

Manual on Budget Impact Assessment of New Initiatives

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1. Introduction

1.1 Scope of the Manual

The BIA manual for new initiatives aims to provide instructions to budget organizations to assist them identify the costs associated with any new initiative within their field of responsibility, and proposed funding sources. In addition, the information obtained through procedures described within this manual are aimed to feed back to the decision making process regarding prioritization of ministry policies. Finally, the information is to be used in conjunction with the budget planning process to ensure the policies are funded and implemented, and their planned impact is identified and measurable.

In principle, policies that are contained in sector and ministerial strategies which input into the MTEF should be fully costed and linked to the achievement of measurable objectives and outputs before submission for inclusion in the MTEF. This is fully consistent with articles 7, 29, 31 and 49 of the Regulation on the Rules and Procedures of the Government of the Republic of Kosovo no. 09/2011. This manual provides the guidelines and procedures for implementing elements of these articles.

This Manual contains advice on how to produce a plan with associated sequencing of outputs and activities, as well as costs of such activities and proposed funding sources for new initiatives:

- Provide a comprehensive statement of how a Ministry intends to turn new initiatives into action that will inform Government, the Assembly and the public.
- Calculate the costs of implementing these new initiatives, and determine proposed funding sources.

Furthermore, Manual is a practical tool for the Ministry to use in defining the content of the plan for introducing new initiatives into the budget– the way in which policies, goals, objectives, projects, outputs and activities are defined and linked together so that they provide a clear narrative. The translation of new initiatives into practical action should be transparent.

The Manual provides definitions and illustrative examples of good practice and a checklist of points to review before you approach the computer. For the most part examples from Kosovo have been used.

1.2 Who should use this Manual?

This manual is for anyone who is involved in developing and proposing new initiatives in a budget organization, and the outcomes of Budget Impact Assessment are to be used by the centre of Government (Office of the Prime Minister and Ministry of Finance) for analysis and review prior to decision-making.

1.3 Summary of Assessment Methodology

The approach for Budget Impact Assessment of new initiatives will be bottom-up approach for estimating of costs required to implement and maintain the delivery of policy initiatives. This will require proposers of these initiatives to:

1. Determine what is to be achieved in terms of desired goals, and objectives, and
2. Specify the outputs and the individual activities required to achieve the objectives.

For each required activity, determine the inputs required which will need to be specified such as:

1. Type of human resources;
2. Time required to complete the work;
3. Materials required; and
4. Any use of equipment.

These inputs will be costed using appropriate prices from various sources such as the approved government salary rates and entitlements for civil servants, and supply quotes from past and current procurements, when such information is available.

Individual component costs will be aggregated to Budget Economic Categories to enable easier incorporation into budget documents. All costs for individual activities will then be added back to the initiative level. This process should result in a cost figure for the initiatives through estimation of cost of activities required to be conducted as part of the implementation of initiatives and activities associated with on-going delivery of public goods (outputs) specific by new initiative.

Each step of the methodology will be described for budget organizations' officials in the following sections. As described above, a good analysis of the initiative's goals and objectives will be needed in order to break them down into detailed activities. A time schedule of tasks for implementing the required work packages will be needed in order to produce a cash flow projection for start-up and on-going phases of the initiative. Budget organizations can then use these cash flows to incorporate them into the budget funding requests. The cash flow requirements for the start-up phase and on-going phases are often different due to activities performed and the quantity of outputs delivered.

1.4 The Bottom-Up Cost Estimating Process

Cost estimating method for new initiatives is made up of a number of stages, as following.

STAGE ONE – Determining what is to be achieved and how it will be achieved

Specify initiative's measureable goals, which can be newly formulated or taken from a strategic document. Next, break the goal into objectives and define outputs which are needed to achieve the objectives. Furthermore, define individual activities that are needed to produce initiative's

outputs. A graphical presentation in form of a tree is often helpful to depict the hierarchical relationship between goals, objectives and related concepts.

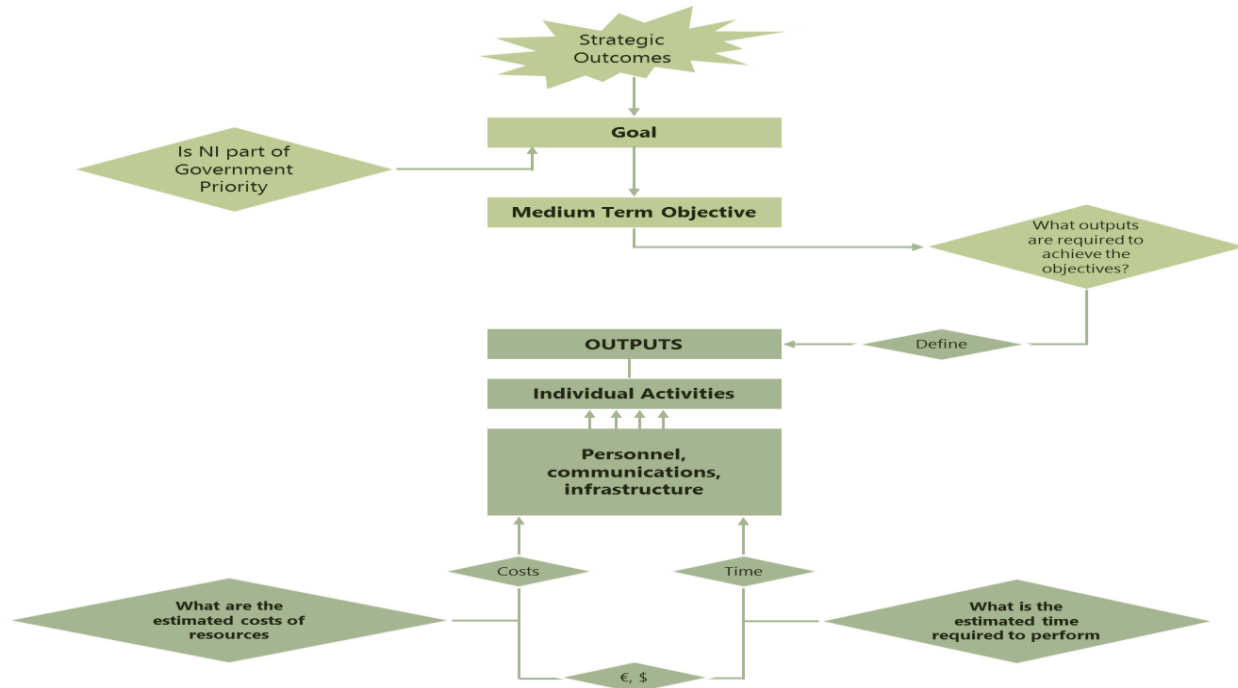


Figure 1: Estimating Costs of Activities

STAGE TWO – Estimate costs for each individual activity identified.

The costs are required to be categorized according to the detailed economic categories. In order to attach costs to individual activities, specific input resources should be assigned to activities. This requires assigning to each activity the estimated time needed by different categories of staff and necessary materials and equipment. After resources needed to complete the activity have been identified, the next step is to estimate how much the resources cost in Euro. For staff, this can mean cost of salary for the time spend doing the activity. For materials, it means the cost of the amount of material used. Information on costs can be obtained from various sources, which will be detailed in Section 3.10.

STAGE THREE – After all activity costs have been identified, they need to be added and totalled back up through the initiative. This will result in number of sub-totals for the costs of activities belonging to an output plus a totals costs for the outputs in questions to arrive at a total cost of the objective, and ultimately the total cost of the goal.

STAGE FOUR – After the total cost of an initiative has been estimated, the next step is to identify the proposed funding sources for implementation of the initiative. Such funding sources are:

- 1) Saving Options, which means that the proposer intends to find funds within current budget ceilings, therefore no additional funding from Ministry of Finance will be required for implementation of the initiative;

- 2) Additional Funds Requested, meaning the proposer intends to seek additional funds from the Government Grant, which will probably result with:
 - a) Additional Budget Request during the budget formulation process; or
 - b) Changes to the current budget as approved by the Government and Assembly;
- 3) Borrowing, means the proposer intends to fund the initiative, fully or partly through borrowed funds, which will eventually become part of the budget ceiling.
- 4) Development partners, means the proposer intends to fund the initiative, fully or partly, by using donor grants;
- 5) Other funding (PPP) – Public-Private Partnerships are another form of financing, which Budget Organizations can use should such form is feasible.

		Individual Activities				
Resources	Exp. Categ.	Funding Sources				
		Saving Options	Additional Funding	Borrowing	Dev. Partners	Other Funding (PPP)
Personnel	Salaries and Wages	€				
Consulting/Design	Goods and Services				€	
Communication	Goods and Services					
Maintenance	Goods and Services					
Transport Infra.	Capital Item					
Building	Capital Item			€		
Maintenance	Goods and Services					
Furniture > 1000€	Capital Item		€			
Equipment > 1000€	Capital Item					

Figure 2: Funding Sources for Resources

Overall, the information that budget organizations collect and present during this process will prove valuable for planning their own work in the implementation of initiative as well as securing the funding to enable smooth implementation.

An Excel worksheet which links all the aspects together accompanies this Manual.

2. The Elements of Costing of New Initiatives in the Context of Programs

2.1 Introduction

The approach to budgeting is generally evolving, but there is a clear vision for where it is going and what it will be like when the reforms are put in place. Already, ministries and budget

organizations are being asked to submit statements on what their overall policies are, how their overall mission related to these and what they are trying to achieve in terms of these policies in measurable terms. It has not always been successful, but improvements are noticeable, with the centre of Government leading the way forward in this regard. A major reform to be introduced by the Ministry of Finance is the development of programs. While yet to be implemented, the absence of a program structure is not an obstacle to the implementation of this Manual – often individual departments equate to a program where there is no program structure.

Where there is no program, the responsible department would be identified and associated with the initiative that is being costed in the accompanying Excel worksheet. Nevertheless, the logical structure associated with programs is to be followed as it will assist in accommodating the eventual incorporation of programs and does not diminish the approach to costing from the bottom-up as outlined above.

2.2 Program

A Program contains all the work associated with one coherent policy area. It includes both policy development and execution. And each Program should be distinct from all other Programs.

As a general rule, all Programs should be defined in terms of the policy that they design and implement and not functions. This is because all the remainder of the work related to costing of policy is organised around policy goals, objectives and outputs. It will be very difficult to do this work if the policy itself is not clear.

In current Kosovo budgeting context, while with no programs are introduced, there are still policies to be implemented and costed and these policies are designed to deliver results. Therefore in this context, the policies have to be associated and delineated in terms of the Department/Ministry which will implement them.

The *Program¹ Description* should simply state the competencies of the Program. In cases when this is not possible then the relevant Sector or Budget Organization, and Sub-sector/Programme/Department should be inserted in the Excel Tool. The *Program Policy Statement* should identify the policy for which the Program is responsible. There should be a recognisable link between the Program Policy Statement and the public documents that set the policy agenda. That might be the Government Program, National Development Strategy, Cross-Sector Strategy, a Sector Strategy, Sub-Sector Strategy or some similar document.

For Roads², a good policy description of the programme might be:

The policy of this program is based on European directives and legislation: a legal regulative system that is based in the conditions and the deadlines defined in the agreements with international organizations, in accordance with the European standards. The program policy aims to achieve: development, rehabilitation, and maintenance of national roads network (with the necessary financial resources), that support and encourage the development of the economy and that meets all the needs for permanent road transport, with low user cost and high safety level.

Programs often match exactly with departments but this will not always be the case. Sometimes two or more departments are included in the same program because they each have different responsibilities but for the same policy field. So for example, the Management of Public

¹ When Program is mentioned, Ministry and Department should be used until a program structure has been initiated.

² An example from Roads Department is taken through the body of this manual to illustrate the points made in the guide. Other examples are presented in annexes.

Expenditure program (Ministry of Finance) properly includes the department with policy for macro and fiscal issues, the department with responsibility for policy on the formulation of the annual budget and the MTEF, and the department with responsibility for implementing the budget with respect to payments, accounts and financial control. When a Program includes two or more departments in this way it makes no difference to the normal managerial and hierarchical relationships within the budget institution. In this case it makes sense to introduce sub-programmes that contributes to the main program³.

2.2.1 Checklists for Programmes

1. Is where the policy fits with respect to implementation clear either at program/department/ministry level?
2. Are there policies where implementation is included in more than one program/ministry/department? If yes, then re-arrange the scope of the policy so it appears in one Program/Ministry/Department only or re-arrange management arrangements.

2.3 Program Tree

A Program Tree is a diagrammatic way of describing the planned work of a Program.

It shows how resources allocated to individual tasks (Activities) will eventually lead to the achievement of long-term policy ambitions (Goals). The sum total of the resources allocated to Activities will equal the total budgeted expenditure of the Program. Or, to put it the other way round, it shows how a statement of a long-term policy ambition (Goal) is converted into a concrete set of tasks (Activities) that will be carried out year-by-year the outputs for which can be measured and monitored to ensure that the intended policy is implemented. Activities have inputs so they can be delivered. Inputs have costs.

A Program Tree incorporates every level of budget planning and analysis and covers every item of Program cost. It is the most comprehensive representation of a Program's link between policy and cost to implement that policy. The relationship of all Activities to the policy Goal can be traced through Outputs and Program Objectives.

The diagram below shows a generic model of a program tree.

³ A Basic Model of Performance Based Budgeting Marc Robinson and Duncan Last

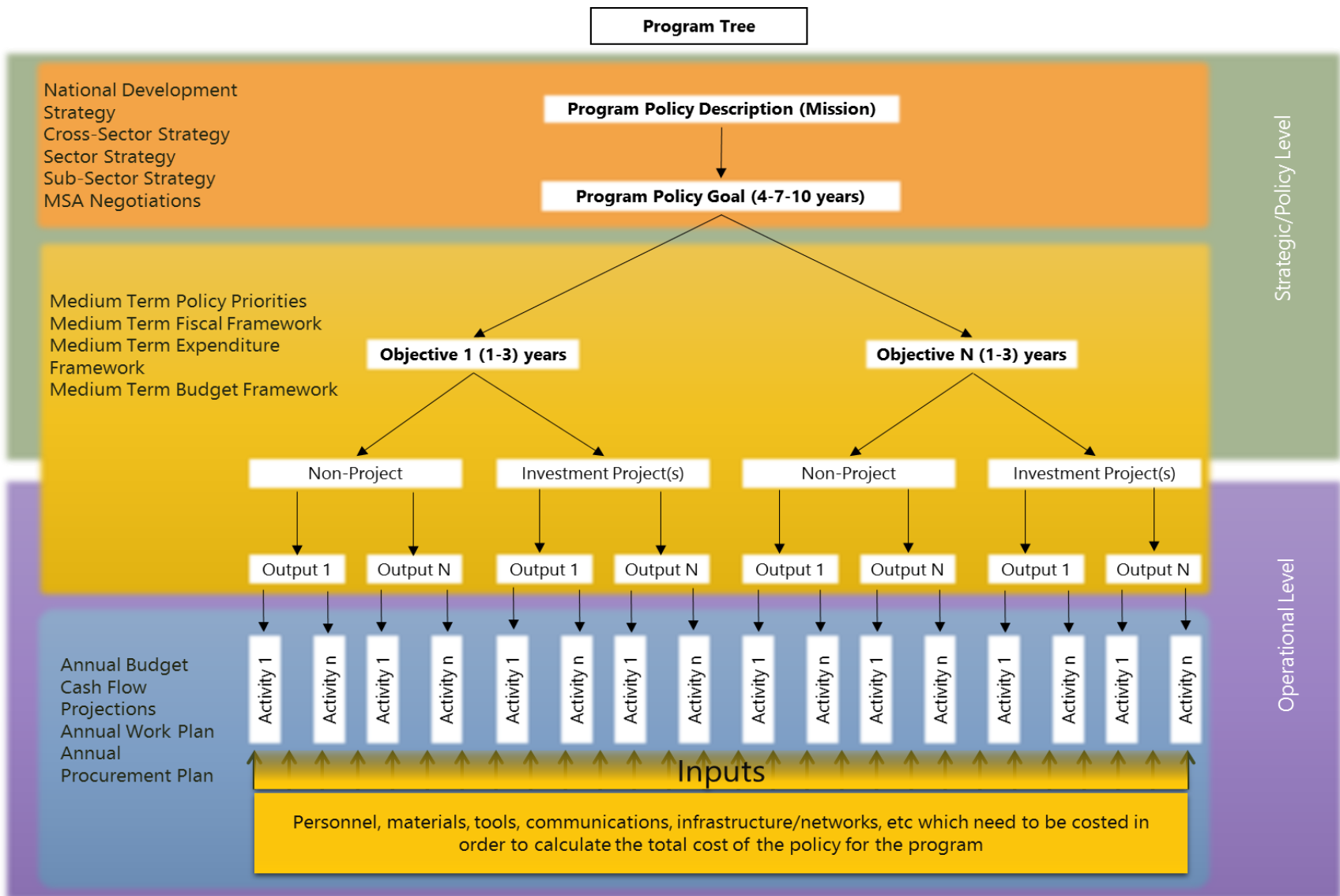


Figure 3: The Program Tree

2.4 Policy Goal

A Policy Goal is defined as the desired, measurable result to be achieved from government actions that should be achieved in the medium to long term (beyond the MTEF period).

A goal is a long-term target for a Program or a sub-sector. It will be reached at some point beyond the medium term – that is in year 4 or later. Some policies have very long time horizons and these should be reflected in the description of the goal. Goals should be measurable in some way or it will not be possible to know when, or whether, they are achieved.

Policy Long Term Goals, could be:

- *Completion of three main national road corridors by 2017, with minimum driving speed of 90 km/h and structural and pavement durability in line with the maximum allowed weight of trucks in EU countries.*
- *Good or fair road condition (defined as IRI⁴ lower than 4.0 for good and IRI lower than 5.0 for fair) achieved over 75% of the network by 2018.*
- *Fatal and serious accidents reduced by 30% by 2016, from XX per million vehicle-kilometres in 2011.*
- *Average journey times by road between four most populous cities reduced by 10% by 2016.*

These goals are specific enough and avoid repeating the Program Policy. The quantitative targets and dates are just given as representative examples. Clearly, some thought has to be given to the trajectory of the goal in both the immediate and long term. What is needed is a starting baseline and a realistic set of targets that reflect the road building effort and its impact.

2.4.1 The relationship between goals and objectives

Work towards the goal may already have started. Or it may begin in the medium term. In either case, there should be objectives that will make progress towards the achievement of the goal in one of more years in the medium-term. The medium term is the current year (year 0) and the next three years (years 1 to 3).

If a goal has no objectives that are linked to it then this means that work towards achieving the goal will not begin until after the end of the mid-term plan – that is in year 4 at the earliest

⁴ International roughness index: a measure of ride quality. Higher road roughness means increased operating costs for vehicles (i.e. lower efficiency of network). See Section on Standards below

2.4.2 Check list for Policy Goals

1. Does the definition clearly describe a desired policy achievement that will be reached in year 4 or beyond?
2. Is the time horizon included in this definition appropriate to the nature of the policy?
3. Does the definition include details of how the goal is to be achieved instead of, or in addition to, the description of the policy achievement? If so, there may be some confusion between ends – which are described in goals and objectives – and means that are described in outputs.
4. Are there objectives that will take forward work towards the achievement of the goal in one or more of the mid-term years? If not, do you intend to start work only in year 4 or beyond?

2.5 Policy Objective

A Policy objectives are defined as:

Specific policy achievements, precisely measured in terms of time, number and cost, that can be accomplished during the MTEF period, and that are intermediate steps in achieving a policy goal.

All ministerial expenditures should contribute to the stated Policy Objectives.

The objectives define the planned achievements in each year of the medium-term. The generally accepted Public Financial Management (PFM) concept of medium-term always keeps four years in view – the current year (year 0) and the next three years (years 1 to 3). An objective may contribute progress towards the achievement of a goal which, as we have seen, will not be completed until the longer term. An objective may describe the completion of action that was started some years previously. An objective may describe work that is continued from year to year.

An objective must state clearly what you plan to achieve by the end of the year in question. To allow subsequent evaluation of whether the objectives have been achieved, each objective should be formulated in SMART terms:

- **Specific**
- **Measurable**
- **Achievable**
- **Realistic**
- **Time-bound**

It is not a description of the means by which you plan to achieve the objective. The means will appear as outputs and activities.

Objectives should be independent of each other so that they can be measured separately without overlap or double counting. You will find it very difficult to define outputs and allocate resources if the objectives are not independent.

Continuing our Roads example

Objective 1.

Improvement, development and maintenance of transport infrastructure, which is integrated in Pan-European corridors and in line with international standards, measured by the following performance indicators:

Indicator a: construction and rehabilitation of XXX km of national roads or XX% of total road network in line with international standards by end of [YEAR 3] (give respective quantities for [YEAR 1] and [YEAR 2]).

Indicator b: maintenance of YYY km national roads or YY% of total road network in line with international standards by end of [YEAR 3] (give respective quantities for [YEAR 1] and [YEAR 2]).

Objective 2:

Improving environment protection, measured by the following performance indicator:

Indicator c: Reducing by XX% the environment pollution caused by vehicles gas ejection by end of [YEAR 3] compared to [YEAR -1] (give respective quantities for [YEAR 1] and [YEAR 2]).

A decrease in accidents and a reduction in average journey times have been dropped from the objectives that the ministry in charge of roads set itself in its MTEF submission. These are very important and valid aims, but their accomplishment is only likely to be visible over the longer term. This is because the changes brought about through the proposed policy actions are unlikely to be verifiable with sufficient certainty over the periods captured by objectives as a result of effects from other external factors – statistical ‘noise’. These aims are therefore best addressed at the level of goals.

2.5.1 The Relationship between Objectives and Outputs

Each Objective will have one or more outputs. One output is unusual.

A common mistake is to confuse objectives and outputs. For example, workers with better qualifications, new buildings, improved technology and communications, the production of reports and surveys may all be very desirable. They may all be absolutely necessary. But

achieving them is not an objective. They are secondary to the policy objective which might be to improve standards of service, or provide new services.

If you find that you have more objectives than outputs, then something has gone wrong. It is probably a case of this confusion.

2.5.2 Checklist for Policy Objectives

1. Does each objective describe the planned achievement of the policy at the end of (or during) the year in question? Are you sure that the objectives describe ends and not means?
2. Can the objective be measured?
3. Are the objectives clearly different from each other?
4. Can you identify outputs that relate to each objective?
5. Have you defined the standards that provide the quality measures?

We will address policy standards in greater detail next.

2.6 Policy standard

Policy standards are defined as:

The Quantity and Quality Parameters that give the policy meaning.

Objectives should be delivered to a certain Standard, which may be International, European, Kosovar or other.

Objectives and outputs must be described in ways that enable the achievement to be measured against the plan. So Standards describe measures that can be used in that process. Every objective will need standards to be defined, unless the statement of the objective (or output) already contains a full definition of the standards which apply to it.

The definition of standards should set out the standard in full or be summarized such that a non-specialist can understand them and otherwise be referred to in a public and accessible source where the full definition can be found. Public and accessible means a readily available document and/or a website. Users and potential users of services will want to know what to expect and they must be able to obtain the information.

Many countries aims for minimum standards of road ride quality and to give meaning to this policy a minimum standard of road ride quality is specified, which is expressed as a maximum tolerable road roughness index(IRI)⁵ for travel on roads. A ‘reasonable’ standard of road ride quality is defined as 4.2 IRI. Not all standards are so readily quantifiable. Another standard relates to the proportion of journeys where drivers experience an acceptable level of service

⁵ International roughness index: a measure of ride quality. Higher road roughness means increased operating costs for vehicles (i.e. lower efficiency of network).

(LOS) from the road network. LOS describes operational conditions within a traffic stream in terms of factors such as speed and travel time, freedom to maneuver, traffic interruptions, comfort and convenience and driving safety. An ‘acceptable’ LOS is may be considered to be ‘a stable flow of traffic where most drivers are restricted to some extent in their freedom to select their desired speed and to maneuver in a traffic stream. While this is evidently a more subjective standard than IRI, it still represents a benchmark that is understandable to decision-makers and can guide professional transport planners.

It is important to reference the relevant standards being applied and their key features as they clearly impact on costs. In our Roads example, standards would apply to the materials used for the construction of the road, the number and width of lanes, design speeds and design lives for different classes of road.

2.6.1 Checklists for Standards

1. Do you have a quality measure for each objective? This might be contained in the definition of the objective itself, or in the standards or in a combination of both.
2. Do you have data that will measure achievement of these standards? If not, what steps must you take to obtain appropriate data? And what proxy measures or performance indicators can you use meanwhile?
3. Are the standards quoted in full in the MTEF documentation? If not: are they summarised in the MTEF documentation so that a non-specialist can understand them; and are they publicly and easily available? Does the MTEF documentation identify this source?

2.7 Projects

A Project is defined as:

A related group of tasks that together produce one or more outputs that will increase public assets.

A project has a clear beginning and a clear end and usually involves some transformation. Constructing and bringing into use a new building would be a Project; so would a major improvement in existing buildings. Projects often involve large sums of investment resources, though they usually include a mixture of investment and running costs expenditures. Projects usually need more than one year for their completion.

The fact that investment expenditure is involved does not automatically define a project. The work in question may be a Project; but it may be part of a project and it may not be a project at all. Nor does one contract equal one project. A project may include many tasks that need many separate contracts for its successful completion.

A project has a clear end point when its work has been completed. But the end of the project is not the end of expenditure. All projects have consequences for the nature and cost of normal business and this must be reflected in the planned expenditure.

2.7.1 Checklist for Projects

1. Are you absolutely sure that your project really is a project? Could it be described more accurately as one output of a larger project? Or is it just buying things, which is probably not a project at all.
2. Have you identified all the components that must be delivered if your project is to be completed successfully?
3. If you have a multi-year project, can you define the position you plan to reach at the end of each year?
4. Have you identified the running costs that will be incurred after the project is over?

2.8 Outputs

Outputs are defined as:

A goods and services to be produced to contribute to the achievement of medium term Objectives and the longer term Goals.

Outputs should describe the concrete actions that will deliver the Objectives. The ideal Output is SMART or even better SMARTER:

- **Specific**
- **Measurable**
- **Achievable**
- **Realistic**
- **Time-bound**
- **Evaluated**
- **Rewarded**

Outputs should describe, as far as possible, the situation that will exist when the Output has been implemented – at the end of the year in question or at some specified date during the year. Avoid describing an intermediate stage, such as completion of activities defined in following section undertaken to create the output.

Example

Many programs include some kind of training. This might be a short course of a few days or a major degree program that takes years to complete; training might be provided in-house or commissioned from an external provider. In all cases, the aim is the same – the trainees/students should emerge with skills and/or knowledge that

they did not have previously. And the successful trainees/students receive a qualification or certificate that provides evidence of their success.

Training needs trainers, training rooms and training materials. But these are inputs not Outputs.

The teachers, rooms and materials create training capacity. A measure of training capacity is useful in identifying the maximum numbers of training days that can be provided with this combination of resources but it gives no information on how many days are actually used. This is an intermediate stage.

A measure of the number of trainees/students who apply for or enroll on a course gives a more accurate measure of the original demand for training. But it provides no information on how many people completed the course successfully. People may fail to complete a course for a variety of reasons – illness, family reasons, financial reasons, they are recalled to work urgently or their work for the course is not of a satisfactory standard. This is a further intermediate stage.

The best definition is the number of people who complete a specified course well enough to be awarded a qualification/certificate of attainment. This is a good indication of what the investment in training has produced. Because training courses can differ so much, each training course should probably be described in a separate Output.

Some final results are difficult to define in concrete outputs.

Let us consider further the example of roads applied to Kosovo. This example proposes a structuring of projects and putputs for the Roads Program. The aim of this structure is to give more strategic focus to the presentation of investment expenditure (which in turn would allow more meaningful unit cost comparisons). It is therefore proposed that in relation to the above objectives rather than defining a multitude of small, location-specific projects, more aggregated projects could be defined. These could be defined by reference to the different road classifications operational in Kosovo so that each project is consistent with the provision of a uniform level of service, respective to the type of road.

Objective 1.

Improvement, development and maintenance of transport infrastructure, which is integrated in Pan-European corridors and in line with international standards, measured by the following performance indicators:

Indicator a: construction and rehabilitation of XXX km of national roads or XX% of total road network in line with international standards in [YEAR 1] (give respective quantities for [YEAR 2],[YEAR 3]).

For realisation of this objective's indicator XXX euro are needed to deliver the following

outputs, which are organised in projects⁶:

Project 1: Construction of corridor Capital City - North.

Outputs:

XXX km of constructed road in [YEAR 1], costing YYY euro (x2x2 km in [YEAR 2] costing y2y2, x3x3 km in [YEAR 3] costing y3y3).

Project 2: Construction of corridor Capital City – South.

Outputs:

XXX km of constructed road in [YEAR 1] in the segment Capital City - South, costing YYY euro (x2x2 in [YEAR 2] costing y2y2, x3x3 in [YEAR 3] costing y2y3))

Project 3: Construction of regional roads

Outputs:

X1X1 km of constructed and developed road in [YEAR 1] in the rural segments, costing y1y1 (x2x2 km in [YEAR 2] costing y2y2, x3x3 km in [YEAR 3] costing y3y3).

Project 4: Modernisation of passenger and material terminals

Outputs:

X1X1 passenger terminals modernised in [YEAR 1], costing y1y1 (x2x2 passenger terminals in [YEAR 2] costing y2y2, x3x3 passenger terminals in [YEAR 3] costing y3y3))

X1X1 freight terminals modernised in [YEAR 1], costing y1y1o (x2x2 freight terminals in [YEAR 2] costing y2y2, x3x3 freight terminals in [YEAR 3] costing y3y3).

Improvement, development and maintenance of transport infrastructure, which is integrated in Pan-European corridors and in line with international standards, measured by the following performance indicators:

Indicator b: maintenance of XXX km or national roads or YY% of total road network in line with international standards in [YEAR 1], YYY km or YY% of total road network in [YEAR 2], ZZZ km or ZZ% fo total road network in [YEAR 3] .

For realisation of this objective's indicator XXX euro are needed to deliver the following

⁶ Investment projects should involve capital expenditure. Expenditures that relate to the planned maintenance of assets, including periodic maintenance, should not be classified as projects, but as non-projects. Regular resurfacing of a road as part of the life-cycle maintenance of the asset would not normally be classified as a capital project. Only if the resurfacing of the road adds to the performance of the asset, e.g., by strengthening the pavement it beyond its design strength, should it be considered as capital expenditure.

outputs:

Outputs:

XXX km of road in Southern region maintained in good conditions according to standards [give technical standard details] in [YEAR 1], costing x1x1o, YYY km in [YEAR 2] costing y1y1, ZZZ km in [YEAR 3] costing z1z1

XX km of road in North and East region maintained in good conditions according to standards [give technical standard details] in [YEAR 1], costing x1x1, YYY km in [YEAR 2] costing y1y1, ZZZ km in [YEAR 3].

XX km of road in Western region maintained in good conditions according to standards [give technical standard details] in [YEAR 1], costing x1x1, YYY km in [YEAR 2] costing y1y1, ZZZ km in [YEAR 3] costing z1z1.

If the data allow it, further disaggregation by different type of maintenance, e.g., routine, winter, periodic resealing, grading of unpaved roads, would allow more in-depth comparisons amongst road maintenance units and point towards potential efficiency savings.

Objective 2:

Improving environment protection, measured by the following performance indicator:

Indicator c: Reducing by XX% the environment pollution caused by vehicles gas ejection by end of [YEAR 3] (x1x1% in [YEAR 1], x2x2% in [YEAR 2], x3x3% in [YEAR 3]) compared to [YEAR -1].

For realisation of this objective's indicator XXX euro are needed to deliver the following outputs:

Outputs:

XXX tested vehicles in the Technical Control Centres in [YEAR 1], which meet the gas ejection standards, with a service cost of x1x1 YYY vehicles in [YEAR 2] costing y1y1, ZZZ vehicles in [YEAR 3] costing z1z1).

XXX approved laws/regulations/directives which regulate the gas emission standards, for a total cost of YYY euro (x1x1 approved laws/regulations/directives in [YEAR 1], x2x2 approved laws/regulations/directives in [YEAR 2], y3y3 approved laws/regulations/directives in [YEAR 3]).

XXX locations tested on environment pollution in [YEAR 1] costing x1x1, YYY locations in [YEAR 2] costing y1y1, ZZZ locations in [YEAR 3] costing z1z1..

2.8.1 Checklists for individual Outputs

1. Does the output describe (more or less) identical entities? If the output definition includes two or more different things, it cannot be measured or evaluated.
2. Are the units in which the output is measured described precisely? 'Number' is not sufficient. Number of what? - people? documents? clients? audits?
3. Does the name of the output, the description or the unit of measurement include abbreviations or acronyms that mean something to you but are incomprehensible to anyone else? Explain all abbreviations and acronyms when they first appear. For example, do you know what these mean?
4. If you used an output definition last year, is it still appropriate? Some outputs will be valid for several years because they describe accurately work that is continued in every year. Regular production of reports or statistics would be an example. Other definitions must change as other circumstances change. If you found that you could not monitor the Output, then you should look again at the definition so that you will be able to monitor progress.
5. Does the output definition include a quality standard – either directly in the definition itself or indirectly by reference to a standard?
6. When the output definition includes a change – a percentage, or a reduction or increase in numbers – is the baseline that will be used for comparison clearly described? So, 'Reduce absenteeism of full-time employees by 3 percentage points compared to the figure of x% in 2008' but not 'Reduce absenteeism by 3%'.
7. Can the performance measure be interpreted unambiguously?
8. When you tried to produce a profile of your outputs, did you find that you could not do it? Some outputs are produced only once in the year and so only have to appear once in the profile. If progress is to be monitored, then there must be a plan for how many Outputs will be produced in each quarter. If you find you cannot do this, it is probably because the Output is not expressed in the appropriate units.

Example:

'Improve working conditions' is a badly expressed output. It cannot be measured at all. And because it cannot be measured, it cannot be profiled, monitored or evaluated. It is not SMART or SMARTER. There may be standards that define the work required for delivery of this output – such as the amount of floor space for each work station. The output can then be expressed in terms of offices brought to that Standard or, better still, the number of work stations brought up that Standard. And the plan for achieving this standard can be profiled.

9. Are data available that will measure an output in the terms in which the output is best expressed? For monitoring purposes, data will be needed at various points through the year. If implementation of the output continues through the year, then quarterly data are needed. In other cases, data must match the profile of implementation as outlined above.

If data are not available, what measures must be taken to create a regular supply of appropriate data? And what approximate measures can be used meanwhile? In the longer run, the definition of outputs should not be distorted by the availability (or non-availability) of data. Statistics should be the servant of the policy, not the master, and should be adapted if necessary. This may take a while and pragmatism is needed in the meantime.

10. Look at the trend over the 4 years of the MTEF. Does the pattern of units to be implemented, of total expenditure and of unit costs look plausible? Investment expenditure comes in big chunks in some years only and so the pattern of investment expenditure can be very variable. But variability is not expected in other expenditure. A trend should reflect expected levels of inflation, or planned changes in salaries or the running costs consequences of new work or other known changes that will influence the volume of work and/or the combination of resources needed to complete the work.

2.8.2 Checklist for the Outputs of a Program taken together

1. Do the Outputs cover the full range of the work to be delivered by the program? Can all the resources available to the program be assigned plausibly to one or more of the outputs? In particular, is the routine day-to-day work (which can take up so much of the time) adequately covered?
2. Do the outputs include all the relevant work in the:
 - Government Program
 - National Development Strategy
 - Cross-Sector Strategy
 - Sector Strategy
 - Sub-Sector Strategy, and so on for any other published document that describes policy that is relevant to this program.
3. Can each output be linked directly to an objective? Does each objective have outputs that together will be sufficient to fulfil the objective in each of the MTEF years?

2.9 Activity

In the above example relating to project and outputs on roads and emissions, mention was made of total cost in terms of euro. It is difficult to ignore cost, but we have now reached the critical point in the Costing Manual that starts to pull all of the above together!

Activities are defined as:

The things that will be carried out to produce an output. There may be and usually are several activities to an output

Activities are the basic building blocks in the plan for carrying out policy intentions. Resources must be attached to activities by input. So, activities define the resources that must be assembled

to carry out one task that will contribute to the delivery of the specified outputs in the specified numbers to the specified standard. The plan to deliver the outputs will be translated into activities which will in turn show what must be done and what is needed in terms of inputs to ensure that it is done.

Example:

A common omission in defining activities (and sometimes outputs) relates to the time (and, therefore, resource) consumed by tasks relating to dealing with correspondence, preparing policy advice, attending meetings, consulting with stakeholders, and similar things. Because these tasks are so common, and so familiar, they tend to be taken for granted. But they take time and so cost money. They can all be put together in one Activity.

2.9.1 The relationship between outputs and activities

Every output must have at least one activity directly linked to it. An output with no activities can have no resources attached to it. The activities should be sufficient to achieve the targets set for each output and the specified quality.

Activities may have more resources allocated to them or fewer resources or they may be deleted altogether because they are not affordable. Any such changes will have an impact on the Output. They will probably have an impact also on the other activities linked to the same output because these will be proportionate to each other. These impacts must be reflected by making appropriate adjustments to the output. These may be adjustments to the quantity that will be produced, or the quality or both. There may be circumstances when reducing the resources available for an output will make the output non-viable – there will not be enough resources to function properly at all. If this is the case, delete the output and allocate the remaining resources to an activity and output where the resources will be productive.

Example:

An office has to be open to the public for 8 hours a day for 5 days a week, and 4 hours on Saturdays, for 50 weeks a year (this allows for public holidays). This needs an absolute minimum of 1.3 people (and a lot of extremely careful scheduling). This will provide just one person in the office at all times. If the resource to the Activity is reduced so that only one salary is available, then the office cannot be open for the intended hours and will be closed completely whenever the one person is unavailable because of holidays or sickness. So, the Output has to be redefined so that the service to be provided can be delivered with the resources actually available.

If a minimum of two people are always needed in the office to cope with the expected workload, then 2.6 people are needed to cover all the intended opening hours. If the

resources available will provide only 1.5, then the Output is not viable. The service cannot be delivered with that level of resource.

In our Roads example, activities/actions would be specified (and eventually costed) for each identified Output, e.g.:

Activity 1:Design

Activity 2:Expropriation of land

Activity 3:Construction

Activity 4:Supervision

Activity 5:etc

If necessary, construction could be broken down into a finer set of activities (e.g. mobilization, preparation of road base, construction of drainage, surfacing), but this is unlikely to be necessary for the majority of small road schemes.

The advantage of this approach is the possibility of achieving a significant reduction in the total number of projects, together with a definition of outputs within projects that allows meaningful comparisons of unit costs to be made between schemes. It is, for example, useful to be able to distinguish unit cost differences between schemes to construct main national corridors; it is very much less interesting to compare unit costs for roads with different construction standards, such as national versus regional or rural roads.

An alternative way to group lower value projects might be by geographical locality, e.g., 'Road Rehabilitation Project in Pristina'. This has interest from the point of view of assessing economic development impacts, but is less interesting from the perspective of network development.

It is not appropriate to group major projects in the way described above. So, for example, projects involving construction Vermice-Merdare and Pristina-Hani i Elezit corridors would be treated separately as would foreign-financed projects or other classes of road.

2.9.2 Checklists for Activities

1. Is every task you need to carry out included in an activity somewhere? Anything that does not appear in an activity does not exist in any practical sense. It may be mentioned scores of times in Strategies, policy documents, Decisions of the Government, speeches or similar.
2. Look at Chapter 3.7 on apportionment. It may help.
3. If you really cannot describe the activities that deliver an output in any other way, use one activity for people-related costs (code 111), one activity for running costs (purchase of goods and services (code 130) and one activity for investment (Code 30). This is not perfect, but it is a good place to start.

2.10 Performance Indicators

Qualitative and quantitative measurements, by which the performance and achievements of a department or a program within a certain budget organization can be assessed

This manual encourages all parties to formulate the Goals, Objectives and Outputs in measurable terms while costing new policy initiatives. This is essential to enable prioritization of new policy initiatives vs. existing ones, as well as prioritization among other new initiatives that may be proposed. Moreover, overtime, measurable terms are essential for monitoring and evaluation of plans with the purpose of identifying any achievement, setback, or any saving that may be used for inclusion of a higher priority initiative.

In general, performance measures and indicators are as following:

1. Inputs, representing resources;
2. Outputs, representing the deliverables for which the work is undertaken;
3. Efficiency representing the relation between the outputs and resources used;
4. Effectiveness representing the quality of work performed;
5. Outcomes representing the results to be achieved through above (1), (2), (3), and (4).

To demonstrate this, we will use an example of New Initiative to Increase the Road Safety.

Example:

The ministry in charge with transportation policies after analysis of current situation, and based on the annual data in relation to accident rates, has determined that in year -1, there were 116 accidents with fatalities, 4555 accidents with injuries, and 12640 accidents with no injuries. The line ministry in charge of transportation in order to reduce such accidents rates sets the following goal:

Reduction of traffic accidents, with fatalities by 50%, with injuries by 20%, and with material damages by 10%, by Year 5.

The above shows that the accident rates in Year 5 should be as in following:

*Fatalities - $116 * 50\% = 58$, therefore the target would be: in Year 5 there will be less than 58 accidents with fatalities (<58)*

Using the same approach the target for accidents with injuries and without injuries would be calculated, and the results are as in following:

TYPE	OF YEAR -1	GOAL	YEAR 5 TARGET
ACCIDENTS			
FATALITIES	116	-50%	<58
INJURIES	4555	-20%	<3644

NO INJURIES

12640

-10%

<10376

In order to achieve the above goals, the Ministry in charge based thorough analysis sets out the following medium term objectives:

1. Elimination of 80% of “Black Dots”

It is assumed that currently there are 25 “black dots” locations in the Road Network of Kosovo, therefore to reduce this number by 80% means that 20 “black dots” should be eliminated in next 3 years. Therefore, the work for elimination of black dots is arranged in project with following outputs:

20 locations with high accident recurrence eliminated/improved – 8 in Year 1, 8 in Year 2, and 4 in year 3.

2. Update of testing standards and inclusion of traffic rules in pre-university education by Year 3 means to be achieved through the following outputs:

1. Testing Standards for Driving License upgraded in Year 1

2. 1000 teachers trained on traffic rules.

3. Law enforcement through delivery of following outputs to the public:

a. 3000 minutes of advertisement broadcasted in national TVs, each year 1000 min.

b. 10000 brochures distributed

3. Specification of Inputs and their Cost

3.1 Introduction

The position has been reached where it is now possible to address the main purpose of this Manual – how to cost new policy issues. A fairly circuitous route has been taken and this has been deliberate. The reasons are straightforward, though in part dealing initially in complex concepts, and are being reiterated again.

- Initiatives are proposed to deliver elements of a government's program that was presented to the electorate or are in response to changing circumstances caused by events.
- Initiatives are best addressed in terms of what they aim to achieve in the present, the near and medium term and the long term.
- What is to be achieved should be concrete and measured and related to time so it can be assessed in terms of delivery.
- How is achieved is best related to specific outputs or accomplishments that can also be measured and related to time.
- The realisation of the deliverables – both measurable objectives and the associated outputs – can only be achieved through a set of activities or actions.
- These activities require resources – inputs for their realisation.
- These inputs are purchased and have an associated cost.
- Government assigns expenditure to allow their purchase.
- Expenditure has to be budgeted in terms of affordability – how much revenue is available.

The issue of costing is centred on answering the question:

- Are all the resources that are appropriate to the development and implementation of the program tree related to the policy initiative included in the specification of the activities? These should include:
 - expenditures on all the personnel associated with the activities
 - all the other expenditures associated with the activities
 - all Projects that are concerned with this policy.

Inputs and their cost of policies will be driven by attributes of what the policy is attempting to achieve and the standards. The specification of these inputs is best determined by the specialist in the ministry and any sector specialists in the Budget Department as a full understanding of the drivers of inputs and costs is required. These cost drivers will vary from ministry to ministry and even within ministry depending on the initiative.

For example for Education Services the numbers of students at each level of education will be critical and these numbers are mainly derived from demographic projections. But also important will be the standards such as pupil teacher ratios, book/computer to pupil ratios etc.

For Health Services the numbers of potential users requires demographic projections and analysis of the standards of health and incidence of sickness. However, it is important also to distinguish between curative and preventive health services so the drivers of the latter will be different from the former.

For Social Services, the number of claimants is the cost driver. Claimants include pensioners, unemployed, the poor and disabled. The number of pensioners can be derived from demographic projections, the number of unemployed from projections of the unemployment rate, and the number of poor from projections of poverty levels.

The requirement for police services depends on the potential amount of crime and antisocial behaviour as well as the desired level of action. The requirement for prisons depends on the number of prisoners, though the relationship is one of interdependence. The requirement for justice services can be divided into the requirement for commercial and criminal justice services. The former requires an analysis of the legal environment with regard to commercial activities. The latter is partially derived from the requirement for police services.

Road Transport Services are driven by the numbers of cars. Projections of these derive from estimates of demand, based on demographic trends and income levels. The higher are incomes, the higher the demand for cars, and the greater the demand for road space. Growth in the economy will likely give rise to more commercial traffic as goods are exported and imported.

Agriculture services are largely defined through agricultural policy. The number of farmers, the size of farms and the types of crops and livestock are obvious cost drivers and these should be projected. If policy is to give production subsidies, then the type of crop or livestock that is being subsidized is a key factor. If it is publically provided extension services or research, requirements from farmers as a whole can be estimated through analysis of their needs. The estimated requirements are the cost drivers.

Industry and the services sector may also benefit from public funding designed to help overcome initial barriers to entering business; assistance to small businesses is an example. The requirements must first be identified and projected, and these are the cost drivers. Similarly with investment and export promotion, assessing target areas and what is needed for their penetration will drive the cost.

For Public Finance Management Services, Ministry of Finance tasks are the main cost drivers. This is in the area tax and macro/fiscal policy formulation, annual budget preparation, revenue collection, budget execution according to the budget plan, and accounting for spending. These tasks are the cost drivers.

All of these will be described in an activity which will in turn be broken down into their component inputs and the cost of the inputs. A detailed project structure will be needed to generate the program tree or its equivalent in terms of ministry/department. An Excel template is provided with the manual, which you can use to analyze your objectives into detailed activities. Having a list of activities enables line ministries to identify the resources needed to complete

them. There are several types of resources that need to be identified: staff, materials and services, and equipment.

The time frame should also be assessed. If the policy is completed in less than one year, one year or more than one year – the contributing activities needed to be costed over the relevant time period. The Excel Worksheets allows for costing over the medium term on an annual basis.

3.2 People – Related Expenditure (Code 111)

People are the most valuable resource that a budget institution has. In some budget institutions, salaries and related costs such as social insurance form a very high percentage of total expenditures. But the fact that they are precious and expensive resources does not make paying people an Output. People are a necessary contribution to the achievement of an output, not an output in their own right. So, mostly, salaries and other people-related expenditures are included within activities where they are clearly identifiable in expenditure Codes 111⁷.

For a given activity, the line ministry needs to identify which staff category people should work to complete it, and for how much time. This will enable you to calculate the cost of wages and salaries for the activity. For a leaflet design, for example, you need a designer, which may be a member of ministry staff, but if it is done through a contractor, it would be included in goods and services. For certain tasks, you may need to train existing staff in order for them to contribute to the realisation of the policy. This will count as additional cost to performing your activity, but if the training is done in-house it will be included as staff costs but if it is contracted out the cost will be included under goods and services.

So clear specification is important! The key factors are:

- Specify number of people to deliver the initiative – in as much detailed as possible breaking down by categories such as management, technical, support
- Specify salary – average for each category based on existing scales
- Specify associated personnel cost, such as pensions related to each category based on existing scales.

There may be legislation adopted or in the process of being adopted which may impact the cost of personnel costs, therefore you should collect this type of information and factor it into the process of estimating costs.

3.3 Goods and Services as inputs (Code 130)

Some activities also require material to be expended in order to complete it. Examples may be office material, construction material, etc. For each activity identified, the amount of material

⁷ It is possible that the recruitment of new personnel might be an Output within a Project – that is, recruitment is one component necessary to the successful completion of a Project. After the end of the Project, paying salaries becomes a normal part of everyday business and is treated as described above

required to complete it should be calculated. Use the same logic for calculating purchase of services.

Again clear specification is important! The key factors are:

- Specify the goods and services required to deliver the policy
- List items and amount
- Prices of items

Allocate a portion of total costs of utilities to your activity, on basis of an estimate or proportional allocation of total costs you incur for normal operations of the line ministry or organization.

There may be legislation adopted or in the process of being adopted which may impact the cost of your resources. An increase of VAT, for example, may drive prices upwards; therefore you should collect this type of information and factor it into the process of estimating costs.

3.4 Transfers (Code 20)

The treatment of transfers is centered on their purpose. Are there transfers to certain groups to deliver the policy? What is the basis for the transfers? How are they measured? What is the number of recipients?

So clear answers to these question are need for specification. If the policy is to increase support to farmers by providing production subsidies, then the likely number of recipients, the amount that they produce of the subsidized item and the unit subsidy amount is required. If it is the introduction of a welfare scheme, the number of likely recipients and the unit payment is required.

3.5 The Treatment of Investment Expenditure (Code 30)

Major capital works, such as building of the roads, new building or large-scale refurbishment, are projects. They meet our definition of a project as a set of actions with a clear beginning and a clear end that together bring about some transformation.

Some activities require purchase of equipment, such as any machinery, vehicles, etc. Cost is to be calculated in the same way as the use of other materials. If your activity requires use of capital equipment that you already have purchased, and the equipment will be consumed and needs to be replaced at the end of the planned initiative, your cost should be calculated in terms of replacing the equipment. If however, you are using existing equipment which will be used further after completion of activities, the cost should not be taken into account, unless the use has seriously impaired the life-time use of the equipment. Clearly some judgment has to be made. However, in Kosovo a cash budget is in operation rather than an accrual budget so only if direct expenditure is made on capital items would they be included as a cost and only in the time period that the payments been made.

The generation of the cost of an activity from the bottom- up is depicted in Figure 4.

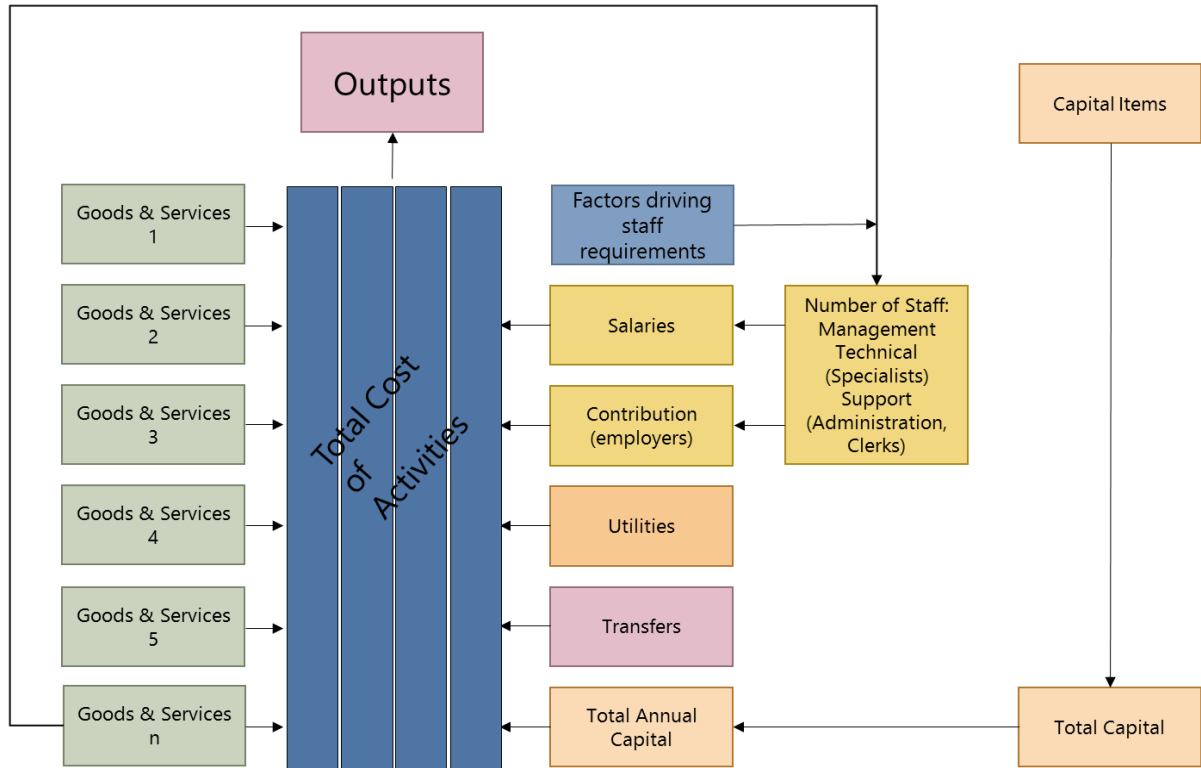


Figure 4: Treatment of Investments

3.6 Treatment of Quasi Fixed Costs and Marginal Costs in Specifying inputs to Activities to deliver Outputs

Are there any cost items that are included in 111, 130 and 30 that are provided in the delivery of the Activity that would have been incurred anyway such as the use of services provided by the accounting, procurement and legal departments, existing office space and information systems? Only additional variable inputs required to produce the outputs should be included in the request of additional funding to implement the NPI. This would include requirements for additional staff, new office space, purchase of additional motor vehicles or the need to install a new corporate IT system. If a new budget organization were to be established to implement the NPI then it would be necessary to include costs of establishing the budget, accounting, legal, procurement, and executive functions.

A good example is the drafting of new laws and the revoking of existing laws relating to business regulation under Strategies for Economic Development. Now certain aspects of these initiatives already form part of the normal day-to-day activities of MOED such as the drafting work of the legal team. However any additional cost – from workshops etc that have to be undertaken should be included in calculation the additional budget funding required. Clearly if the ministry has to take on additional legal staff then this is a direct cost relating to the policy and further funding is required.

3.7 Apportionment

Once inputs are appropriately costed they must be allocated to activities and thus to outputs and these would then be the expenditure on that activity and the output. Much of the time, this allocation of expenditures is straightforward. When a clearly identifiable agency is wholly responsible for the delivery of one Activity, and one Activity only, then the resources needed to deliver the Activity will be easily identifiable.

It is less straightforward when the same group of resources (people, equipment etc) is used to deliver two or more. In this case, the resources must be divided among the activities as accurately as possible. This is apportionment. It is the process of estimating what proportion of the total expenditures should be allocated to each Activity. This has to be clearly specified by carrying out some analysis of the time spent on each activity, noting the marginal nature of the input.

3.8 De minimis

It is possible to allocate all costs among activities and outputs. But sometimes the sums involved are so small that it is not efficient to spend a lot of time making the calculations.

Example: cars

Where a person, or a Directorate, has the exclusive use of a vehicle, then the cost of that vehicle, including fuel and the cost of the driver, can easily be allocated to a specific activity. Where a

fleet of cars is maintained for use, as required, by everyone in the budget institution, and the usage of motor vehicles is not a major requirement of an NPI's activities then it is probably not worthwhile to separate out the expenditures into all activities.

Example: electricity

If a building is occupied by a single Directorate, or by a single subordinate institution, then the expenditure on maintaining the building, including the expenditure on electricity, can easily be allocated to a program. It may be straightforward to apportion the costs to activities using the percentage of total workers employed on the activity. If a building is occupied by many Directorates and sectors, working on lots of different activities, then this procedure is too time-consuming to be worthwhile provided the NPI's staffing requirements are minimal.

3.9 Contingency

For certain projects or initiatives, there may be some uncertainty as to the exact number of units of inputs required to deliver an output. There may also be a degree of uncertainty on the price of these units particularly if they are subject to world markets and currency fluctuations particularly if priced in US\$ or sourced from non-€ countries. It is advisable to calculate a contingency sum for each of the inputs in order to have funds for such uncertainties. The assumptions underlying the contingency should be clearly specified and be defended.

3.10 Sources of information

Organizations should have a base of information regarding historical costs of materials, staff, contracts, equipment etc., which they can obtain from previous project or program operations files. You can use historical price quotations and contracts, project reports which indicate the amount of resources used for certain initiatives, historical financial reports which provide you with an idea as to how much certain activities cost in the past. Be aware that historical information needs to be adjusted to current and future conditions. Keep in mind the time schedule of the project and the likely increases in prices or any other external conditions that may impact cost of activities.

You may perform a simple market research, to obtain prices for the materials or services necessary for completing your activities. You may reach out to vendors and obtain some price quotations for your cost estimating purposes. The Central Procurement Agency is expected to become a source of prices for certain common goods, services or items in the near future. Until then, procurement units within budget organizations can be the main sources of information, and they should be consulted extensively in the process of estimating costs of activities.

3.11 Distinguishing between Unit Input Costs and Unit Output Costs

Often there is the temptation to apply a unit cost to a number such as output related to generate a total cost, but it is important that care is taken applying unit cost from another source to an existing

situation. For instance, it is likely that a cost per kilometer of road may be available from a road that was constructed previously. In our example of roads, mention has been made of different types of roads; however, using a unit cost from one situation to another may well be fraught with danger as like must be compared with like. At best we might get an indicative cost. The cost of roads is usually calculated at the end of a long study by engineers and transport planners who will specify and design the characteristics of the road including standards. And even then it will be subject to a competitive bidding process and contract.

Indeed in discussing unit costs, it is important to distinguish between unit input costs and unit output costs. Unit output cost is the cost of the outputs that the policy intends to deliver divided by the number of units delivered. In a primary education example, the unit output cost would be the total cost of primary school enrolment divided by the number of students enrolled.

A simple unit output cost would be insufficient of itself, however, to be the basis for an unambiguous costing of policies or programs. It would need to be accompanied by a range of policy standards which would describe the quality parameters for the delivery of the output. These would include in the case of primary education, for example, the average pupil-teacher ratio, the nature and quantity of teaching equipment (books, pens, computers, etc.), the standard to which primary school teachers are to be trained, average school size, and so on.

Unit input costs are the unit costs of the various the inputs that are required to fund the activities for a particular program or sub-program. Unit input costs in primary education would include, for example, average teacher wages, average cost of a set of school textbooks, etc. This concept is the focus of this Manual.

Once a particular policy and its associated output have been defined, a given set of activities will be required to deliver this policy output as discussed. These activities would include in the case of primary education, for example, the training of primary school teachers (to maintain the current numbers of trained teachers in the sector or to expand this number as required depending upon policy objectives), and the teaching of primary school children.

In turn, a given quantity of unit inputs will be required to deliver the requisite level of activity in each area for the policy goal to be achieved. A given number of teachers would need to be employed (subject, for example, to physical constraints on supply) to deliver primary school teaching services to the required number of students according to a given pupil-teacher ratio. The unit cost of primary teachers (i.e. average primary school wages) multiplied by the required number of teachers would then describe a significant component of the total cost of delivering the policy goal.

Multiplying each unit input cost by the number of units required will determine the total cost of the desired policy output. Dividing this total cost by the target output gives the target unit output cost. The underlying unit cost model can then be used to modify policy objectives as appropriate. This may involve, for example, estimating the cost of expanding the target output (e.g. primary school enrolment, kilometers of road construction, etc.) by 10 per cent.

Or, for example, it may involve estimating the extent to which the existing policy would have to be scaled back if the unit cost model were to reveal a financing gap between the total cost of the policy and the total resources available to fund it. (Or the resources that would need to be switched out of other uses to maintain the policy commitment under this circumstance.)

For many policy objectives, factors influencing the demand for a given service will have implications for the scope of the associated policy. In the case of primary education, for example, the number of students requiring primary education services is a function of the number in the primary age group (i.e. the cohort of students), the number repeating and the number dropping out during the progress of the cohort through the system. As this number changes, the number of students that need to be catered for under the policy target will change also. With knowledge of the unit output cost (as derived from a unit cost model for example), the change in funding requirements under the budget and the MTEF resulting from changes in the scope of the policy would be known also.

A unit costing model would also permit the funding consequences of other underlying changes to the scope of the policy to be estimated. If policy standards change, this is likely to affect the total cost of the policy. An active policy to lower the primary school dropout rate, for example, would increase the projected numbers in the cohort, with consequences for the total cost of the policy. Another example (from a different sector) would be the standard width of trunk roads. As this width varies, the unit output cost of a kilometer of road construction would vary also.

3.12 Funding Sources

There is a general acceptance among budget organizations that the Ministry of Finance should be informed of activities and initiatives required to be funded through the budget, unfortunately other funding is not always disclosed to the Ministry of Finance. This results in incomplete information for MoF and makes fiscal planning over the medium term more difficult. If the MoF is not aware of new initiatives, regardless of the funding source, they cannot plan for the operating costs, which will need to be funded from the Kosovo budget once implementation of the new initiative has been completed.

Proposers of new initiatives should identify all funding sources that they propose for implementation of initiatives. These will become proposed sources, and the Ministry of Finance will comment on the availability and as well as the impact of such proposed funding sources on the medium term budget and wider fiscal plans.

For example, budget organizations should provide information such as what funding sources will be needed, for example:

- To ensure that building constructed through funding from development partners will continue operating;
- To ensure that a system or improved processes funded by development partners will continue to be utilized and maintained the project is complete.

- To ensure that a recently constructed highway will be maintained by through allocation of additional funds in goods and services category for maintenance, or through other forms of maintenance such as any form of Public-Private Partnership.

Similarly, care must be taken to inform MoF of initiatives funded through borrowing. It may be obvious to a budget organization that a particular priority initiative cannot be funded through the Kosovo budget, and the proposer has identified organizations who are willing to providing funds in form of debt. The proposer, will have to provide information as to how such asset will continue to be operational, and the services are delivered to the public.

Note: Borrowing is considered as a separate funding source in early stage of a new initiative. However, should the new initiative be approved, the funding from borrowing will still have to be subject to the MoF fiscal rule. Ultimately, if the new initiative is implemented, it will become part of the budget ceiling for sector or sub-sector, or budget organization and program/department.

4. Costing and Assessing Budgetary Impact of Decision-Making Documents

Kosovo's policy development framework contains different approaches to initiate and review of new initiative prior to submission to Government for approval.. Such new policies are initiated through different decision making documents listed below:

1. Concept Document;
2. Draft Laws;
3. Sublegal acts of government
4. Sublegal acts of ministriesGovernment Decisions;
5. Agreements on Inter-Institutional Cooperation;
6. Other initiatives.

Any of the above may be initiated by different organizational units within budget organizations, or by a one or more budget organizations when the issue to be addressed tackles the mandate of more than one budget organization. Specifically, new initiatives may be initiated by a budget organization or a specific unit within budget organization, and may impact the budget of an organizational unit of the budget organization at central level, and some initiatives may have a wider impact such as the impact and local government budgets. Also, the impact in the budget of budget organizations means changes in the budget which was approved based on some stated policies.

Based on this assumption, any changes during the year are treated as changes to policies, either through introduction of new policy priorities, or extension of existing ones. Accordingly, changes to the budget in reality are changes to policy priorities, and logically are considered new initiative which should undergo costing and budgetary impact assessment.

4.1 Costing and Assessing Budgetary Impact of Concept Documents

Concept documents are mainly prepared as a result of a thorough analysis of the issue which is to be tackled or improved by the proposing institution. When a new proposal is prepared, analysis included therein should include consideration of different options that should take into account administrative, financial, and legislative constraints to implementation of policies. Such analysis does not only help in proper elaboration of the issue, but also any information gained will facilitate the Budget Impact Assessment process, and allow the Budget Organizations to create a better case for review by Centre of Government.

The types of initiatives requiring use of Concept Documents includes, but are not limited only to:

- New primary and secondary legislation;
- Amendments to primary and secondary legislation;
 - o Non-legislative initiatives that have significant social, economic; or other impact.
- Other proposals with high cost such as:
 - o New or Revised Expenditure Programs;

- New or Revised Expenditure Projects.

When performing Budget Impact Assessment for Concept Documents the following steps are recommended.

STEP 1 – Perform Policy Analysis

This stage would end up with the description of current situation..

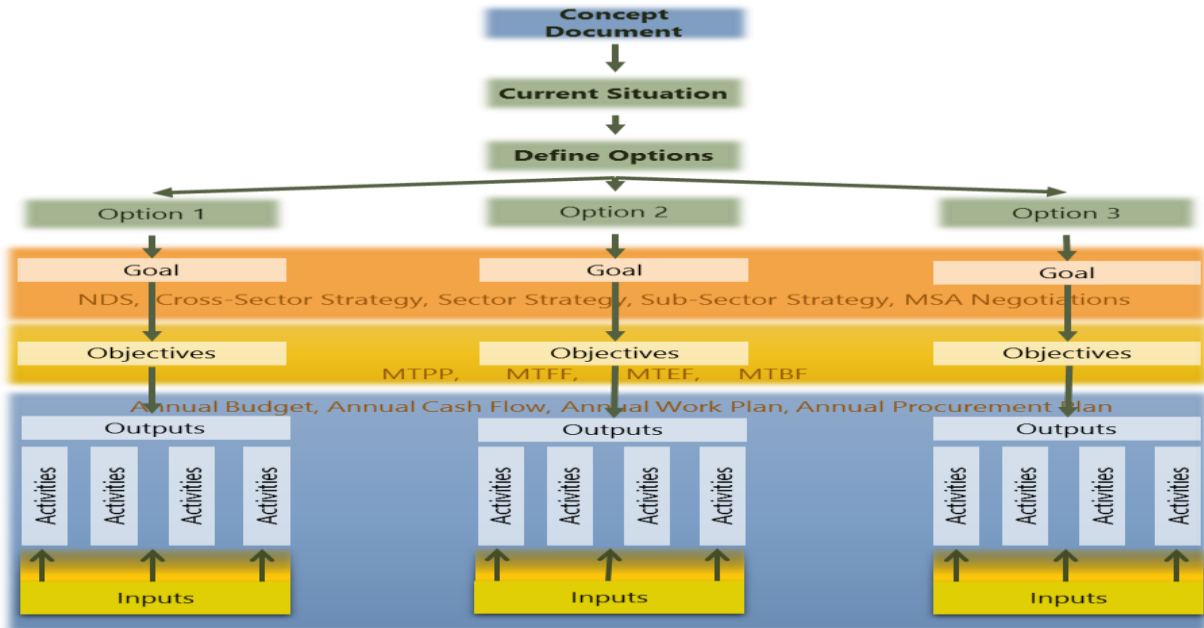
STEP 2 - Identify Options.

This stage would result with identification of different options, which would create a better base for informed decision by the Government.

STEP 3 – Perform BIA for each option

This step entails the application of BIA generic structure to each option. With regards to setting the goals, it is important to identify whether each option will contribute to the same goal, or each option has different goal. In case of the later, then the specific and desirable goal should be identified for each option. Then continue with setting the medium term objectives, and outputs, and activities for each option, in order to estimate the resources needed and cost such resources in order to come up with the cost of each option for the medium term. Finally, define the proposed funding sources for each option. See figure below.

Figure 5: BIA for Concept Documents



4.1.1 Costing and Assessing Budgetary Impact of Draft laws and sublegal acts of the Government

Despite its shortcomings, legislative change has often been used as the primary tool for the implementation of new policies in Kosovo.. To date, many laws were submitted and approved with significant budgetary, economic and social impact, and have not been implemented. In many cases implementation has been delayed, due to lack of proper analysis of the situation, and lack of consideration of resource constraints. In such situation, with no resources available and with no other solution presented, the implementation of many laws was suspended until a later date. Such postponement of implementation of legislation means that the proposed priority initiatives was not implemented, hence the public or target groups have not received the stated services, outputs, by the Government. The concept behind this manual, supports the idea of scrutinizing new initiatives, including, but not limited to, legislation to ensure that policy priorities are being implemented.

In this context, the generic structure of BIA in line with good practices considers a law, or amendment to a law as an output. Therefore it is important for the drafters to take into account the period beyond drafting the law, at least for the medium term period that would inform decision makers in the process of resource allocation. As such, BIA would be best to include the legislation to be passed in the Year 1, and practical implementation arrangements for Year 2 and Year 3. This BIA can be performed as part of the Concept Document, and when the draft legislation is submitted for approval, another BIA would be required if there are changes compared to the BIA submitted as part of Concept Document.

For the purposes of regulating further an issue or an area, ministries and agencies as authorized by the Law can draft and approve secondary legislation. It is assumed that such secondary legislation has a neutral impact in the budget, however the fact that such secondary legislation is required to be issued and implemented, means that some changes within the work of the ministry will occur, and such changes do not have temporary impact, but also will affect next years budget also. This means, that either the staff will change the way how they perform, for which some sort of training will be required, or change in organizational arrangements for certain function. Regardless of which occurs, resources are needed, therefore such resources need to be costed, towards outputs which need to be created.

Example:

If a ministry sets a priority to reduce traffic accidents rates, it will have different options that it can use to achieve that.

The 1st option would be to continue with the current situation (status quo) meaning no intervention will be made, therefore no activities will be changed or modified, therefore it will have no budgetary impact.

The 2nd option would be to amend the current law on Road Traffic Safety to include new measures on reducing traffic accident rates. Such amendment could include creating a Traffic Safety Agency, which would in cooperation with Research Institutions work more on improving the standards of testing, providing training to Driving Instructors on the new standards and so on. Furthermore, amendment of the Law could trigger amendment of the secondary legislation, which should also be treated as output, thereby providing a clear picture as what has to be delivered to ensure the option of the initiative, if approved can be implemented.

The 3rd Option would be to increase the enforcement of the current legislation, by increasing the number of traffic police units. This evidently does not require passing a law, but requires increasing the number of traffic police officers, or further developing/training current traffic police officers. Furthermore, as part of this option, an awareness campaign could be also used to raise the awareness of vulnerable groups such as children, which can be performed by police officers or teachers or officials from the Ministry responsible for development of traffic policies. Each of the above has its own cost, which should be calculated and funding sources proposed in order to inform decision-makers.

4.1.2 Costing and Assessing Budgetary Impact of Agreements on Inter-Institutional Agreements

Considering that International Agreements are most often ratified by the Assembly through primary legislation, the BIA approach to primary and secondary legislation can be used to cost and assess the budgetary impact of international agreements. The difference would be only in

the approval process, which in this case the negotiated agreement needs to submit to the Government through the Ministry of Foreign Affairs.

Specification of goals, objectives, outputs and activities, and resources to be used in this case are not beneficial to the OPM, and MoF, but also to Ministry of Foreign Affairs.

4.2 Costing and Assessing Budgetary Impact of Strategies and Action Plans

A strategy is a document which presents the Government's choice of actions of implementing a policy in the area. Such actions may seek to achieve Government's policy goals and objectives at cross-sector, sector and sub-sector level. Goals and objectives are then achieved through different means and actions such as:

- Direct delivery to households;
- Direct delivery of services to other actors;
- Establishment of legislation and regulation;
- Ensuring that legislation and regulation is observed;
- Support and contractual arrangements for the delivery of public services through non-state actors.

Strategic documents cover a long term period of more than 5 years. Any strategic document which is less than 4 years, could either duplicate the MTEF, thereby "wasting scarce planning and budgeting resources, or a (worst scenario) coming up with planning and resource conclusions that are quite different to those developed by the MTEF for the same period"⁸.

As strategy documents cover a long term period more than 5 years, this makes difficult to perform a Budget Impact Assessment for the whole time-scale covered by the strategy. However, the readers are advised to take into account any economic, fiscal, and social considerations when drafting a strategy document. On the other side, in order for the strategy to be implemented some arrangements in form of actions would be required to be defined. Such implementation arrangements could be set out either in a form of Action Plans or through direct inclusion of properly costed outputs and activities into MTEF and budget. In either way, the Budget Impact Assessment structure which applies to medium term period (equivalent to MTEF) can be easily applied to action plans for implementation of strategies.

4.2.1 Application of BIA structure to Action Plans for Implementation of Strategies

Application of BIA structure on action plans for implementation of strategies depends on the quality of strategic documents produced and approved. Kosovo in last year has made improvements in this area, and such efforts are ongoing. The most notable improvement is to

⁸http://www.kryeministri-ks.net/repository/docs/Doracaku_per_pergaditjen_e_strategjive_sektorale_Final_Qershor_2013.pdf

limit the number of strategic objectives to maximum five as well as reduction of the number of strategies through consolidations into sectors or policy areas.

How can BIA be applied to Action Plans for Implementation of Strategies? Well, considering the there are different type of strategies which can be consolidated in three types:

1. Cross Sector Strategies;
2. Sector Strategies
3. Sub-sector Strategies

Going back to how to apply. In case of cross-sector strategies, such Strategic Objectives could relate to the Sectors. In case of Sector Strategies, strategic objectives could relate to sub-sectors. In this case Actions in the Action Plans are planned by Strategic Objective. Therefore, BIA should be performed for each strategic objective. However, it is recommended for goals to be at the sub-sector level, because these are more equivalent to the level at which the budget is allocated therefore costs can be better estimated, and easier to include in the budget.

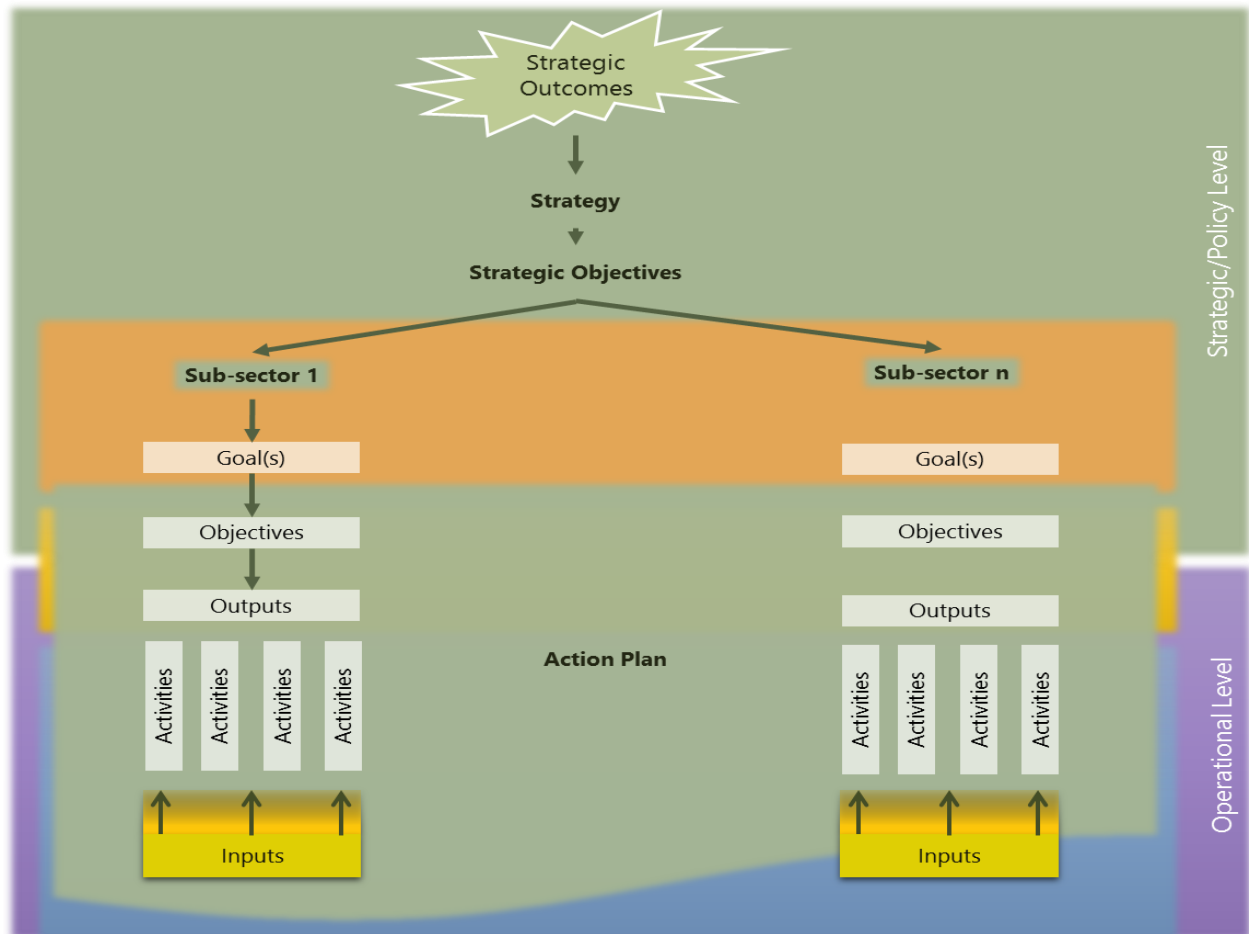


Figure 6: BIA for Action Plans for Strategies

Example:

If the government has a priority to improve the Traffic Safety in Kosovo it could develop a Strategy that would involve more than 2 sectors. Specifically at minimum could involve the following sectors: Transportation, Rule of Law, and Education. Furthermore, Transportation could be broken down to Road Transportation, Rule of Law to Traffic Safety and Education to Primary and Secondary Education. Each of the mentioned sub-sectors could use the same goal, however each would support different specific objective for their own subsector, supported by outputs.

Policy or Traffic Safety could increase number of patrols, implement awareness campaigns through distribution of brochures to drivers. Education could work on development of traffic related books for kids and inclusion on the Primary Education curricula, which would be implemented by training the teachers, organizing quizzes and so on. Road Infrastructure could set an objective toward reducing number of high risk sections of the road infrastructure by intervening through different projects in improving the infrastructure or eliminating such high risk sections. All these could contribute to achieving a goal or more than one goals. For each, SMARTER outputs and activities, could be specified toward achieving SMART objectives and specific and desirable goals. And finally, activities use resources, which should be costed to come up with total cost of Action Plan.

4.3 Costing and Assessing Budgetary Impact of Government Decisions

The Government of Kosovo adopts a significant number of decisions in its meetings. However, not all decisions should be subject to BIA. For the purposes of the Administrative Instruction on BIA and this Manual, Government Decisions can be classified into the following four categories:

1. Government Decisions approving a decision making document for which a Budget Impact Assessment is already required to be conducted under the Administrative Instruction on BIA and the BIA form is attached to such decision making document. This group of Government Decisions does not have to undergo the BIA process.
2. Government decisions to approve documents which are approved on annual basis. Examples of such documents include: Annual Work Plan of the Government (including the legislative agenda and the list of strategies), decision approving the MTEF, decision approving the annual budget and other similar documents, who are assumed to have undergone BIA during the early stages in form of initiatives. Furthermore, considering that such decisions are made on a recurrent basis, then the definition of new initiative does not apply. However, it is advisable that whatever is contained in such documents, is costed and planned for smooth implementation of stated policies.
3. Decisions made regarding an issue which requires funding, and which was not proposed as part of any of decision-making document, their budgetary impact need to be assessed for the medium term period.
4. Budget Impact Assessment is not feasible to perform for decisions allocating funds for natural disasters or other emergency situation, therefore it is recommended not to undertake BIA for such cases.

1. Annexes

1.1 A Case Study⁹ on Customs and Excise as an Expenditure Program¹⁰

INTRODUCTION

This case study illustrates the concepts in Chapter 2 of the Costing Manual. They have been adapted from Ministry of Finance's submission on Customs and Excise as part of 2013-2015 MTEF Preparation Instruction.

PROGRAM TREE

A program tree is an effective way of demonstrating the conceptual framework for all requirements to prepare a MTEF submission for a program of a budget organization. A Program Tree is diagrammatic way of describing the planned work of a Program.

The Program Tree show how resources allocated to individual tasks (Activities) will eventually lead to the achievement of long-term policy ambitions (Goals). The sum total of the resources allocated to Activities will equal the total expenditure or cost of the Program for budget purposes. Or, to put it the other way round, it shows how a statement of a long-term policy ambition (Goal) is converted into a concrete set of tasks (Activities) that will be carried out year-by-year and the outputs which can be measured and monitored to ensure that the intended policy is implemented.

A Program Tree incorporates every level of budget planning and analysis and covers every item of Program expenditure. It is the most comprehensive representation of a Program's link between policy and expenditures. The relationship of all Activities to the policy Goal can be traced through Outputs and Program Objectives.

⁹ Please note this case study is an illustration of how the concepts presented in this costing manual can be applied to the situation in Kosovo.-However, the data do not reflect the reality as they have had to be expanded to fully explain the various concepts used with examples

¹⁰ According to the budget structure in the Republic of Kosovo, a programme is identified with a functional department. Bearing this in mind, the term 'programme'is used in this case study

CASE STUDY BASED ON THE MTEF SUBMISSION OF MINISTRY OF FINANCE, CUSTOMS OF KOSOVO

This case study is a demonstration of a budget plan that provides a comprehensive statement of how a department of the Ministry of Finance intends to turn policy into action that will inform Government, the Assembly and the public. This is intended to help politicians and managers in their decision making process. The examples provided here are not absolute rules that must be copied, but are a reference point for a discussion about how the Ministry might best do justice to the nature, scale and volume of its work as it presents its budget plan and eventual submission. The definitions used in study are not common only to the Customs of Kosovo, hence the examples should be considered as a useful guide for all budget organizations.

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Program Policy Description

A good policy description of the program might be:

A modernized customs administration adhering to EC best practices that operates with high efficiency by promoting voluntary compliances through self-assessment.

Policy Long Term Goals should be measurable and time-bounded. For this reason, goals like ‘Correct and efficient administration of the system founded with the law of Customs and control of taxes for goods exported and imported from Kosovo, and every other issue that can come out from laws of Kosovo’ are not good ones. A good goal can be:

- 100% of imports and exports are facilitated through the Kosovo Customs Service by 20xx
- No illegal products enter into Kosovo by 20xx.
- 100% of assessed revenue is collected by 20xx
- By 20xx Kosovo will be a member of Customs World Organization.

These Goals are specific enough and avoid repeating the Program Policy. The quantitative targets and dates are just given as representative examples and are not intended to be those adopted in Kosovo, though they could be used.

Program Policy Objectives

Program Objectives need to be carefully articulated and expressed in SMART terms, so that they form a useful basis for planning Outputs and Activities, and hence be appropriately monitored. Objectives for the Customs of Kosovo might be:

Objective 1.

Approximation of the Customs Legislation with the best practices of the EU, measured by the following performance indicator:

- Indicator a. X% of Customs legislation or x laws and xx sub law acts approximated with best practices of EU in 2013 compared with Y% in 2012 (give respective quantities for years 2014 and 2015)

Objective 2:

Increase of effectiveness in the collection of customs obligations and the facilitation of customs procedures, measured by the following performance indicators:

- Indicator b. X New Custom Cross Border Points built in 2013 (give respective quantities for years 2014 and 2015)
- Indicator c. X% of imports use Yellow Channel and are selected using risk assessment on ASYCUDA World in 2013 (give respective quantities for years 2014 and 2015).
- Indicator d. Y% of Yellow Channel imports are subject to post clearance audit in 2013 (give respective quantities for years 2014 and 2015).

Objective 3:

Modernization of the Customs Service and of the Customs Infrastructure, measured by the following performance indicators:

- Indicator e. 100% of customs operations facilitated by ASYCUDA World in 2013 (give respective quantities for years 2014 and 2015)
- Indicator f. 'x' number of staff are trained in EC Customs procedures in 2013 (give respective quantities for years 2014 and 2015)
- Indicator g. x% of existing buildings upgraded in 2013 (give respective quantities for years 2014 and 2015)
- Indicator h. One New Customs post opened in 2013 (give respective quantities for years 2014 and 2015)

Objective 4:

Crackdown on illegal trafficking, measured by the following performance indicators:

Indicator i. X number of arrests and convictions for smuggling in 2013 (give respective quantities for years 2014 and 2015)

Indicator j. X number of seizures of illegal substances are made in 2013 (give respective quantities for years 2014 and 2015)

The most important aspect of these indicators are that they are based on actual information that can be collected and that there is baseline (historical – 2011 or 2012) for improvements to be measured against– if the data do not exist or cannot be collected, the indicator cannot be used.

Program Outputs and Activities

To define Program Outputs and Activities we will develop Objective 2 because it includes Projects (for the Indicator b) and direct Outputs for the other 2 indicators. The same logic should be followed even for the other Objectives.

Projects

This worked example proposes a structuring of Projects and Outputs for the Customs of Kosovo. The aim of this structure is to give more strategic focus to the presentation of investment expenditure while allowing more meaningful unit cost comparisons. It is therefore proposed that in relation to the above Objectives rather than defining a multitude of small, location-specific projects, more aggregated projects could be defined. These could be defined by reference to the different road classifications operative in Kosovo so that each project is consistent with the provision of a uniform level of service, respective to the type of Custom Cross Border Point building constructed.

Objective 2:

Increase of effectiveness in the collection of customs obligations and the facilitation of customs procedures, measured by the following performance indicators:

Indicator b. X New Custom Cross Border Points built in 2013 (give respective quantities for years 2014 and 2015)

For realization of the indicator b of the objective are needed XXX euro to deliver the following outputs, which are organized in projects:

Project 1: Construction of small Custom Cross Border Point buildings.

Outputs:

- 3 small Custom Cross Border Points built in 2013 in x, y and z locations, costing YYY euro (respective figures for each of years 2014 and 2015 should also be presented)

Project 2: Construction of big Custom Cross Border Point buildings.

Outputs:

- 3 big Custom Cross Border Points built in 2013 in x, y and z locations, costing YYY euro (respective figures for each of years 2014 and 2015 should also be presented)

Increase of effectiveness in the collection of customs obligations and the facilitation of customs procedures, measured by the following performance indicators:

Indicator c. X% of imports use Yellow Channel and are selected using risk assessment on ASYCUDA World in 2013 (give respective quantities for years 2014 and 2015).

Indicator d. Y% of Yellow Channel imports are subject to post clearance audit in 2013 (give respective quantities for years 2014 and 2015)

For realization of the indicators c and d of this objective are needed XXX euro to deliver the following outputs:

Outputs:

- ASYCUDA software installed in x Custom Cross Border Point posts in 2013, costing YYY euro (respective figures for each of years 2014 and 2015 should also be presented)
- All Archives and Documents updated in 2013, costing YYY euro (it is the same for each of years 2014 and 2015, but it is necessary to present the change in cost, always if there is any change)
- X no of “Electronic” equipment installed (of a specified type) in 2013, costing YYY euro (respective figures for each of years 2014 and 2015 should also be presented)
- Other??

Activities

Simple activities would be specified and costed for each identified Output. For the Outputs related to Objective 2, Indicator b, the possible activities can be:

Activity 1: Specification of the architectural and technical requirements of the Customs Cross Border Points

Activity 2: preparation of the tendering procedure

Activity 3: implementation of the tendering procedure to construct the new Customs Cross-Border Points

Activity 4: Commissioning of the new Customs Complex Cross Border Points

Activity 5: ...

For the Outputs related to Objective 2, Indicators c and d, the possible activities can be:

Output ‘ASYCUDA software installed’ can be linked with these activities:

Activity 1: Installing ASYCUDA software in all Customs posts

Activity 2: Operating ASYCUDA software in all Customs posts

Activity 3: ...

Output 'All Archives and Documents updated' can be linked with these activities:

Activity 1: Updating and maintaining Archives

Activity 2: Updating and maintaining Documents

Activity 3: ...

Output 'X no of "Electronic" equipment installed (of a specified type)' can be linked with these activities:

Activity 1: preparation of the tendering procedure

Activity 2: implementation of the tendering procedure to purchase "Electronic" equipment

Activity 3: ...