

ERP Costing Guidance:
**why it is needed and what are it's main
features?**

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Structure of the presentation

- Why *ERP Costing Guidance* is needed?
- Ambiguities of “old” ERPs in measuring SRs’ “fiscal effects“
- Overall framework of *ERP Costing Guidance* preparation
- Key costing / financing features of *ERP Costing Guidance*
- Tables on costing / financing of SR under *ERP Guidance Note*
 - *Table 10a*: costing of SR
 - *Table 10b*: financing of SR
- Few lessons learned so far



1. Why *ERP Costing Guidance* is needed?

- SR chapter of ERPs changed / improved significantly over the recent years
- ... however, no improvements were made on „fiscal effects“ of SR
- Countries had been asked to calculate „fiscal effects“, but with no methodological guidance
- Technical assistance offered, but implementation suboptimal



1. Why *ERP Costing Guidance* is needed?

- *ERP Costing Guidance* provides a methodological tool for measuring fiscal implications of SR under ERPs
- *ERP Costing Guidance* therefore complements the European Commission's *ERP Guidance Note* in this area



2. Ambiguities of “old” ERPs in measuring SRs’ „fiscal effects“?

Table 10: Matrix of policy commitments⁴⁴

Description of policy	Year X-1	Year X	Year X+1	Year X+2
<i>1. Policy measure (...)</i>				
A. Duration of the reform*				
B. Net direct budgetary impact (if any) (in €)				
B.1 Direct impact on budgetary revenue (in €)				
B.2 Direct impact on budgetary expenditure (in €)				
B.3 Possible non-budgetary financing (in €)				
- B.3.1 Of which committed IPA funding including WBIF funding (in €)				



2. Ambiguities of “old” ERPs in measuring SRs’ „fiscal effects“?

- Should they be focused on budget or on broader public finances?
- Should they be limited to direct implications or they should address indirect implications as well?
- Should they address implications on revenue and expenditure side of the budget or only the latter one?



2. Ambiguities of “old” ERPs in measuring SRs’ „fiscal effects“?

- Which costs should be the subject of the calculation?
- How to integrate extra-budgetary sources?
- What figures on extra-budgetary funding sources should be taken (commitments / disbursements)?
- How to articulate well a priority measure (costing is the final stage of a bottom-up process)?



3. Overall framework of *ERP Costing Guidance* preparation

- Its preparation was based on thorough review of the experiences the countries in the region had with ERP preparation
- It has been prepared in a way that it can be applied across countries and across the line ministries within a country
- It is aimed to be simple and made in a user friendly manner



4. Key costing/financing features of *ERP*

Costing Guidance

- Focus on costs of SR measures only
- Focus on „additional costs“ of SR measures only
- Focus on direct, first-level fiscal effects of SR measures only
- Systematic classification of costs under SR measures
- Systematic classification of sources for funding SR measures



5. Tables on costing/financing of SR under *ERP Guidance Note*

- *ERP Guidance Note* provides basic explanation for costing individual SR measure
- More specifically, *ERP Guidance Note* contains template tables (each with methodological explanation)
 - One on *costing* – volume and structure – of a SR measure
 - Another one on *financing* of the SR measure



5. 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:



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

Methodological explanation of the table:

- Only “additional costs” are to be calculated in the table. This means that only those costs are to be calculated that would not be there if the measure would not be implemented. For example, if existing staff is working on implementing a measure, their salaries should not be calculated.
- The table addresses only direct first-level costs of the reform measure. In case the reform measure can be implemented without additional costs, all spaces in the table should be filled with “0” (zero). In case the measure generates first-level implications on the revenue side of public finances (for example, an increase in budget revenues or an increase in pension fund contributions); this should be explained and quantified in a footnote to the table.
- Costing is to be done for a three-year period with the year X being the first year under the ERP, i.e. 2019.
- If a measure is composed of several activities, a sub-table for each of them has to be prepared as an input for the summary table that shows costing for the structural reform measure as a whole – these sub-tables do not have to be included in the ERP.
- Category “Salaries” and its costing: The category is composed of costs for salaries to be paid for hiring additional staff that is needed to implement the structural reform measure. Costing of the additional staff has to take into account not only the number of new staff members but also their qualifications as well as salary increases for the existing staff members. Standardised salaries for different categories of new staff members should be applied. Such a table of standardised costs does not need to be included in the ERP. If standardised costs are either not available or not appropriate, expert opinion can be applied.
- Category “Goods and services” and its costing: The category is composed of the following categories of costs: (i) training, (ii) expertise, (iii) office equipment, (iv) utilities (rent, electricity, travel). Standardised costs for each category should be applied whenever possible. Such a table of standardised costs does not need to be included in the ERP. If standardised costs are either not available or not appropriate, expert opinion can be applied.
- Category “Subsidies and transfers” and its costing: The category includes different types of subsidies and transfers that the beneficiary may get in order to implement the structural reform measure. Expert opinion can be used for calculating this category of costs.
- Category “Capital expenditures”: The category includes capital expenditures associated with implementation of the structural reform measure. Expert opinion can be used for calculating forecasted expenditures under this category of costs.
- Category “Total”: This is a sum of the categories in the three columns.

5. 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:



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

Methodological explanation of the table:

- The table should give an overview of funding sources to finance the total costs of the structural reform measure calculated in Table 10a.
- Category “*Central budget*”: The category includes funds to be realistically provided from the central budget either from national public finance revenues or from borrowing in the form of financial loans. For the year X, the funds are actually available under the budget adopted for this year.
- Category “*Local budgets*”: The category includes funds to be realistically provided by budgets at sub-national level, regional level and/or municipal level.
- Category “*Other national public finance sources*”: The category includes funds to be realistically provided from other national public finance sources (apart from central budget and local budget revenues), such as health and pension fund contributions.
- Category “*IPA funds*”: The category includes funds to be realistically disbursed from IPA funds.
- Category “*Other grants*”: The category includes funds to be realistically disbursed in the form of grants from all multilateral and bilateral donors; the category excludes IPA funds.
- Category “*Project loans*”: The category includes funds to be realistically disbursed from foreign multilateral and bilateral lenders in the form of project loans. Financial loans should not be included here, but rather under the “*Central budget*”.
- Category “*To be determined*”: The category quantifies the portion of funds that is needed for implementing the structural policy measure concerned but for which the funding source(s) is/are yet to be determined. The category should be calculated as a residual between the category “*Total*” and the sum of categories for all already known funding sources for the structural policy measure concerned.
- Category “*Total*”: The category is the sum of the categories and must be equal to the category “*Total*” in Table 10a for each respective year.

6. Few lessons learned so far

- Framework for selection of SR measures (obstacles to growth; prioritization)
- Link of SR measures with country specific recommendations
- „Story“ for introduction of each „old“ SR measure into ERP (two types of „old“ SR measures)
- Clear articulation of SR measures (not too broad and not too narrow) with performance indicators

