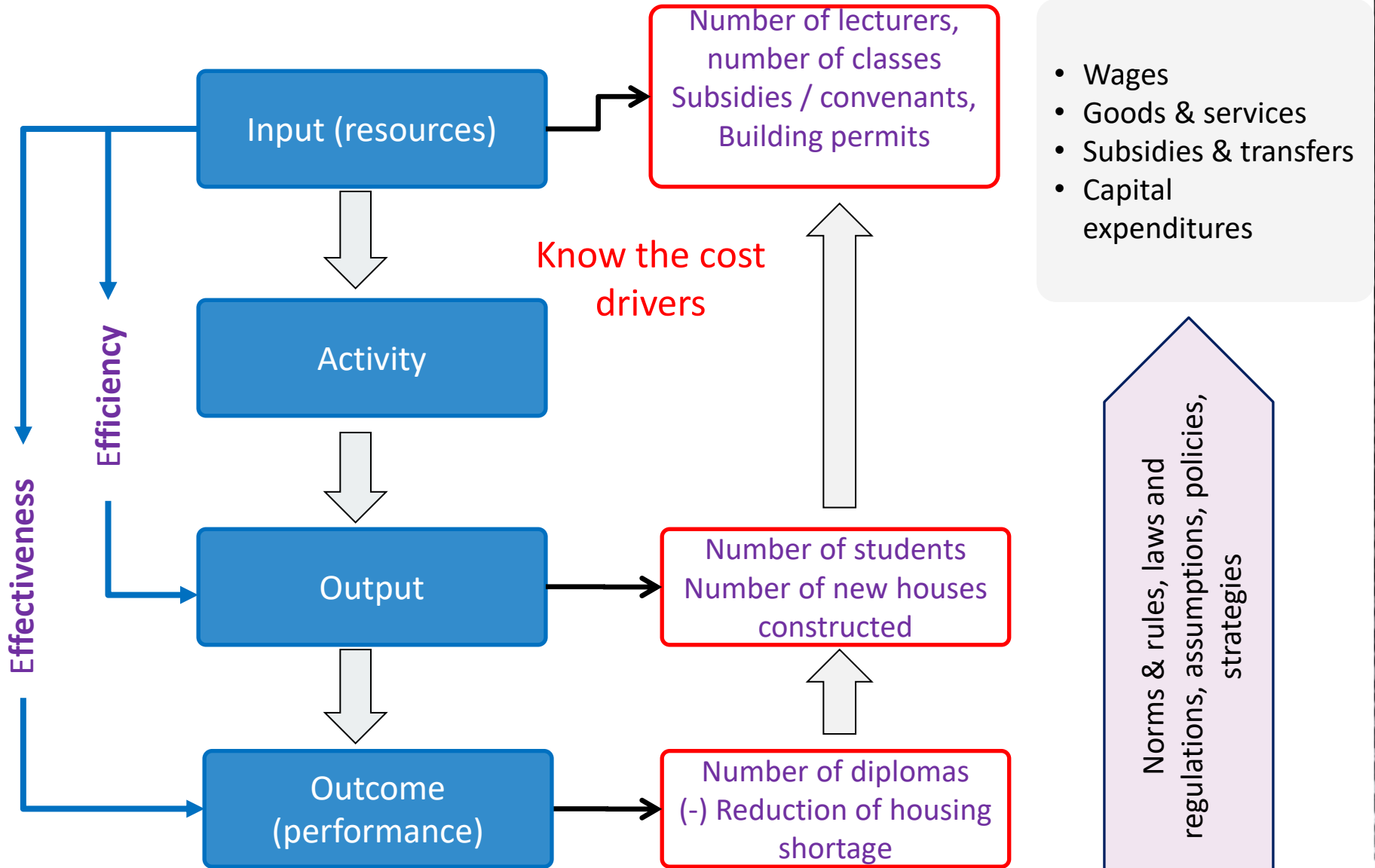
1. Mandatory efficiency / or cost saving for specific economic categories;
2. Cost saving don't result in a change of service level;
3. Additional savings – BIs may find them beyond the mandatory efficiency;
4. MoFE may require cost reduction (e.g. travel exp.);

Cost Savings

1. Principle of “Baseline” calculation;
2. “**Unit Cost**” approach;
3. Used for comparison – cost categories within spending programmes/ Bis;

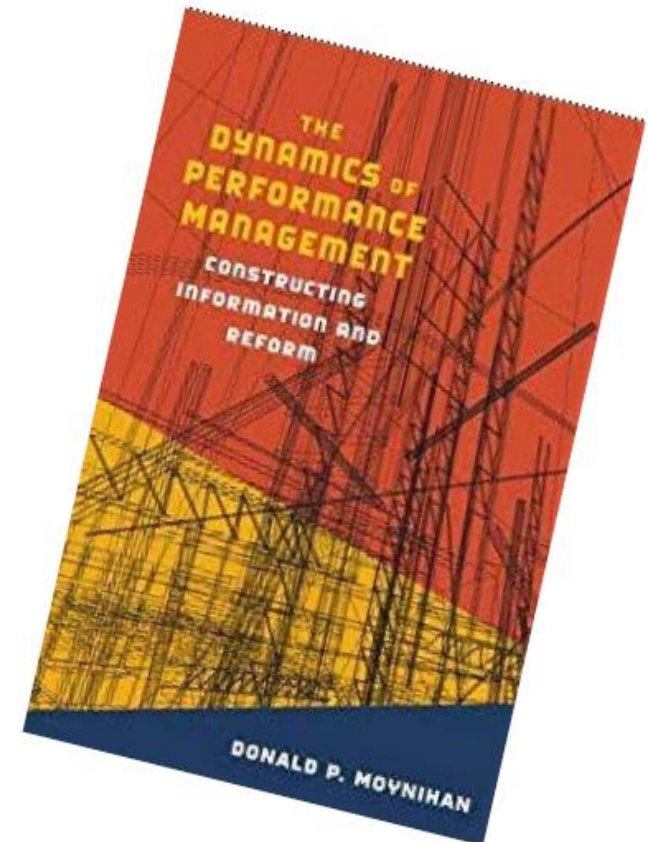
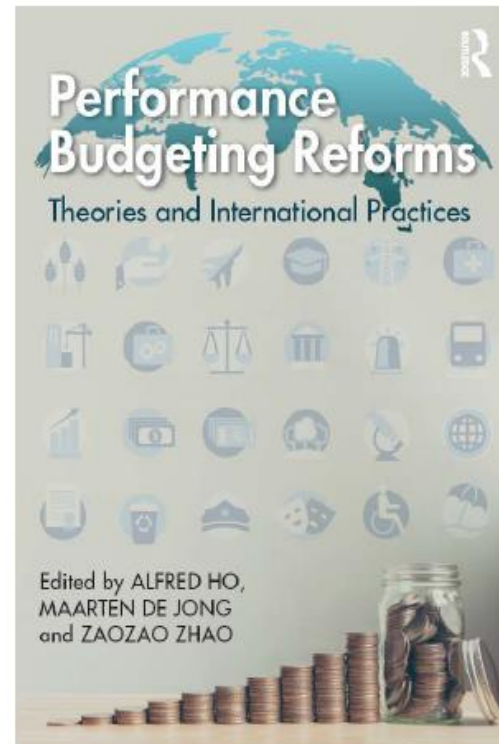
Unit Cost

# “KNOW-HOW” of Costing process:



# “SUGGESTED READINGS FOR MORE ON PERFORMANCE BUDGETING AND PERFORMANCE MANAGEMENT IN GOVERNMENT:

Donald Moynihan and Ivor Beazley



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# THE APPROACH FINDING FISCAL SPACE FOR NPIs:

## Summary:

- Suggestions to strengthen internal capacities of LMs to develop and articulate NPIs into Budget proposals;
- Summary slide of identified challenges;



## SUGGESTIONS;

1. SR/NPI funds planning must be done beforehand, *de facto* after acts/drafts are approved. For investments, beforehand.
2. SR/NPI consideration process as a measure for the purpose of budget preparation process does not include any planning present in ERP.  
ERP and MTBP document must match with NPI.
3. When LMs presented their budget proposals to MoFE, they must indicate their policy objectives and priority measures. They must link objects/measures directly to specific items in their proposed budget.
4. Macroeconomic Unit and structural reforms coordinator must align their views on key challenges and potential reform effects.



## MAIN CHALLENGES:

1. In the “technical” phase - the priorities focus more on the outcome (ex. number of patients treated; number of hospitals reconstructed, etc.) - don’t actually reflect the actual measure from the ERP document that is going to improve that area of priority.
2. Budget vs. ERP CALENDAR:
3. Is it always clear what is meant with: “Existing policies”?
4. Requests for New / Merging or Eliminating existing budget programs should be submitted to MOFE and PMO;

# ROOM FOR QUESTIONS



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# THE APPROACH TO INTEGRATION OF BUDGET PREPARATION WITH POLICY PLANNING:

## “Basic Definitions”:

- NPIs  
prioritization  
process at  
LMs;
- Link between  
Costing of  
Reform  
Measures  
and Budget  
Programmes



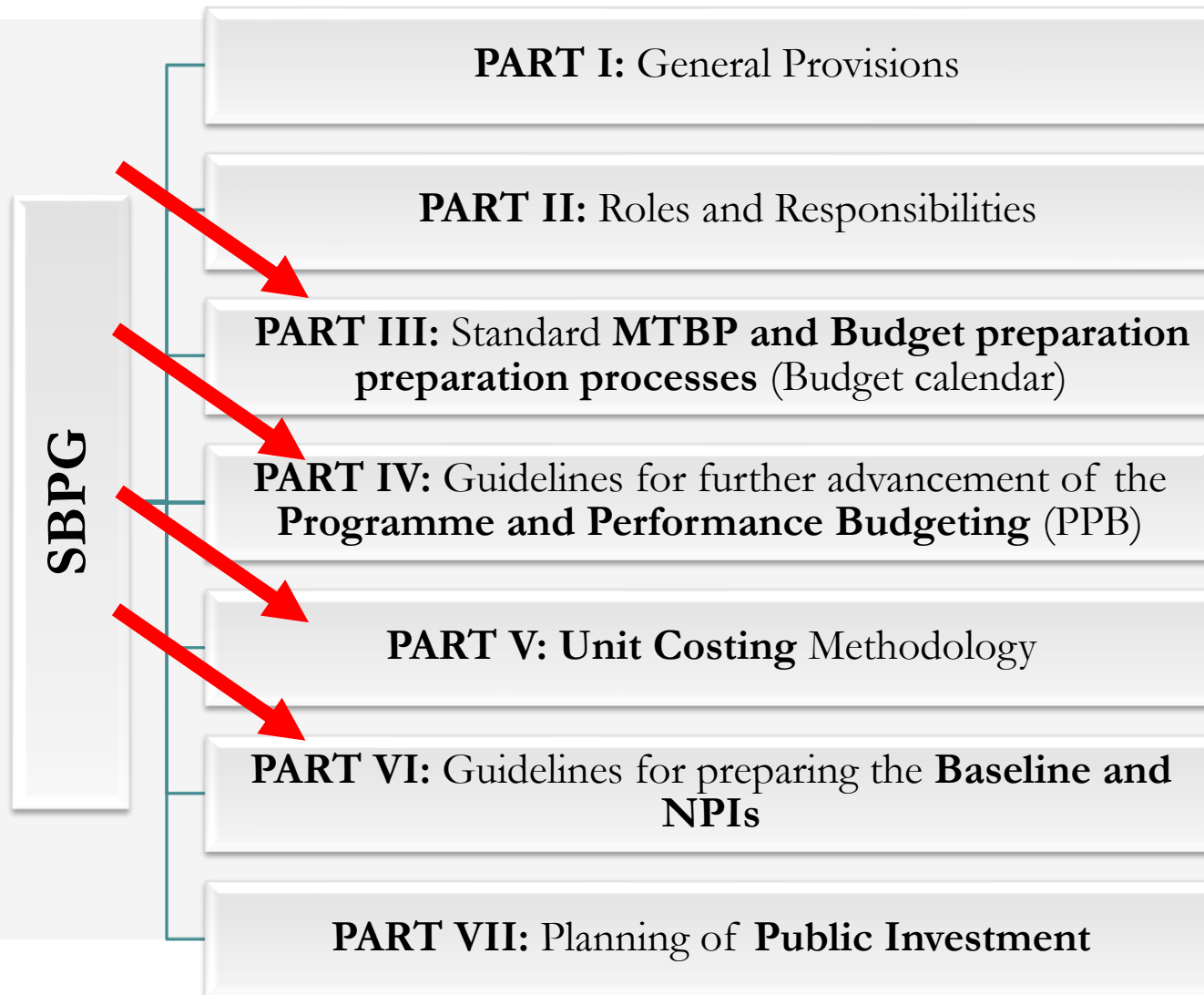
## THE PROCESS OF PRIORITIZING THE NPIS (AT LMS LEVEL)

**NSDI (2015-2020)**

**PROGRAMME MANAGER  
(LM)**

**POLICY PRIORITY NOTE  
(MoFE & PMO)**

## THE LINK OF COSTING OF REFORM MEASURES AND BUDGET PROGRAMMES



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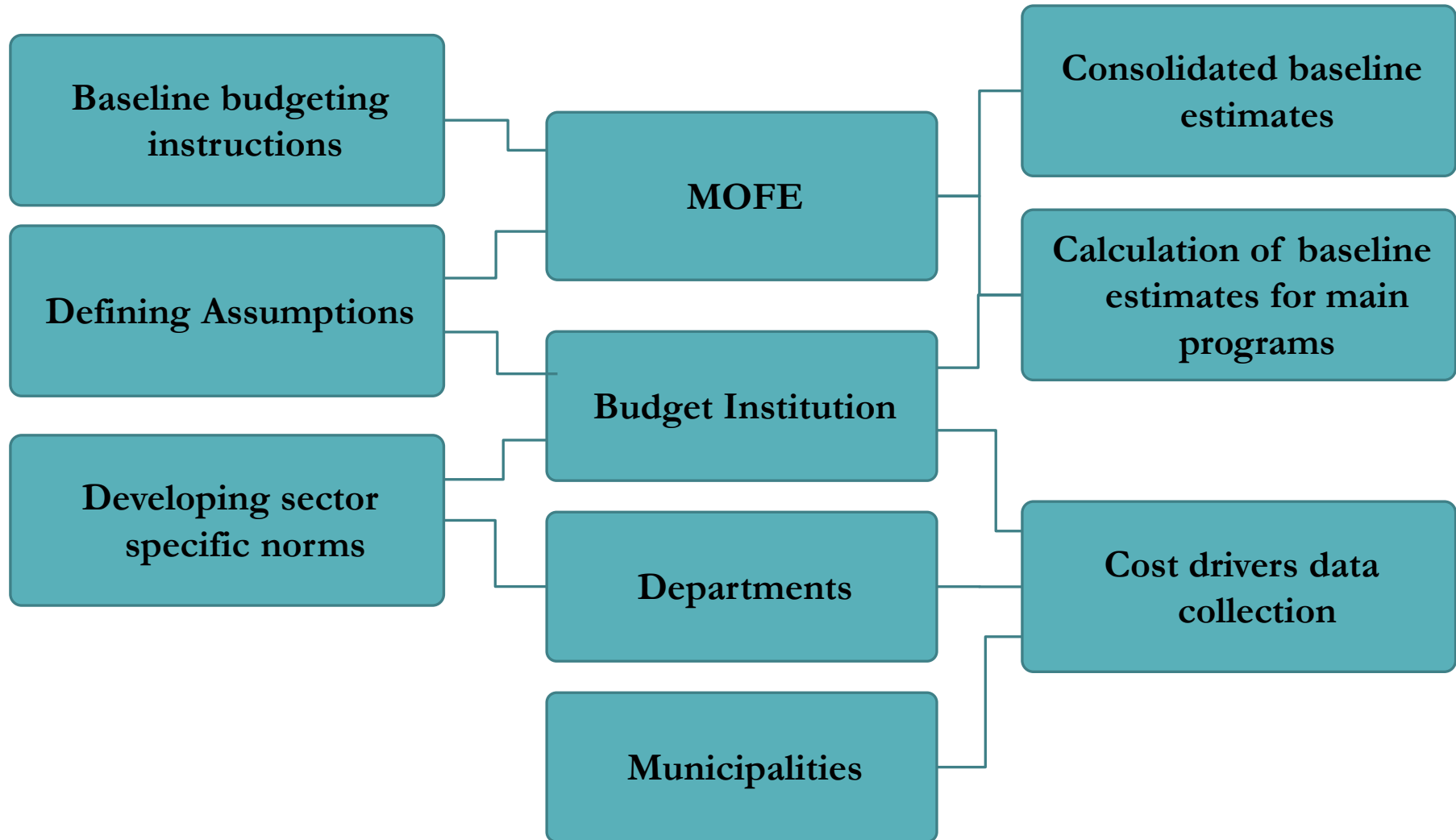
## THE APPROACH TO INTEGRATION OF BUDGET PREPARATION WITH POLICY PLANNING:

### “LMs submission of the New Policy Initiatives (NPIs)”:

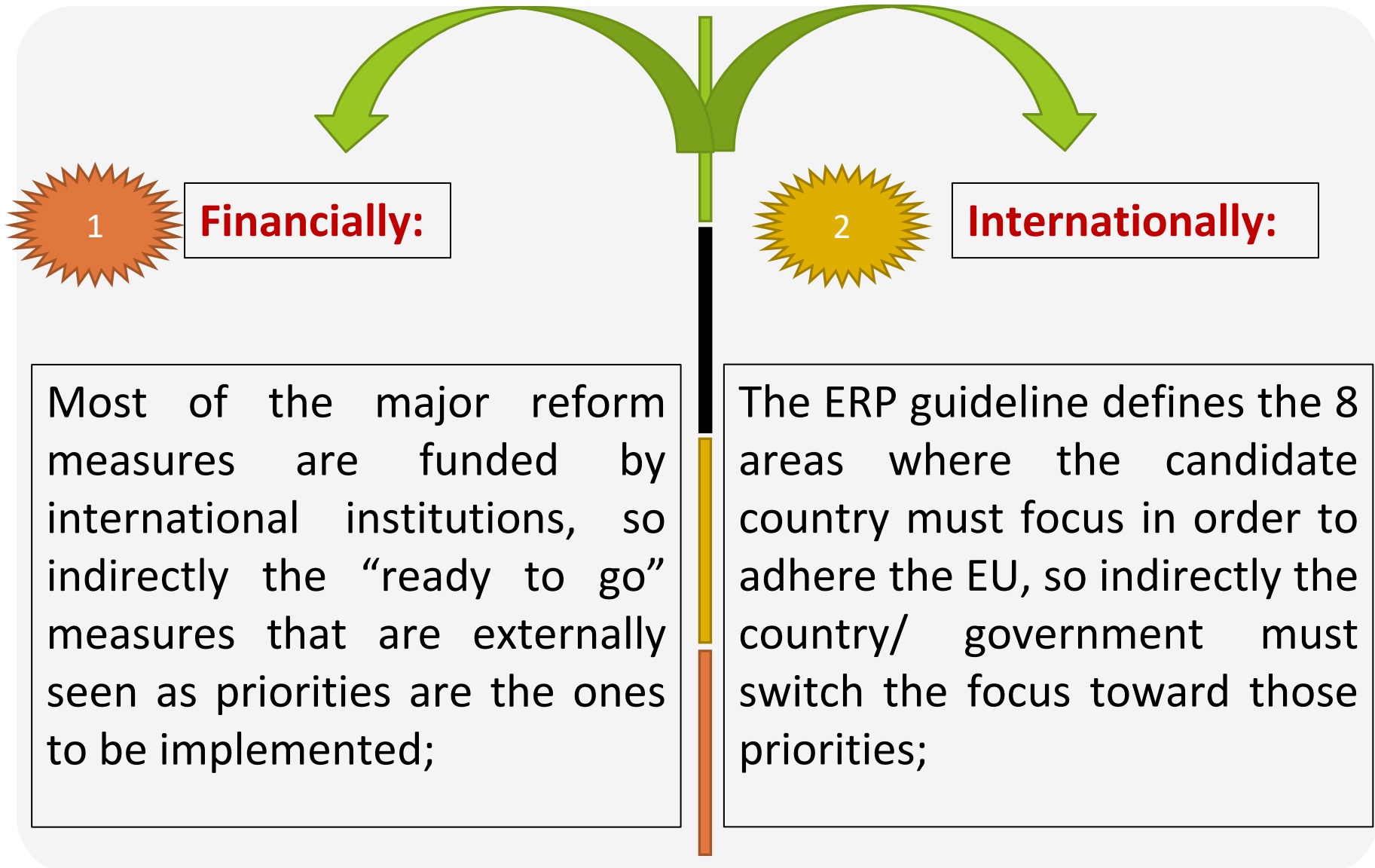
- Joint Activity:  
Who does WHAT?
- Are SR/  
NPIs externally driven?



## JOINT ACTIVITY: WHO DOES WHAT?



## ARE SR/ NPIS EXTERNALLY DRIVEN?





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### Summary:

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## SUGGESTIONS;

1. To determine the goal and objectives of the budget programme;
2. BIs should not create “an artificial fiscal space” by extending the duration of the presently on-going projects;
3. LMs must submit budget requests in terms of policies and objectives, and not focused on costs only;
4. LMs and budget departments must ensure that reform costs are realistic, earmarked and reflected in the mid-ter budget perspective.

## MAIN CHALLENGES;

1. Link SR measures to specific country recommendations
2. Clear articulation of SR measures (neither too wide, nor too narrow) with performance indicators
3. Policymakers must be involved early in the process to define the overall policy strategy
4. Structural reform coordinator must ensure that key reforms refer to the macroeconomic and fiscal chapter
5. Budget Institutions' ability to discuss their budget programmes/ with CSOs;

# ROOM FOR QUESTIONS

