

# Costing of Structural Reforms in ERP: Methodology and Challenges

- Republic of North Macedonia -

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# Costing of structural reforms

## Content:

- 1) Main challenges in costing of structural reforms**
- 2) Methodology for costing of structural reforms**
- 3) Novelties in ERP Costing Guidance**
- 4) Examples of Costing of structural reforms: ERP North Macedonia**

# Main challenges in costing of structural reforms

- 1) **Ensuring proper link between budgeting/costing of structural reforms and outcomes**
  - **Results of previously undertaken related measures to be used for reasoning of future strategic and program planning**
  
- 2) **Optimization of budget composition methodology and capacity of the public institutions**
  - **Application of methodology for budget/structuring of costs evenly to all planning processes in terms of budget structure and other details faces difficulties**
  - **Budget methodologies of different sources of finances could vary significantly**
  - **Very specific knowledge for certain areas is necessary for realistic budgeting**

# Main challenges in costing of structural reforms

## 3) Necessity of common approach in planning and implementation of related documents

- Numerous strategic and programming documents overlap in terms of treated subject, imposing necessity (and also difficulty) in their coordination in terms of planning, budgeting and implementation
- Uncoordinated implementation of cross-cutting measures often produces unsatisfying results in terms of outcomes, as well as capacity and resource use

## 4) Matching of the available sources of financing of structural reforms

- The capacity for specific “tailoring” of the available financial frameworks (such as IPA) to central budget outline in specific areas requires lots of specific knowledge and coordination

# Methodology for costing of structural reforms

## 1) ERP Guidance 2018

- **Medium-term budgetary outlook**
  - **Three-years fiscal perspective of ERP measures**
  - **Expenditure sides of the measures**
  - **One-off and other temporary measures should be clearly distinguished from permanent ones**
- **Public investment in infrastructure can be included as ERP measures if they contribute to reforming a market**
- **A measure should not constitute a full sectoral reform strategy with 20+ activities, but should be more limited in scope**
- **Key Performance Indicators for each reform measure should distinguish between process, result and impact indicators**



# Methodology for costing of structural reforms

## Table 10a:

- Estimated cost of the activities and the source of financing
  - **Annual “additional costs” for implementation of the measure**
  
- Costing is to be done for a three year period
  
- If a measure is composed of several activities, a sub-table for each of them should be prepared as input for summary table. Only summary table is included in ERP

# Methodology for costing of structural reforms

Table10a					
Year	Salaries	Goods & services	Subsidies & transfers	Capital expenditure	Total
X					
X+1					
X+2					

## Costs categories:

- **Salaries: only costs for hiring additional staff for implementation of the measure**
- **Goods and Services: (1) Training; (2) Expertise; (3) Office Equipment; (4) Utilities (rent, electricity, travel)**
- **Subsidies and Transfers: different types of subsidies and transfers**
- **Capital Expenditures**

# Methodology for costing of structural reforms

## Table 10b:

- **Overview of the sources of finances included in Table 10a**
- **For the year X, the funds are already available under the budget adopted for the year**
- **Source categories:**
  - **Central budget: national public finance revenues and financial loans**
  - **Local Budgets: Budgets of local self-government units**
  - **Other national public finance sources: health and pension fund contributions, etc.**
  - **IPA Funds**
  - **Project Loans: IPA funds and financial loans excluded**



# Methodology for costing of structural reforms

**Table 10b:**

Table 10b								
Year	Central budget	Local budgets	Other nat. PF sources	IPA funds	Other grants	Project loans	To be determined	Total
X								
X+1								
X+2								

# Novelties in the ERP 2019 - Costing Guidance

ERP Guidance 2018	Novelties in ERP 2019 - Costing Guidance:
<b>1. Three-years fiscal perspective of ERP measures</b>	<p>Fiscal perspective remains the same</p> <p>Costing is perceived as final phase of the process of setting structural reform measure(s). Systematized approach towards costing of the measures would lead to more realistic medium-term budgetary outlook</p> <p><i>Approach for realistic planning of available funding developed</i></p>
<b>2. Expenditure side of the measures</b>	<p>Stressed out focus solely on costing side of the reforms.</p> <p><i>Revenues should be indicated with footnote under the Tables 10a and 10b</i></p>
<b>3. Additional costs of structural reform measures</b>	<p>Further explained and clarified</p> <p><i>Base year is the year prior to start of the reform</i></p>
<b>4. Direct, first level fiscal effects of structural reform measures</b>	<p>Explained and clarified</p>
<b>5. Systematic classification of costs under structural reform measures</b>	<p>“New” approach of cost classification based on standardized reference prices developed</p>
<b>6. If a measure is composed of several activities, a sub-table for each of them should be prepared as input for summary table</b>	<p>Bottom-up approach to costing developed</p> <ul style="list-style-type: none"> <li>- Articulate the activities as clearly and precisely as possible</li> <li>- Estimate the inputs required to produce the expected outputs</li> <li>- Estimate the costs of required inputs for each activity</li> </ul>
<b>7. Only funds that will realistically be provided should be noted in Table 10b</b>	<p>Realistic planning of available funding further developed</p>



# Examples: Costing of structural reforms - ERP North Macedonia

## ERP 2019-2021: Improving of irrigation systems (Measure 5)

### FEATURES OF THE MEASURE

- Complex measure, rolling over from previous year, including infrastructure investment and combining diverse sources of funding
- Deriving from "Investment Plan for Water Management Master Infrastructure 2015-2025"

### HIGHLIGHTS OF THE METHODOLOGY

- Treatment of complex measures
- Additional costs are costs compared to the year before the reform



# Examples: Costing of structural reforms - ERP North Macedonia

## ERP 2019-2021: Improving of irrigation systems (Measure 5)

### Activities:

- Construction of dam Konsko
- Construction of dam Rechani
- Construction of irrigation system Raven - Rechica
- Construction of dam on river Sklupcanska
- Second and third phase of HS Zletovica
- Second phase of South Vardar Valley irrigation system
- IPA small irrigation systems

### Categories of activities:

- Elaboration of technical documentation
- Procedures for obtaining licenses
- Procurement procedures
- Construction of dams/irrigation systems



## ERP 2019-2021: Improving of irrigation systems (Measure 5)

Estimated costs for the measure (in million euro)

Activity/Year	2019	2020	2021
Construction of dam Konsko	5.9	19.0	5.5
Construction of dam Rechani	3.4	8.8	7.2
Construction of irrigation system Raven - Rechica	3.2	7.2	3.9
Construction of dam on Sklupcanska river	-	3.0	6.0
Second and third phase of HS Zletovica	3.4	0.1	0.1
Second phase of South Vardar Valley irrigation system	1.9	1.2	0.6
IPA small irrigation systems	3.5	1.5	-
<b>Total</b>	<b>21.3</b>	<b>40.8</b>	<b>23.3</b>



## Costing of structural measures 10a (in EUR)

Year	Salaries	Goods and Services	Subsidies and transfers	Capital expenditures	Total
X (2019)	0	3.801.870	0	25.682.410	29.484.280
X+1 (2020)	0	1.500.000	0	45.291.124	46.791.124
X+2 (2021)	0	0	0	30.832.638	30.832.638
Total	0	5.301.870	0	101.806.172	107.108.042

The salary costs has not been calculated. If the implementation of infrastructural projects does not impose hiring of other persons than existing in the administration, the salary costs might not occur. The realization of the infrastructural projects includes staff and salaries, but the classification of those projects is often done under "capital expenditures" and/or „services“, implying no direct costs for salaries for the specific measure.

## Table 10b: Financing of the structural reform measure (in EUR)

Year	Central Budget	Local Budgets	Other national sources of public finances	IPA Funds	Other grants	Project Loans	To be determined	Total
X	18.061.889	0	0	3.500.000	301.870	7.620.521	0	29.484.280
X+1	39.313.469	0	0	1.500.000	0	5.977.655	0	46.791.124
X+2	23.352.915	0	0	0	0	7.479.723	0	30.832.638
Total	80.728.273	0	0	5.000.000	301.870	21.077.899	0	107.108.042

Financing of the measure includes combination of different sources, with prevalence of the central budget with almost 80% (this reflects into dominance of "capital expenditures" into cost classification)

# Examples: Costing of structural reforms - ERP North Macedonia

## ERP 2019-2021: Development of a National E-Services Portal (Measure 12)

### FEATURES OF THE MEASURE

- Complex measure, rolling over from previous year,
- and combining diverse sources of funding

### HIGHLIGHTS OF THE METHODOLOGY

- Additional costs are costs compared to the year before the reform
- Treatment of measures rolling over 3 years





# Examples: Costing of structural reforms - ERP North Macedonia

## ERP 2019-2021: Development of a National E-Services Portal (Measure 12)

### DESCRIPTION OF THE MEASURE

The measure envisages activities for development of a dynamic e-services web portal (National e-services Portal), as a single contact point with state bodies according to the one-stop-shop principle and the use of standardized user interfaces.

### EXPECTED RESULTS:

To increase the efficiency of state institutions and provide faster and simpler services by creating a single contact point and by electronic data exchange between institutions

- Number of users of the portal is envisaged to increase to more than 8000 in 2021
- Number of e-services offered - over 100 in 2021
- Number of services in the catalogue - over 1000 in 2021
- Share of e-services in total public services to be over 10% in 2021



# Examples: Costing of structural reforms - ERP North Macedonia

## ERP 2019-2021: Development of a National E-Services Portal (Measure 12)

### Activities 2019:

- **Launch and promotion of the National e-services Portal;**
- **Quantitative and Qualitative analysis on data entered in the catalogue;**
- **Para-fiscal changes analysis of the services in the Catalogue, with recommendations;**
- **Continue entering data on services from remaining laws in the Catalogue of services and maintain the up-to-date data in the Catalogue;**
- **Development and adoptions of the bylaws on the respective regulatory acts;**
- **Development of new electronic services;**
- **Improvement of the National Portal with the Single Sign On functionality;**
- **Upgrade the portal with the opportunity for legal persons' profiles and to enable them as users.**



# Examples: Costing of structural reforms - ERP North Macedonia

## ERP 2019-2021: Development of a National E-Services Portal (Measure 12)

### Activities 2020:

- Analysis of the use of the National e-services Portal;
- Training to public sector employees on the implementation of the Law for electronic management and electronic services;
- The Law for central population register and the Law for electronic documents, electronic identification and trust services;
- Training for public sector employees - users of the portal;
- Development of new electronic services;
- Qualitative analysis of data in the Catalogue for administrative guillotine;
- Implementation of the recommendation as a result of the para-fiscal changes analysis;
- Improvement of the National Portal with new functionalities.

### Activities 2021:

- Development of new services for citizens and businesses.



## Costing of structural measures 10a (in EUR)

Year	Salaries	Goods and Services	Subsidies and transfers	Capital expenditures	Total
X (2019)	72.000	822.000	0	210.500	1.104.500
X+1 (2020)	48.000	350.000	0	762.000	1.160.000
X+2 (2021)	18.000	350.000	0	1.062.000	1.430.000
Total	138.000	1.522.000	0	2.034.500	3.694.500

This measure contains different categories of costs. The costs for salaries decrease over the years, as they were calculated according to the previous understanding of "additional" costs. According to the new methodology, the costs for salaries should be:

X+1 (2020) = 120.000

X+2 (2021) = 138.000

Total: 330.000

Decreasing trend applies to goods and services - highest expenses are at the start of the period for the elaboration of the catalogue of services (by hiring experts to elaborate it)

The capital expenditure increase over the years, as establishing the portal is related first to preparatory activities (elaboration of e-catalog of services), while equipment should be purchased later.



## Table 10b: Financing of the structural reform measure (in EUR)

Year	Central Budget	Local Budgets	Other national sources of public finances	IPA Funds	Other grants	Project Loans	To be determined	Total
X	404.500	0	0	600.000	100.000	0	0	1.104.500
X+1	210.000	0	0	950.000	0	0	0	1.160.000
X+2	180.000	0	0	1.250.000	0	0	0	1.430.000
Total	794.500	0	0	2.800.000	100.000	0	0	3.694.500

Financing of the measure includes combination of different sources, with prevalence of IPA and central budget

## Conclusions: What is relevant in costing of specific measures?

- Clear time framework should be stated for realistic mid-term costing
  - It should be always indicated to which period the overall objective refers to
  - The overall objective and expected outcomes' periods must correspond
- Logical link must be established between feature of the measures and costs
  - The costs should always reflect the dynamic of development/implementation of measure
  - The amounts of costs by categories must correspond
- Proper costing methodology for each measure should be selected:
  - Bottom-up approach methodology of costing for complex measures
- Combination of financial sources should be done striving towards rational and effective public spending