





Center
of Excellence
in Finance

Prioritization of ERP structural reforms

Process, responsibilities and methods

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Fiscal Implications of Structural Reforms

Structure of the presentation

- Why prioritization is important?
- Responsibility and accountability for decision making
- Types of criteria used for the prioritization process
- Methods and methodologies for the preparation of the proposals and their improvements
- Horizontal and vertical coordination and importance of CSOs and NGOs

Importance of the prioritization

- Must reflect the „main“ objectives of Government economic and fiscal policy
- Has to take into consideration the length/time for the implementation of concrete SR
- Must be considered from the macroeconomic perspective – “reforms are best implemented when economic conditions are favorable”
- Sometimes “less is more”
- Significant, quality SRs, tailored in a way to reflect the current economic framework and environment
- Only real SRs should be included in the ERP
- Political economy is always present in prioritization process

Prioritization of SRs & political economy

- SRs must be observed from the point of „electoral costs“
- Duration of the implementation of SR
- The stance of economic activity (GDP growth)
- Type of the proposed SR and its distributional effects
- Good communication, transparency and objectivity in order to ensure enough support for the implementation
- Credible commitments to the reform and social dialogue



Responsibility and accountability

- LM or some other institution / agency is responsible and has the “ownership” for preparation of proposal of SR and implementation of planned activities
- Ministry of finance
- Government
- Prime minister office
- Specific body established within the Government
- All mentioned solutions imply that the responsible body must have strong capacities for decision making process – *Prioritization is not an ad hoc action it is a process!*
- Adequate time-frame for the prioritization (start as soon as the EC assessment and CSR are received by the country).



Criteria for prioritization process

- Qualitative and / or quantitative criteria
- If possible and depending on the concrete SR use both

Qualitative assessment of SRs

- Is it real SR that contributes to structural changes of the economy or just an activity that could be classified as “business as usual”
- Whether the proposal of SR is written, explained, and linked with the activities, is the time frame for realization of planned activities appropriate?
- Are the indicators, initial (base) value and targeted values designed in a way to reflect the clear link with the objectives and at the same time enable simplicity in the measurement and assessment of the progress made?
- Is the base year settled in line with Methodology for costing of SRs?
- Are the potential risks and the probability of their realization well addressed?

Qualitative assessment of SRs

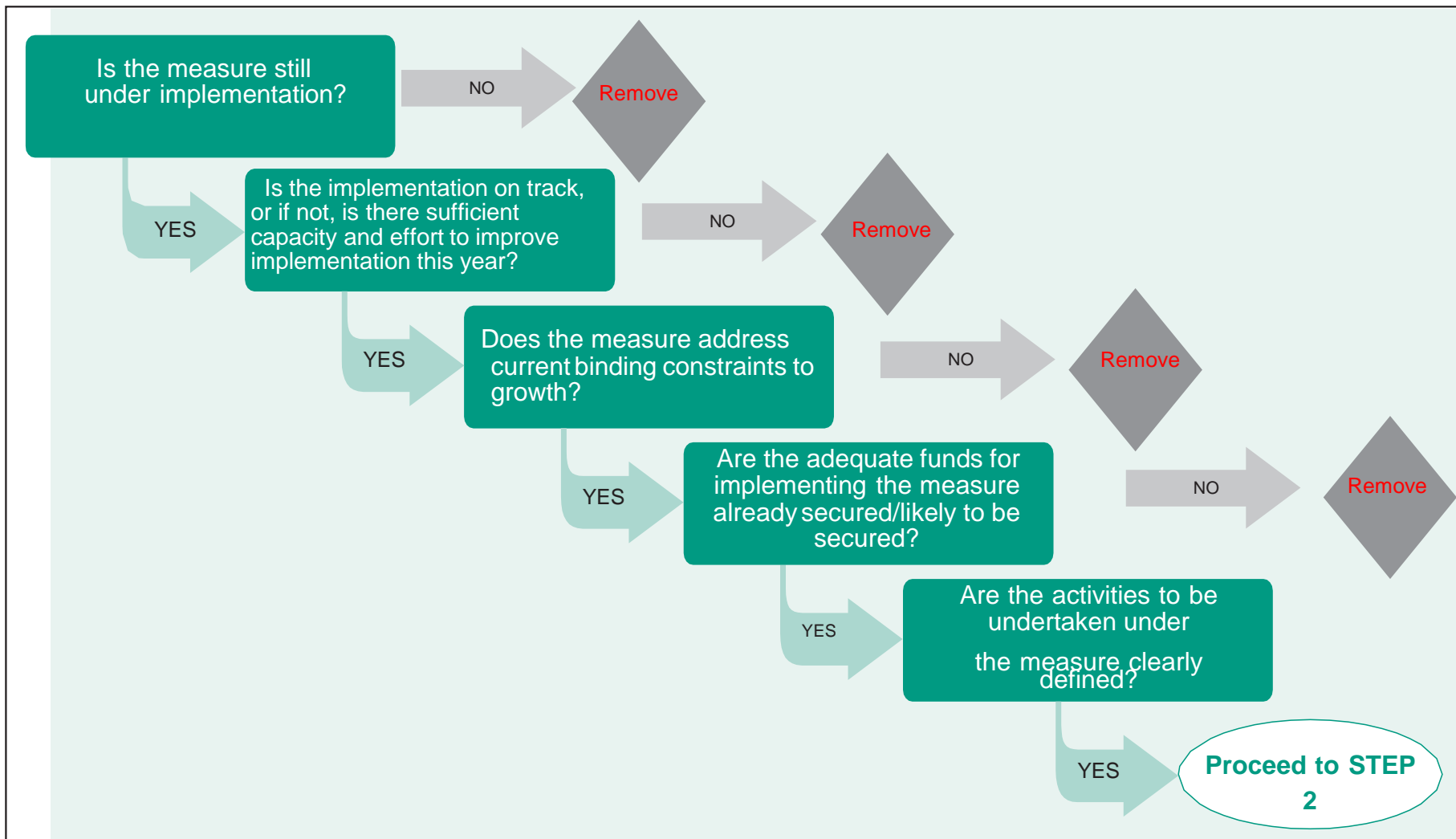
- ERP Prioritization tool / OECD
- Screening (cut/off) questions
- Evaluation questions
- Holistic review
- Impact on the GDP growth, employment and budget
- Example from the practice (Montenegro)

Qualitative assessment - OECD Prioritization Tool

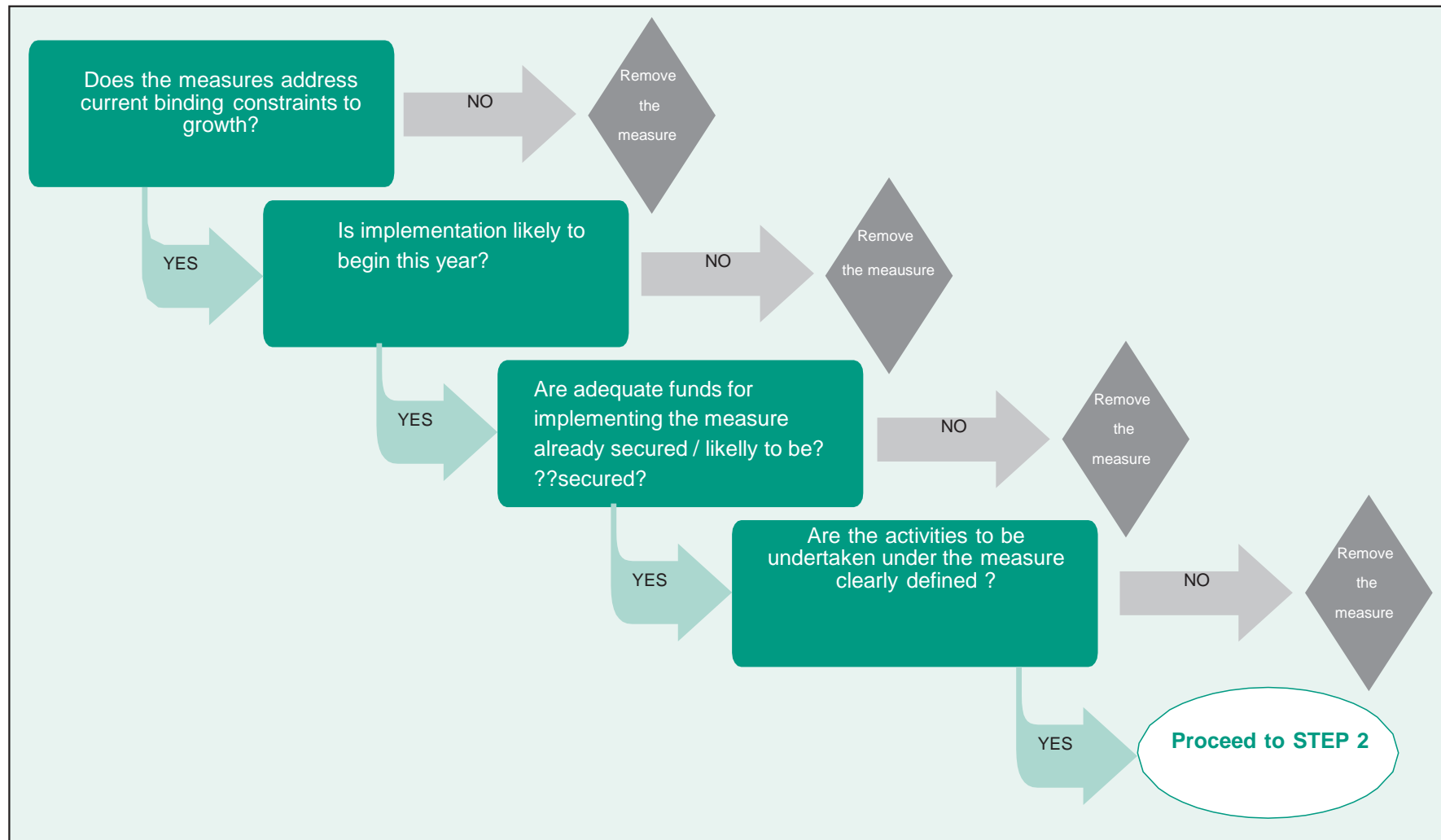
Methodology is based on the three following steps:

1. Screening questions – continued reforms from previous ERPs and /or new reforms
2. Evaluation of measures – Scoring of measures (impact on the growth, competitiveness and employment) and qualitative evaluation (complexity and risk for implementation)
3. Holistic review – final steps to develop a balanced set of priority measures

Screening questions for the existing SRs - step 1



Screening questions for the new measures – step 1



Evaluation of measures – step 2

➤ **Impact scoring:**

1. **Economic competitiveness and growth:**

- score 10 – addresses major obstacles to growth
- score 8 – major growth measures
- score 6 – medium impact
- score 0 – low impact

2. **Impact on the employment:**

- score 5 – direct impact
- score 2 – indirect impact
- score 0 – low impact



Evaluation of measures – step 2

- Qualitative information on the measure based on:
 1. Complexity for the implementation – high / medium / low
 2. Implementation risks - high / medium / low
 3. Assessment of the measure from previous ERP provided by the EC – positive / negative

Holistic review – step 3

➤ **Developing the set of priority measures:**

1. Based on the evaluation from step 2 draft of the first list of 15 – 20 priority measures should be prepared. The list should include measures with the minimum threshold of 8 points and presuming there is no important qualitative shortcomings.

2. Critically assess list of priorities using the holistic review criteria.

3. Finally, amend the priority list if needed to develop a well-balanced and meaningful final list of priority measures.



Holistic review criteria – step 3

- Do the priority measures address all the binding constraints to growth?
- Do the priority measures address all policy guidance?
- Are all areas in ERP Section on Structural reforms addressed?
- Is the set of priorities consistent with key national policy documents?
- Are the implementation risks connected with the set of priorities as a whole manageable?
- Are long-term structural issues sufficiently addressed?
- Is there a balance between complex comprehensive measures with medium-term impact and simpler targeted measures with immediate impact?
- Does the set of priorities constitute a credible and consistent policy strategy focused on economic growth and improving competitiveness?
- Is the final number of priorities between 15 and 20?



Examples from practice – Montenegro – SRs in the area of business environment and reduction of the informal economy

Number of RM	Priority reform measure	Impact score (weighting)	Impact on competitiveness	Impact on employment	Impact on fiscal sustainability	Reference to the Policy Guidance given in May 2020	Implementing ministry
5	Boosting competitiveness of MSMEs and access to the new markets	8	Large	Indirect	Negative	4	Ministry of Economic Development
6	Improving and implementing the measures for suppression of informal economy	13	Substantial	Indirect	Positive	4	Ministry of Finance and Social Welfare
7	Suppressing the informal economy by reforming the Tax Administration	10	Large	Indirect	Positive	4	Ministry of Finance and Social Welfare
8	Establishing the register of charges	12	Substantial	Indirect	Neutral	4	Ministry of Economic Development and Ministry of Finance and Social Welfare
9	Implementation of the electronic public procurement system (EPPS)	10	Large	Indirect	Positive	/	Ministry of Finance and Social Welfare

Quantitative assessment

- Impact of particular SR on the GDP and its main aggregates (investments, exports, etc.)
- Effects on the competitiveness
- Impact on the employment and labor market
- Impact on the environment protection (“Green Deal”)
- Fiscal / budget costs
- Impact on the public revenues (increase/decrease)

Size of the impact

Time-frame

- **Small vs. large impact – biased assessment (example – digitalization of processes in the Health sector)**
- **What is the adequate time frame? Short run (digitalization), medium term (fiscal consolidation) and long run (education)**
- **Enhancing and enabling the coordination and cooperation with the Macro departments of the MoF` for the impact assessment on the macroeconomic indicators**
- **Summary of the total impact of prioritized SRs should be presented**

Methods/methodology for preparation of the proposal of SR - some tips

There is no unique receipt for all countries and SRs

- Starting point – the objective of the proposed changes and clear distinction and understanding whether it is a SR or a measure / activity – business as usual.
- What is the substantial goal – increase of living standards for the citizens of a country, creation of favorable conditions for businesses – enhancing and improving business climate, for example.
- Think which of these objectives can be fulfilled by the proposed SR, and what are ways and means (change of the existing law, preparation of new law, By-laws changes and modifications) to accomplish this - prepare the description of SR.
- Try to divide and specify SR to the planned activities, time-frame, an adequate indicators.
- Do an appropriate costing and check whether it is consistent with the budget framework for the mid-term period of your Ministry. Check consistency with the general economic and fiscal policy proposed and settled within the macro and fiscal ERP chapters – whether the proposed reform costs are integrated into the budget framework, and widely on the fiscal framework.
- In parallel prepare the list of the relevant stakeholders, classify them into the matrix, showing their attitude (against, neutral, supporting) and power (strong, neutral, low). Also, divide identified stakeholders in accordance with the phases of the preparation / adoption / implementation of concrete SR.





Methods/methodology for preparation of the proposal of SR - additional tips

- If there is a budget calendar (proposed by Organic Law on public finances, such as Budget system Law), follow it as much as possible
- For the SRs ongoing, try to estimate the effects and impact for the period of implementation and prepare “reasonable and valuable” arguments why it should be retained in the next ERP cycle.
- To the greatest extent follow the instructions and advices prescribed by the EC Guidance Note.



Coordination process

- **Prioritization isn't equal to coordination**
- **Smooth” coordination among responsible LMs and MoF is crucial**
- **However, increasing the capacities of LMs as well as the coordination between responsible persons for preparation of SR and the financial/ budget department of particular LM is also significant**
- **Greater involvement of Macro fiscal Departments of MoF in the impact estimation on macroeconomic aggregates and whether it fits within the broader fiscal framework is needed**
- **Enhancing and “smoothing” coordination between LMs, Ministry of finance and other institution / responsible body for coordination of ERP preparation process**
- **Role of the CSOs and NGOs is significant and valuable in different phases of the SRs preparation and implementation process**