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MINISTRY OF FOREIGN AFFAIRS
AND EUROPEAN INTEGRATION
OF THE REPUBLIC OF MOLDOVA

COSTING OF ACTIONS RELATED TO THE EU ACCESSION PROCESS

A PRACTITIONER'S GUIDE

Editura ARC
Chisinau, November 2023

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This Guide is intended to be used to estimate the costs of public policy measures related to the process of accession to the European Union. The Guide is an accompanying document to the more detailed Methodological Manual for estimating the costs of public policy documents in the Republic of Moldova.

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LIST OF ACRONYMS, PLUS EXPLANATIONS OF A FEW SELECTED TERMS

Acronym	Explanation
EU accession	European Union accession
Costing Manual	Manual for the Costing of Public Policy Documents in the Republic of Moldova
CPA	Central public authority
DCFTA	Deep and Comprehensive Free Trade Agreement – Title V of the Association Agreement
EC	European Commission
EU	European Union
MFAEI	Ministry of Foreign Affairs and European Integration
MoF	Ministry of Finance
OMF 209/2015	Order of the MoF 209/2015 on the Approval of the Methodological Set on the Elaboration, Approval and Modification of the Budget https://www.legis.md/cautare/getResults?doc_id=105131&lang=ro
Policy Division	Structural subdivision for policy elaboration
SC	State Chancellery
SME(s)	Small and Medium Enterprise(s)

THE COSTING PROCESS

If you are consulting this Guide, it is likely that you have been tasked with providing an estimate of costs for measures that your line ministry or other central public authority (CPA) has identified as relevant for the EU accession process of the Republic of Moldova.

While costing, you are obliged to follow the provisions of Moldova's normative framework, in particular the State Chancellery's *Manual for Costing of Public Policy Documents in the Republic of Moldova* (subsequently referred to in this guide as the **Costing Manual**[1]). The Costing Manual is aligned with the provisions of *Chapter XII of the Methodological Set on the Elaboration, Approval and Modification of the Budget* (Order of the Ministry of Finance – OMF 209/2015[2]).

> This Guide was developed as a tool to support you in implementing the instructions contained in the Costing Manual by explaining how they should be properly applied when costing typical measures that relate to the EU accession process. You should use this Guide in conjunction with the Costing Manual.

The Guide begins by presenting and explaining a set of preparatory steps to be taken before cost calculations can be performed. The main part of the Guide explains the approaches to be used for costing typical measures associated with the EU accession process, while paying attention to important uncertainties which may occur during the process. Once the costs are estimated, it is necessary to estimate the financial resources available for implementing the measure and addressing any funding gaps. Finally, the cost estimates should be documented and presented in the **Costing and Budgeting Table** (*see the Annex to this Guide*).

This Guide provides examples of measures and describes the recommended approach to their costing, with reference to the useful quantitative examples and the case studies described in the **Costing Manual**.

The types of measures addressed in this Guide include:

- normative measures – preparation and adoption of normative acts
- institutional measures – establishing new institutions or increasing the capacity of existing institutions
- knowledge measures – e.g. awareness-raising campaigns and training
- financial measures – support to businesses and other stakeholders
- technical measures – e.g. establishing or upgrading an IT system
- investments – e.g. environmental or energy infrastructure.

[1] https://cancelaria.gov.md/ro/apc/soordonarea-politicilor-si-planificarea-strategica.
[2] https://www.legis.md/cautare/getResults?doc_id=105131&lang=ro

PREPARING FOR COST ESTIMATION

Before you can calculate the costs, there are a few questions you need to thoroughly consider and clarify:

- What kinds of activities should be implemented in the measure you are costing? Precisely what are they?
- Which costs should be estimated, given the required activities to be implemented?
- What kinds of data would you need to estimate these costs?
- Whose inputs should be asked for, and who will therefore need to cooperate with you during the cost estimation process?

Understanding the measure to be implemented.

In many action plans, the presentation of the measures usually doesn't include all the details of the activities that will be needed for implementing them. However, to be able to estimate the costs you will need to understand precisely what needs to be done, because the cost of a measure is the sum of the costs of all the implementation activities. To understand a measure's activities, you will often need to consult the colleagues who are proposing it.

For examples on how to clearly define the measure to be costed, see Example 1 and Section 1.2 ("Defining the estimate's purpose") in the Costing Manual.

For a recommended approach to breaking down measures into components that can be costed, see Example 2.1 and Section 2.1 ("Developing the estimating structure – Work Breakdown Structure").

Understanding the costs of implementation.

The process of analysing the implementation activities will generate an overview of the kinds of costs you will need to estimate – for example, the cost of the personnel involved in the implementation, training costs, equipment or software costs, etc.

At this point, it is useful to consider the basic characteristics of such costs:

For an explanation of the different features of costs, see Section 2.2.4 of the Costing Manual ("Cost analysis").

For typical factors that may affect the costs, see Section 2.2.6 ("Cost factors").

- How will they change with the level of activities?
- Are they one-off or recurring?
- Are they directly or indirectly related to the measure?

Such an initial analysis will help you to identify the key issues you will need to take into account when estimating the costs, including the key cost factors.

Identifying required data.

Once you have identified and understood the activities needed for the implementation, and the types and nature of the costs that are likely to be incurred, you will have to find out what kind of data is needed to estimate the costs and the potential source(s) of such data. Cost data is typically related to similar previous activities or to current actual market prices. Useful data may include cost normatives, i.e. the ratios between the technical specifications of an activity and its costs, and the regulated costs, such as the salaries of public employees or their travel allowances. For this it may be helpful to consult colleagues from the financial division of your CPA. When all relevant cost data is collected, you may need to adjust the past costs to match current prices and exchange rates, or to perform other calculations to ensure that data from different sources and periods are comparable (data normalization).

For examples of data that can be used in costing, their sources, and methods of data normalization, see Section 2.2 of the Costing Manual ("Collecting and preparing data") and examples in this section of the Manual.

Setting up the costing team.

We strongly recommend setting up a single costing team in your ministry or CPA for all the measures connected with the EU accession process. The core of such a team should include civil servants from the policy division that drafted the measures, plus some from the financial division. Additional inputs from others might be needed in order to provide the team with supplementary data, technical clarifications, specific expertise, critical examination of the cost estimates and similar. With measures that require co-operation with other CPAs, staff belonging to such CPAs should also join the costing team. In cases when setting up a dedicated costing team is not possible because of limited capacities, you should still seek, on a case-by-case basis, specific explanations and tailored inputs from others.

For good practice in setting up a costing team, see Section 1.1 of the Costing Manual ("Setting up the team, defining roles and responsibilities").

> We are aware that these brief explanations of the preparatory steps may seem complicated and demanding, especially if you have so far had only limited experience of costing. But we are confident that they will become clearer after you have looked at the concrete **examples of costing the typical measures related to the EU accession process** in the next section.

1. APPROACH TO COSTING TYPICAL MEASURES RELATED TO THE EU ACCESSION PROCESS

1.1 Costing methodologies

Different methods can be used for cost estimation. As an example, you could cost each activity of the measure separately, and as precisely as possible. Yet this could be not only time-consuming but impossible due to a lack of data and precise information on the measure's activities. There are less time-consuming methods that can produce sufficiently precise estimates. For some measures, you will be able to identify a few key factors that drive its costs and use those to estimate the total cost. In other cases, you will be able to estimate the costs using an analogy or comparison with similar measures and activities previously implemented. While this approach facilitates the costing, it may require some adjustments to ensure comparability between the measure you need to cost and the one used for comparison.

For an explanation of cost estimation methods, see Section 2.3 ("Choosing the cost estimating methodology") and examples 2.2 and 8 in the Costing Manual.

The choice of the costing method will therefore depend on the key factors you considered in the preparatory phase:

- the precision of information regarding the measure's implementation activities
- the nature and behaviour of the costs;
- the key cost drivers and the availability of data; and
- the joint expertise of the costing team.

We recommend that for each measure, the members of the costing team should discuss the possible methods with one another and choose the most feasible approach for producing a sufficiently precise and reliable cost estimate.

During the process of identifying the most appropriate costing method, you may discover that **some of the required information or data is not available**. In such cases, you will need to make some simplifying assumptions or agree on ground rules that will make the costing process easier. For example, you might assume that the costs of the measure can be compared with a similar measure implemented in the past, or you could agree that as a ground rule, you will use the official public-sector pay scale when estimating the cost of employees.

For a clear explanation and some examples on how taking assumptions and agreeing on ground rules can help the costing, see Section 2.4 of the Costing Manual ("Establishing Ground Rules and Assumptions").

The considerations outlined above have been taken account of in our recommendations for identifying the most workable approaches for costing the typical measures connected with the EU accession process. These are described on the following pages.

1.2 Normative measures

Example: Drafting and adopting a law and its bylaws in order to transpose an EU directive.

KEY CONSIDERATIONS::

- Is the drafting of laws and bylaws going to be performed by the existing personnel of the CPA, or will it be necessary to engage external experts?
- Are the development partners providing any technical assistance?
- Will it be necessary to organize informational / awareness-raising activities on the new normative framework?
- What other activities should be undertaken for the implementation of the new normative framework?

APPROACH TO COSTING:

Own personnel – The process of costing own personnel, i.e. the existing staff of your CPA, includes estimating the number of staff members who will take part in the implementation of the measure and calculating the time they will need to invest in such implementation activities as the drafting of normative acts, supporting the approval process and engaging in stakeholder consultations. OMF 209/2015 and the Costing Manual require the cost of salaries and other expenses of own personnel to be accounted for as a cost of the measure. Estimating the human resources inputs required for implementation (for example, in terms of person-months) is a good planning practice that will prevent you from including measures in the EU accession related action plans that cannot realistically be implemented by your staff within the set deadlines. It may also lead you to conclude that outside support will be needed for implementation.

Further clarifications on the treatment of own personnel costs are provided in Section 1.2 of the Costing Manual ("Defining the estimate's purpose").

Other own costs – The cost of personnel involved in the preparation of a particular law and related bylaws will not be the sole own cost of the measure for your CPA. Your staff will need office space, office equipment and supplies, computers, electricity, water, an internet connection and other utilities. Their work would not be possible without support staff such as the administrative, financial and technical personnel. These costs are referred to as the *indirect costs* or *overheads* of the implementation. The costing team will need to consider the indirect costs of the measure and discuss the extent of their importance. When you can establish that the indirect costs will be small compared to the other costs of the measure, the Costing Manual allows you to ignore them and not include them in the overall cost estimation. However, when the indirect costs are substantial, you need to estimate them too and allocate them to the measure.

Further clarifications on the treatment and estimation of indirect costs are provided in Section 2.2.4.2 of the Costing Manual ("Classification of costs by traceability").

Outside experts – If you decide to engage external experts, you will have to estimate the work input you will need from them (in terms of expert days), and the gross daily payment for their services. If your CPA or ministry (or a different CPA that you approach with a request for information) has previously contracted experts, you can simply check the financial records to ascertain the cost and length of the experts' involvement and proceed by analogy. Alternatively, you could ask three different professional service providers for quotations and use the average of their prices as a benchmark.

Experts provided by the technical assistance – Development partners may provide you with experts who will help you in drafting the normative acts. In most cases, such experts will be hired and paid directly by the technical assistance project. Since the costing should only include expenses paid from public budgets, the costs for experts not paid for out of the budget should not be accounted for and hence should not be included in the Costing and Budgeting Table. Instead, the explanatory notes to the table should include a note stating that the implementation of the measure will be supported by external technical assistance. For the sake of the transparency and credibility of your cost estimate, you also need to provide the title of the project or the donor who will provide the assistance.

Further clarifications on the treatment of costs paid directly by development partners are provided in Section 3.4.1 of the Costing Manual ("Identifying available funding sources").

The guidance provided in this section on **costing the inputs of the CPA's own personnel, the other own costs of the CPA and the costs covered off-budget,** such as by the technical assistance, applies equally to all of the types of measure within the EU accession process.

Informational activities – For complex pieces of legislation that will affect a variety of stakeholders, you may decide to launch informational and awareness-raising activities as early as during the process of drafting and approving the normative acts. The costs of such activities should be accounted for as part of the total cost of the measure.

For guidance on costing the **awareness-raising activities,** please consult Section 1.4.

Implementation activities – It goes without saying that laws do not implement themselves, and that transposing a directive into the national legislation does not ensure that it will be fully implemented in practice. Many supplementary activities may be needed to ensure the implementation of the adopted legislation. These may include the setting-up of new institutions (e.g. independent regulators), the training of civil servants and the staff of other stakeholders, the provision of financial support for the process of adjusting to the new normative framework, and investment in new facilities (e.g. food safety laboratories and water treatment plants), etc. It is important to be aware of such follow-up activities as early as during the preparation of normative changes, and it is highly recommended to include them into the EU accession-related action plans. However, for the sake of clarity we recommend that any such implementation activities are presented as separate measures and costed separately from the purely normative process of adopting the necessary legal framework.

RELATED EXAMPLES:

Other measures that mainly rely on the activities of your own personnel may be costed in a similar way – for example, measures to improve the coordination of policies, such as setting up the economic governance institutions or the structures required for using the EU's pre-accession financial assistance. Another example is the measures that include the preparation of an action plan or other public policy document.

Case Study 1 in the Costing Manual provides a detailed example of all the steps and calculations involved in costing the transposition of a directive.

1.3 Institutional measures

Example: Setting up a new institution, e.g. an independent electricity market regulator.

KEY CONSIDERATIONS:

- What is the target number of employees and their required level of qualification? How many employees can be reassigned from other units or public sector authorities? How many new employees will be hired in each year of implementation of the measure?
- Is inception training needed for the employees of the new institution?
- What will be the annual operational costs of the new institution (including the continuous training of employees)?
- Is any specialized equipment or IT system required for the proper functioning of the new institution?
- Are there any available facilities for the new institutions, or will renting or purchasing new premises be necessary?
- Which costs will be incurred only once as an initial investment for setting up the new institution, and which will be incurred continuously during each year of operation of the institution?
- Is it expected that part of the costs of the new institution will be covered by user fees (e.g. a charge levied on electricity consumers and operators that is earmarked for covering the cost of the regulator)?

APPROACH TO COSTING:

Costing by analogy – If a similar-size institution has been established in recent years, the costs for the new institution could be estimated by analogy with the comparator institution. The simplest method is to establish the total cost per employee of the existing institution and use it as a key cost parameter for estimating the costs of the new institution. For extra precision, adjustments can be made for differences in the skill (i.e. pay) levels of the employees, specialized equipment and IT system, inception training, purchase of facilities and similar.

Example 8 in the Costing Manual Section 2.3.2 ("Choosing the cost estimating methodology") describes the analogy costing of a new patent office, using a single key cost parameter.

Costing by activity – The view could be taken that separately costing each individual activity (e.g. personnel, operational costs, inception training, equipment and IT systems, premises etc.) would provide a much more precise cost estimate. This would only be true if the details of the organizational and technical structure of the new institution are already known and clarified. When this is not the case, analogies at the level of activities may help. The target number and structure of the employees may be estimated by analogy with similar institutions in comparable countries. Annual operational costs and equipment costs may be estimated by analogy with the operational and equipment costs per employee of the CPA proposing the measure. Equipment costs can be estimated by using the CPA's accounting records for existing equipment. The decision on purchasing versus renting premises might hinge on information from the government's registry of its immovable property.

For guidance on estimating **training costs,** consult Section 1.4. For guidance on IT **system costs,** consult Section 1.6.

Full cost of personnel – Regardless of which of the two approaches is chosen, the staff costs for the new institution should include both the newly hired employees and those reassigned from other units of the public sector. Although the salaries of the staff already employed in the public sector are provided for by the budget, from the point of view of the new institution they represent new and not existing personnel.

One-off and recurrent costs – When estimating the total cost and the annual cost for each year of implementation of the measure, you should take care to distinguish between those costs that will be incurred only once (e.g. the purchase of equipment, the setting-up of the IT system, the purchase of premises, etc.) and those which will be incurred regularly every year (e.g. personnel costs, operational costs, rent for premises, etc.).

Example 2.3 and Section 2.2.4.3 ("Classification of costs by recurrence") in the Costing Manual provide further clarifications on the treatment of recurrent and non-recurrent costs.

Financing by fees – Regardless of whether the new institution will be partly self-financed by dedicated revenue from fees or charges paid by the users or beneficiaries of the institution's services, the cost estimation should take into account the overall total costs of the new institution. The payments from users or beneficiaries will be presented as one of the measure's funding sources.

Further clarification on the treatment of fees and other revenues generated by the measure is provided in Section 3.4.1 of the Costing Manual ("Identifying available funding sources").

RELATED EXAMPLES:

A similar approach can be taken for costing measures aimed at increasing the capacity and responsibilities of existing institutions, such as the upgrading of the agricultural development agency to enable it to implement the EU's Common Agricultural Policy. Such measures typically include a staff increase (by hiring or by reassignment), specialized training, specialized equipment and IT systems, and perhaps even an extension of the premises used by the institution. The main difference is that when costing the upgrading of an existing institution, the costs of the existing personnel do not need to be accounted for, while most of the other costs can be estimated fairly easily by comparison and analogy with the current costs of the same institution.

Example 7.1 in the Costing Manual provides further clarification on the costing of the increased capacity of an existing institution.

Case Study 2 in the Costing Manual provides a detailed example of all the steps and calculations involved in costing the capacity-strengthening of an existing regulatory institution.

1.4 Knowledge measures

Example: Training and awareness-raising activities.

KEY CONSIDERATIONS:

- What is the target number of participants, duration of workshops, number of workshops, location (government premises or commercial venues, in or outside the capital)?
- What types of participation costs are expected to be covered by the trainees or their organizations (e.g. travel, accommodation, meals, etc.)?
- Will the organization of training be contracted to a specialized agency or carried out by the CPA's own personnel? Will the lectures be delivered by CPA specialists or by outside experts? Will translation need to be provided?
- Will the awareness-raising campaign be developed and implemented by CPA's own personnel or contracted to a specialized agency?
- Is the awareness-raising campaign going to include paid advertising and media time? What kinds of promotional materials (e.g. flyers, posters etc.) should be designed and printed? What channels of distribution will be used?

APPROACH TO COSTING:

Costing by activity – During our professional careers we have all participated in some kind of training, and we can all easily list the costs typically involved (e.g. conference rooms, technical equipment, meals and coffee breaks, experts and translation, accommodation, travel, etc.). For costing, the prices of individual items can be obtained from accounting records of previous events or by market scoping. Market scoping typically involves checking the published prices of different service providers or contacting the potential providers directly.

Costing by analogy – Estimating the cost of every item, from coffee breaks to accommodation, would be very time-consuming and may also be unnecessary. With training being a frequent activity, it should not be difficult to find examples of recently delivered events that are comparable in terms of key characteristics like the number of participants, durations, the involvement of outside experts, and location. Such data can be analysed to establish the key cost drivers, such as the number of participants or the days of duration, and thereby estimate the average cost per participant or per day. As awareness campaigns are less frequently delivered, at least in a planned and systematic way, costing by analogy with previously implemented campaigns may be more difficult.

Examples 3.1 and 3.2 in the Costing Manual provide guidance on costing the training and awareness-raising efforts regarding the DCFTA's requirements for small businesses.

Obtaining price quotations – As an alternative to costing by activity or by analogy, we could ask at least three specialized service providers (e.g. event managers, training centres or public relations agencies) for price quotations. To obtain a meaningful quotation, we need to provide the service agencies with an exact specification of the cost drivers of the planned activities. These mainly include those mentioned in the questions under the 'Key considerations' heading above – i.e. the number of participants, duration, location of training, paid advertising and awareness campaign materials. When they are not yet clear, we might ask for an optional quotation (e.g. for two different participant levels) or for a quotation per unit of deliverable (e.g. per workshop day). As an option for awareness campaigns, we could just set the target (e.g. the intended reach of the campaign) and ask the service provider to come up with a more detailed campaign specification and estimated costs. In any event, you should be aware that preparing a price quotation may be very time-consuming for a potential provider, so this approach should only be used when the CPA intends to publish a tender to contract such activities to an outside provider.

Co-financing by participants or their organizations – When using the unit-cost approach to estimate the cost of training (e.g. one based on the cost per participant or the cost per day), identifying the portion of costs that will be covered by the participants is not straightforward. One option is to use accounting records to establish the share of the total costs that were covered by participants at similar previous events. Another option is to use sound expert judgement based on consultations among the members of the costing team. Note that the full cost of the training needs to be estimated, whereas the expected coverage from participants should be recorded under the 'Funding sources' heading as private sector co-financing.

> For guidance on costing the inputs of the CPA's own personnel, other CPA own costs and the costs covered by external technical assistance, please refer to Section 1.2.

RELATED EXAMPLES:

The same approach should be used when training or awareness-raising is only one activity that falls under a broader measure. For example, the information campaign is a component of the measure aimed at providing financial support to a target group of beneficiaries. Other methods and means of knowledge sharing, such as the provision of consultancy services to businesses or study tours for public officials and stakeholder representatives, can be costed in a similar way.

> **Case Study 3** in the Costing Manual provides a detailed example of all the steps and calculations involved in costing an awareness campaign.

1.5 Financial measures

Example: Providing subsidies to small and medium-sized enterprises (SMEs) for adjusting to the EU's product standards for electronic products.

KEY CONSIDERATIONS:

- What kinds of enterprises are going to be the beneficiaries (target group) of the subsidy?
- What will be the criteria for receiving the subsidy?
- How will the amount of the subsidy per recipient be determined?
- Is there a target for the total number of recipients, or a limit on the total value of the subsidies?

APPROACH TO COSTING:

Costing by key parameters – To estimate the cost of a subsidy, you need to estimate the likely number of recipients and the amount of subsidy they will be entitled to receive. The criteria for receiving the subsidy should already be known. On this basis you can estimate the number of eligible beneficiaries that fall within the target group, and then make an assumption about the share of potential recipients that will actually apply for the subsidy. You also need to know whether the same (i.e. flat-rate) amount will be awarded to all recipients, or whether these amounts will vary in accordance with specific criteria. For example, if the subsidy is to be given to SMEs that export electronic products, you will need to know how many SMEs are producing such products, the proportion of these SMEs that are currently exporting their goods (as they are more likely to apply for support), and whether the subsidy is going to depend on the product range of the enterprise, its export volume or some other characteristic(s). Such variables will be the main drivers determining the cost of the measure. Collecting such data or estimating the value of the key parameters requires a good knowledge of the beneficiary group and some analytical skills. It is therefore recommended to consult specialists within your CPA, or external experts if necessary.

Costing based on the target number of recipients – Financial support measures may include a target number of recipients – for example, by specifying that 10% of all electronics-producing SMEs should receive the support. This obviously defines the upper cost limit, but you will still need to know the size of the target group to be able to calculate the number of recipients and then to multiply it by the amount of the subsidy in order to estimate the cost. When the amount of subsidy varies substantially according to the recipient's characteristics, you will also need to make an assumption about the characteristics of those entities that will apply for support.

Costing based on the predefined budget – Often the amount available for a particular subsidy is set in advance by the budget, or by the development partner providing the funds. It would appear that costing is straightforward in such cases, in the sense that the cost will simply equal the available funding. However, it is still recommended to estimate the number of recipients and their share of the target group, in order to assess whether the measure is likely to make a significant impact. For example, if you establish that with the available funding only a tiny portion of the target group can be supported, you might reconsider the measure and decide to allocate the funds to another measure with a potentially greater impact. For such considerations, consultation with the decision-makers responsible for the measures of the CPA that relate to the EU accession process is essential.

Costing by analogy – The usefulness of analogies in costing financial support measures is limited. Only when measures that supported the same or a comparable target group in performing similar activities were previously implemented is the use of analogies likely to be useful.

Co-financing of the subsidy – Partial or total funding for certain subsidies may be provided by the development partners. Usually, they would pay their contribution into the budget of the CPA that disburses the subsidies. In such cases the total value of the subsidies should be counted as a cost to the budget, with the financial contribution of the development partners being counted as one of the measure's sources of funding. Conversely, when the development partners disburse the subsidy directly to the recipients, the subsidies should not be accounted for either as a revenue or as a cost to the budget, but should be described in the explanations appended to the Costing and Budgeting Table.

Reimbursable subsidies – With some measures, the recipients of the financial support are required to return the subsidy received either in part or in full after the time has elapsed during which it is assumed that the subsidy will have helped them to increase their business revenue. In such cases, the cost of the measure will still be the total value of subsidies awarded, because they need to be funded by the budget when they are paid out. If any return payments are expected from the recipients during the implementation of the measure, these should be accounted for as being one of the funding sources.

For guidance on costing the inputs of the CPA's own personnel and its own costs, please refer to Section 1.2 above. For guidance on costing any **informational activities relating to financial support,** please consult Section 1.4, which discusses awareness-raising campaigns and trainings.

RELATED EXAMPLES:

The same costing approach can be applied to all subsidies to enterprises and organizations as well as to transfers made to individuals. For measures financed by loans, any payments of interest and principal that are due during the implementation period should be accounted for as a cost of the measure. For measures providing government guarantees for loans extended by third parties, such as the banking sector or international financial institutions, the likelihood of default by the loan recipients needs to be estimated, and only the value of the guarantees which are likely to be claimed from the budget should be counted as the cost of the measure.

Case Study 4 in the Costing Manual provides a detailed example of all the steps and calculations involved in estimating the cost of providing a financial benefit to vulnerable households. The case study also explains the development of alternative cost scenarios involving different target groups and levels of benefit.

1.6 Technical measures

Example: Developing an IT system to distribute and monitor agricultural subsidies.

KEY CONSIDERATIONS:

- What are the main technical characteristics of the planned IT system?
- Is the IT system going to be set up from scratch or by upgrading existing solutions? Can it be developed by internal IT specialists or will it need to be procured from an external provider?
- How many different input (data) sources will be integrated into the IT system? How many different institutional units and persons will use it?
- How many persons will be trained to use the IT system? Will the IT company that developed the system provide the training, or it will be delivered internally by own technical personnel?
- Will any hardware/equipment need to be procured to support the IT system?
- What will be the annual costs of the technical support provided to users, and the annual costs of system maintenance and upgrades? Can technical support, maintenance and upgrading be provided internally, or will they require continued external support?

APPROACH TO COSTING:

Costing by analogy – The setting-up of an IT system is a frequent activity in public administration, so it may be possible to find an analogy to help with costing – but it may not be so easy to find a comparable one. IT systems differ greatly in terms of their technical characteristics, with a consequent substantial impact on cost. It is therefore recommended to use not merely one but several existing IT systems as potential analogies, and to carefully explore their differences and similarities to the planned IT system.

Here, technical expertise is essential, so you will need to involve IT specialists in the costing team, plus those main potential users best suited to defining the needs and services required from the IT system.

Obtaining price quotations – During the costing process, you could ask at least three specialized IT providers for a price quotation. To obtain a meaningful price quotation, you will need to provide an exact technical specification for the IT system. Obtaining independent price quotations may also serve as a useful check on any cost estimates made by analogy.

Connected costs – Making an IT system work requires much more than the development or purchase of software. It may require additional hardware such as servers or high-powered computers (their prices can be established from accounting records pertaining to similar equipment, or by scoping current market prices). The IT system will have to be populated with data and regularly updated. Data privacy protocols might need to be established and supervised. Users will need training. Technical support, maintenance and upgrades will need to be provided, and these can be very costly. When estimating the cost of the measure, all such associated costs should be taken into account. Most of these costs will be recurrent, i.e. they will be incurred during every year of operation of the IT system.

> To review the importance of distinguishing between, and accounting for, both recurrent and one-off costs, please refer to Section 1.3.

Costing a CPA's own work inputs – Developing an IT system usually requires inputs from both the internal expertise of the IT division and the expertise of external providers. The same goes for most of the associated activities: training, technical support, maintenance, upgrades, integration of data sources, etc. Externally provided solutions need to be thoroughly checked by both the internal IT division and prospective users to confirm their technical soundness and their compatibility with the needs of the users. All these activities require considerable effort and inputs from the CPA's own personnel. It is therefore important to carefully plan the required internal work inputs in terms of the number of personnel and their workdays – not only to estimate the internal costs of the IT system, but also to assess whether there is enough internal capacity to support the development and functioning of the IT system. This is why we strongly recommend careful planning and costing of the inputs of the CPA's own personnel.

> For guidance on costing the inputs from the CPA's own personnel and its other own costs, please refer to Section 1.2 above.

RELATED EXAMPLES:

Challenges similar to that of costing IT systems will arise with any measure that requires specialist technical expertise, customization and the substantial involvement of internal human resources. Examples include the digitalization of government services, the upgrading of the border management system or the developing of a comprehensive public sector accounting, reporting and budget management system.

> **Case Study 5** in the Costing Manual provides a detailed example of all the steps and calculations involved in costing the development of a specialized IT system.

1.7 Investments

Example: Investment in a state–owned power plant that uses renewable sources of energy.

KEY CONSIDERATIONS:

- What is the planned size of the investment in terms of its physical structures?
- What kind of general and specialized equipment will be needed for its operation?
- What will be the annual operational, personnel and maintenance costs?
- What are the legal requirements regarding project preparation, obtaining location and building permits, feasibility studies and cost-benefit assessments, technical, safety and environmental standards, and similar?
- Will the investment be financed by a loan, and if so, what will the annual cost of debt be?

APPROACH TO COSTING:

Specification of the investment project – The key to producing a good cost estimate for an investment is careful preparation of the investment project. The cost estimate should include the answers to all the questions posed above. When an investment project has already been prepared and includes an estimation of the investment costs, these can be used for the purpose of costing the measure that includes this investment project. Nevertheless, the costing team should check whether all the relevant costs were taken into account, including the recurrent annual operational, personnel and maintenance costs. The team should also check whether any adjustments are needed to account for changes in prices and exchange rates[3].

Costing by activities – When an investment project has not yet been prepared, the measure's first activity will usually be a feasibility study and a cost-benefit analysis of the project. Regardless of whether the actual investment will start during the implementation period of the action plan in which the measure has been included, the costs of each major component of the investment should be estimated at the time the measure is proposed. Such major components will include the construction of the building, the procurement and installation of the equipment needed for operation (ranging from the office and IT equipment to specialized machinery or instruments), and the costs of personnel, maintenance and other recurrent annual costs that will be incurred after the completion of the investment. Different methods will need to be used for the costing of individual components, and some components may need to be further broken down into lower-level activities.

Examples 7.1, 7.2, 2.1, 2.2 and 2.3 in the Costing Manual provide guidance on costing of investment projects, using the cases of a regional hospital and a fire station.

RELATED EXAMPLES:

The guidance provided here and in the Costing Manual is applicable to any investment project that may be needed within the EU accession process, for example environmental facilities such as water treatment

[3] For guidance on capital investment projects, consult Government Decision 1029/2013 of 19. 12. 2013 on public capital investment and MoF Order 185/2015 of 3. 11. 2015 on the instructions for the management of capital investment projects.

plants, testing laboratories to ensure food safety and product quality, investments to improve the energy efficiency of public buildings, and similar.

> **Case Study 6** in the Costing Manual provides a detailed example of all the steps and calculations involved in costing an investment project.

2. DEALING WITH UNCERTAINTIES

Cost estimates can never be fully accurate. Even when we have access to the most relevant data and use the best possible method, there will always be elements we don't know for certain. When not all the required data are available or the measure is not clearly specified, the unknowns become even larger. We deal with the unknowns by making assumptions and setting ground rules that allow us to make reasonably precise cost estimates. How this can be done when estimating the costs of typical measures for the EU accession process was explained in section 1.1.

It is important to be aware of the uncertainties and estimate their potential impact on costs. When completing the cost estimate, the costing team should devote some time to thinking about what can go wrong, with the result that the costs can be considerably higher or lower than estimated. The 'wrongs' may be related to the assumptions and simplifications made in the costing, or to unforeseen events that may occur during the implementation of the measure. OMF 209/2015 and the Costing Manual require the costing team to develop scenarios that show how unforeseen events could affect the level of costs. When all the assumptions and calculations made in the costing process are systematically documented, alternative scenarios can be generated by simply adjusting the key variables used in the costing.

> *Further guidance on accounting for uncertainties is provided in Section 3.2 of the Costing Manual ("Assessing sensitivity of costs to uncertainty") and example 2.4.*

In the context of the EU accession process, not all measures are equally prone to uncertainty. The costs of normative and institutional measures that are firmly under the control of the implementing CPA are less likely to be affected by unforeseen events. On the other hand, the costs of financial measures, IT systems and (especially) investments may turn out very differently from the estimates. The costing team should therefore use their joint expert judgement to assess the likelihood of unforeseen events and their potential impact on costs, and to generate scenarios for estimating the potential financial impact of unforeseen events, at least for those measures where the impact may be particularly high.

> OMF 209/2015 establishes a potential deviation of actual costs from the estimates by more than 15% as a rule of thumb for considering cost estimates to be unstable. When this is the case, it should be stated in the relevant section of the Costing and Budgeting Table.

3. ESTABLISHING THE FINANCIAL RESOURCES AVAILABLE

Establishing the availability of sufficient financial resources for the implementation of the measure is an integral part of the costing process. Once the costs have been estimated, the costing team should identify the financial resources available and, when these are insufficient, come up with proposals for closing the gap.

Further guidance on establishing the available financial resources and closing the funding gap can be found in Section 3.4 of the Costing Manual ("Identifying funding sources and budget coverage.")

Budgetary resources – These can be established by consulting the CPA's finance department and, when needed, the sectorial specialists in the MoF's Policies and Budgetary Synthesis Division. As a rule, only funding which is already secured under the adopted annual Budget or the Medium-Term Budgetary Framework should be accounted for. This also applies to any kind of development assistance that flows through the budget, and to any revenues earmarked for financing the measure.

Off-budget resources – These include all those expenses of the measure which are directly paid by the development partners or the beneficiaries of the measure, as well as any in-kind contributions. Examples where the development partners provide part of the funding for subsidies or experts were analysed in sections 1.2 and 1.5.

In the costing of measures, only those expenses paid from the budget should be accounted for, including the loans and grants provided to the budget by the development partners and the special-purpose (i.e. earmarked) fees and charges paid into the budget by the private sector. In those cases when development or private-sector partners cover some costs directly, i.e. off-budget, the expected direct funding should not be included in the Costing and Budgeting table but explained in the notes.

Funding gap – Whenever a funding gap is established (i.e. a shortfall of the resources needed to cover the measure's full cost), the costing team should consider the possible methods and means for closing the gap. This may include adjusting the measure to match the available resources, relocating resources within the budget, and making requests for additional funding to development partners or during the regular budget preparation procedure. The decision on how to close the funding gap will need to be taken by those decision-makers who are responsible for coordinating the CPA's measures within the EU accession process.

4. DOCUMENTING THE COST ESTIMATION

Documenting the assumptions made, the data used, the calculations performed and the uncertainties considered during the costing process is important not only for ensuring the transparency and credibility of the cost estimate and any related funding requests, but also for strengthening costing capacities by providing information that will be useful when applying analogies for similar measures in the future. Documenting your work is good practice in terms of retaining and sharing institutional knowledge.

Regarding the documenting of the costing process, see Step 4 (Handover) in the Costing Manual.

It is important to be aware that all costed actions, provided they are approved by decision makers, will be accounted for within the annual budgeting process. All costs that have been estimated during the costing process will have an impact on public expenditures, and should be properly reflected in the relevant budgetary planning documents. This raises the need to ensure that irrespective of the format in which the cost data was initially collected and organised, the final cost estimate should ultimately be provided in a format that facilitates the annual budgeting planning process.

> The Costing Manual provides a template for communicating the final cost estimate, i.e. the Costing and Budgeting Table. The Costing and Budgeting Table is presented in Annex 1, while detailed explanations of the categories used in the table are provided in the Costing Manual in sections 3.3 (on costs) and 3.4.1 (on funding sources).

ANNEX 1

Costing and Budgeting Table (CBT)

Name of action / measure:	[Insert the title of the action / measure which is being costed]
If part of a PPD, name of PPD and code of action / measure:	[Insert code of the action/measure from the relevant Public Policy document]
Responsible institution:	[Insert the name of the CPA responsible for the action/measure]

FINANCIAL ESTIMATION	CURRENT YEAR	YEAR +1	YEAR +2	YEAR +3	TOTAL
1. IMPACT ON PUBLIC EXPENDITURE (BY ECONOMIC CATEGORY)					
Existing personnel					
New personnel					
Goods and services					
Social benefits					
Subsidies					
Capital investments					
2. AVAILABLE FUNDING					
2A. Funding available from existing MTBF/budget allocations					
Subprogramme code					
Existing personnel					
New personnel					
Goods and services					
Social benefits					
Subsidies					
Capital investments					
2B. Allocations from other existing budget programmes					
Code of the subprogramme from which the resources will be reallocated					
Existing personnel					
New personnel					
Goods and services					
Social benefits					
Subsidies					
Capital expenditures					

FINANCIAL ESTIMATION	CURRENT YEAR	YEAR +1	YEAR +2	YEAR +3	TOTAL
2C. Committed funding from external sources					
Donor grants to the budget					
Dedicated loans					
Other public funding available					
Participation by the private sector					
Budget revenues created by the action/measure					
3. DIFFERENCE BETWEEN AVAILABLE FUNDING AND ESTIMATED COSTS (2-1)					
Funding gap as percentage of total cost (3/1)					
4. POTENTIALLY AVAILABLE ADDITIONAL MEANS TO COVER THE FUNDING GAP					
Donor grants to the budget					
Dedicated loans					
Other public funding available					
Participation by the private sector					
Budget revenues created by the action/measure (only if earmarked for implementation)					
Adjustment of the action/measure to increase cost efficiency					
5. REMAINING DIFFERENCE BETWEEN AVAILABLE FUNDING AND ESTIMATED COSTS (3+4)					

EXPLANATION
1. Main calculations made and data used in the estimation of costs, including ground rules and assumptions made in the estimation of costs and funding sources
[Specify sources of data used in the costing. Explain the method of calculation used to estimate the cost of action/measure. Explain the ground rules and assumptions made in the process of costing. Specify whether indirect costs were included in the cost estimation. When budgetary grants, inter-budgetary transfers or debt servicing costs are included in the cost estimate, explain this here. Provide information on activities/measures which will be paid directly (i.e. off-budget) by development partners or by private sector partners. When available funding is not sufficient, explain the actions that will be taken to secure additional resources.]
2. Sensitivity of cost estimates
[Specify key uncertainties that may affect the costs and explain scenarios developed to estimate their financial impact. If the financial impact under any scenario is outside the +/- 15% range of the cost estimate, specify the adjustments which were made or will be made to reduce the financial impact of such uncertainty.]

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