
Manual for medium term budget framework and medium term expenditure framework



This project is funded by the European Union

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1 Purpose of the Manual

This Manual serves as a guideline for the medium term budget reform. It gives an overview on the fiscal rules framework and on new medium term budget planning regarding Fiscal Strategy and the Budget, according to the decisions and drafts made within the Twinning Project “Strengthening the medium term budgeting for effective public financial management”.

One of the focus points of the Manual is to introduce the medium term expenditure framework (expenditure ceilings), and to explain the procedures, the process and the timetable for Fiscal Strategy medium term budget planning. Additionally, it provides practical guidance on, how to build up an expenditure baseline scenario, how to estimate baseline revenues and how to present new initiatives for financing (new projects, new activities).

This Manual serves as basis for the trainings for the budget users. All the details of the implementation are not included in this Manual and the Ministry of Finance will give additional instructions. With the help of this Manual, other training materials, Ministry of Finance instructions, and trainings, the implementation of the new approach in strategic medium term budget planning should be ensured.

BOX: Some key aspects of the medium term budget reform

- Fiscal rules framework is introduced meaning that the Government shall submit to the Parliament a statement of its fiscal policy and of its medium term numerical fiscal targets (deficit/surplus and debt targets) at the beginning of the electoral term.
- Fiscal Strategy is the key planning tool to link medium term budgetary decisions to those deficit/surplus and debt targets that have been set. Fiscal Strategy will also provide binding basis for the Budget preparation.
- Fiscal Strategy will be crucial instrument for medium term budget planning, including assessment of new initiatives for financing.
- Reform introduces systematic 2-step budget process. As first step, there is “spring procedure” for the medium term budgeting. In Fiscal Strategy binding expenditure ceilings are set for the next fiscal year and semi-binding expenditure ceilings are set for the medium term. After that comes the second step, Budget preparation in summer time. This will be a lighter process in the future compared to the approach in the past.
- The roles of all institutions involved in the medium term budget planning process are clarified.
- Parliament is no more only informed about the Government’s Fiscal Strategy, but also should debate on it and endorse it.

2 Fiscal rules and medium term budget framework (MTBF)

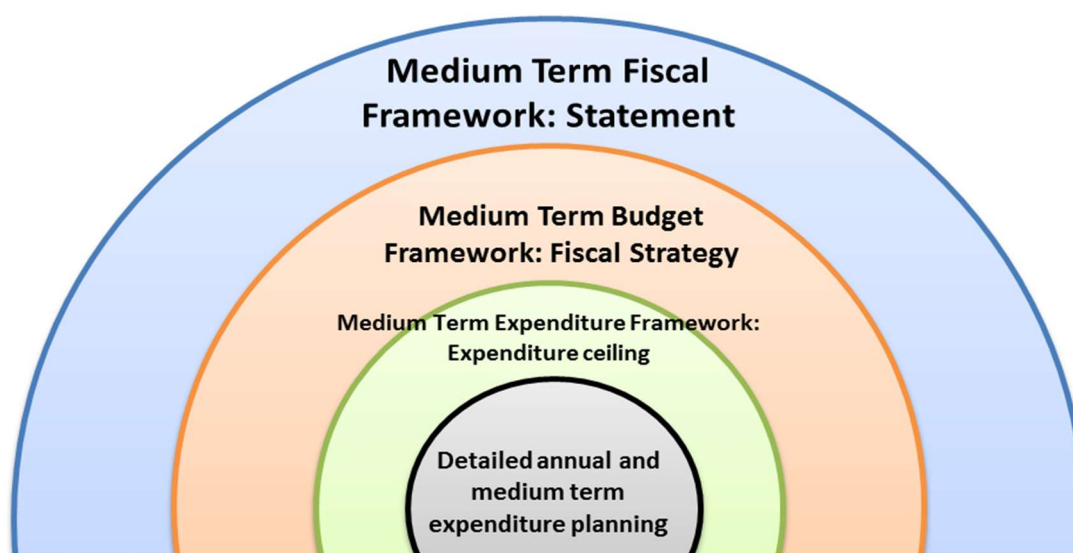
Effective public finance management requires medium term budget planning because most discretionary fiscal policy decisions have economic and budgetary implications beyond the implementation year. New medium term budget framework helps to understand this multiyear planning and to comply with the numerical fiscal targets set.

The aim of the fiscal rules framework is to support the macroeconomic stability and stable national economic development with sustainable public debt development through reliable and disciplined medium term planning.

At the beginning of its electoral term the Government must set numerical fiscal targets

- 1) for the nominal deficit/surplus of the central government and funds, as defined in the government finance methodology used by the Ministry of Finance (as % of GDP) and
- 2) for the general government debt, as defined by Public Debt Law (as % of GDP).

The targets are set in a way that makes sure that the 3% deficit and 60% debt rule of the Maastricht criteria will not be breached.



BOX: Some key definitions from the new Budget Law draft (article 2)

- Medium term fiscal framework shall mean the set of medium term fiscal policy objectives, integrated medium-term macroeconomic and numerical fiscal targets and projections. Medium term budget framework is also part of this.
- Numerical fiscal targets shall mean the nominal medium term fiscal targets set by the Government for the deficit/surplus and for the debt.
- Medium term budget framework shall mean a projection of general government revenues, expenditures, deficit/surplus, and debt for the following three fiscal years reflecting the medium term fiscal framework.
- Fiscal Strategy shall mean a document including medium term budget framework that Government submits to the Parliament annually to implement the Statement of Fiscal Policy.
- Expenditure ceiling shall mean the medium-term expenditure framework i.e. restriction for the total maximum appropriation level of central government and funds for the following three fiscal years excluding the donation budget and the budget of self-financing activities.

Medium term fiscal framework facilitates the formulation, implementation and transparent communication of fiscal policies, and draw attention to most efficient policy choices over medium term.

With medium term budget framework, the quality and stability of fiscal policy and budget decision-making can be increased, also providing policy certainty and guidance to all stakeholders. It can support early adjustments in cases where the projected revenues are not enough to cover the baseline expenditures and numerical fiscal targets are not met. With the help of medium term budget framework, the decisions concerning the expenditure cuts could be done earlier to give more time to adjust – or it might force the Government to reconsider endorsement of new commitments, if revenues are not even enough to cover the full costs of the existing commitments.

BOX: Fiscal Strategy is the instrument for the medium term budget framework

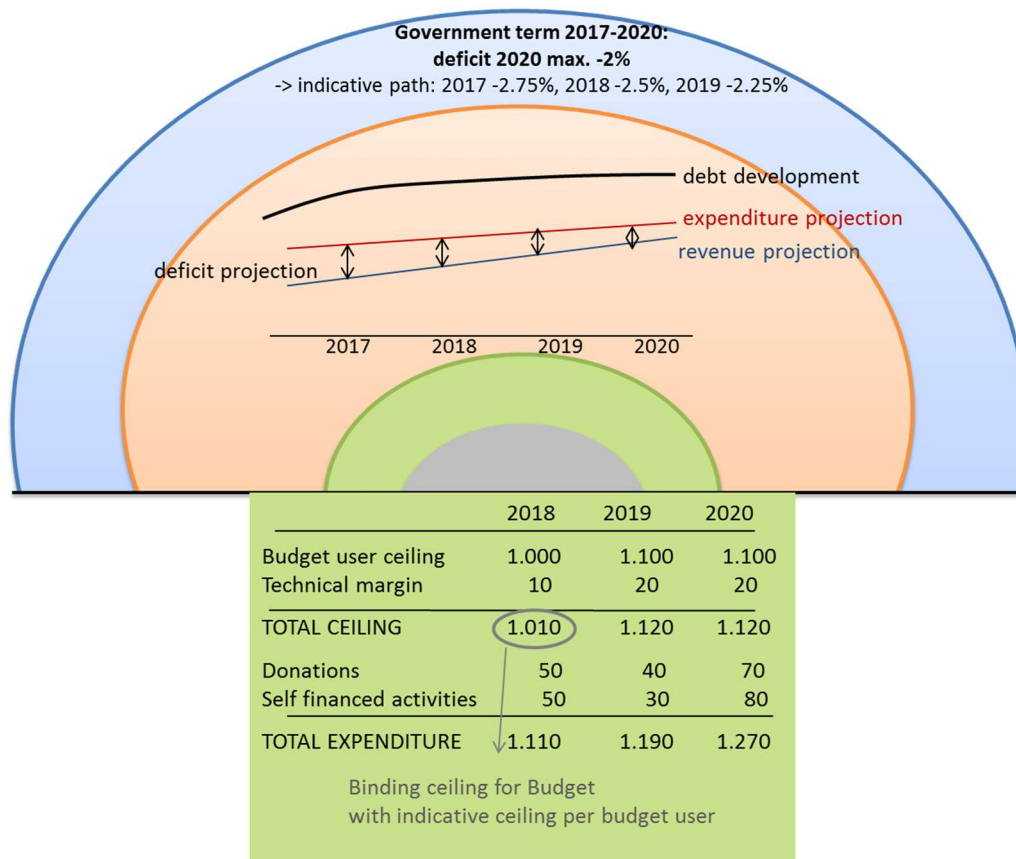
- Fiscal Strategy will include the follow up of numerical fiscal targets and expresses commitment and measures linked to achieve the deficit/surplus and debt targets.
- Its preparation will be based on well-defined process and procedures for medium term budget planning.
- Reliable macroeconomic forecast is of key importance. Also, systematic use of this forecast data by the Ministry of Finance and by the budget users is crucial so that consistent planning of public finances is ensured.
- Strategic forward-looking approach is taken to establish priorities and to allocate resources in this multiannual expenditure planning. It requires policy makers to look across sectors, programs, and projects to see how spending can be restructured to best serve established policy objectives.
- It is important to explain, which changes have taken place since the previous medium term budget plan. There might be various new Government projects, there might be changes in GDP forecast effecting tax revenue projections, there might be change in personnel policy, etc. Changes happen – and it is important to explain their estimated budgetary effect.
- Medium term budget framework includes medium term expenditure framework where the main rule is the expenditure ceiling that is set within Fiscal Strategy.

BOX: Contents of the Fiscal Strategy

- Ministry of Finance macroeconomic forecast for the current year and for the three-year planning period.
- Announcement on how Government will achieve the numerical fiscal targets in the medium term including description of the main policy measures planned.
- Amount of revenues, expenditures, deficit and financing of general government and its subsectors, the realization of the previous year and the estimation for the current year and the three-year planning period, based on Ministry of Finance macroeconomic forecast.
- Explanation of changes by general government subsectors compared to previous medium term projection of revenues and expenditures. Explanations are given for the changes in baseline scenario (non-discretionary changes) and for the new initiatives for financing (discretionary changes) which are planned to take place.
- Expenditure ceiling for the next three years, where the first-year ceiling is strictly binding and the two later years are semi-binding. In addition, the expenditure ceiling is presented indicatively broken down by budget users showing also the amount of unallocated technical margin.
- Other necessary data.

3 Rules for medium term expenditure framework (MTEF)

First of all, we could start by explaining more in detail, what is the context of medium term expenditure framework and expenditure ceilings. This can be illustrated with hypothetical picture below following the same logic as the previous picture.



3.1 Coverage of the expenditure ceilings

The medium term expenditure ceiling is set for 3 years on a rolling planning. This means that every spring one additional year is added compared to previous Fiscal Strategy. The total expenditure ceiling of the first planning year is always strictly binding. Once it has been set, it can't be exceeded in Budget planning. The expenditure ceiling must be in line with the numerical fiscal targets and based on reliable expenditure and revenue baseline projections.

The expenditure ceiling is set on nominal basis, and it includes almost all the on-budget expenditure of the central government budget and funds' budget. Expenditure ceiling covers:

- Central government core/basic budget expenditure, meaning accounts 630, 631
- Core/basic budget of Health Insurance Fund, Pension and Disability Fund and Employment Agency, meaning account 660
- Expenditures financed from loans account, meaning account 786

However, some general government expenditures are excluded from the ceiling:

- Expenditure financed through donations, meaning donation budget account 785 (no fiscal impact)
- Expenditure financed through self-financing accounts, meaning account 787
- Local government expenditures (however, transfers / grants to local governments are included in the ceiling).

3.2 What is binding?

The medium term expenditure ceiling total level is binding for the first year and semi-binding¹ for the latter years.

- Also, the ceilings of the semi-binding years need to be in line with the numerical fiscal targets. If changes take place for these years, their origin should be explained in comparison to previous medium term budget plan.
- The expenditure ceiling is indicated by budget users in Annex 1 of Fiscal Strategy, which means that it is not legally binding, but administrative mandatory. Each budget user has its own ceiling and own responsibility in steering the expenditure planning within this ceiling.
- For the Government, the expenditure ceiling is strictly legally binding at aggregated level. According to this some reallocations between budget users, without exceeding the expenditure ceiling at total level, are possible.
- Revisions of the ceiling downwards are possible. This means that expenditure ceilings can be decreased, if it is needed to achieve the fiscal targets.

¹ Revisions upwards are restricted. The difference between the tax revenue forecast and the outturn of the previous year is linked with each other. If the tax revenue outturn from year t-1 has been higher than budgeted/forecasted for year t-1, 30% of this amount can be used to raise the expenditure levels of the years t+1/t+2/t+3 (the Fiscal Strategy planning years), if there is fiscal space considered the nominal deficit target set.

- Unallocated technical margin (which is the difference between the expenditure ceiling and the ceilings indicatively broken down by budget users) is a buffer to finance non-discretionary fluctuation which might take place after Fiscal Strategy is prepared.
 - It can be allocated to finance compulsory expenditure needs arising during budget or supplementary budget preparation due to changes in macroeconomic forecast (e.g. effect that inflation has on index-bound expenditure, effect that GDP and employment changes have on cyclical expenditure) and due to changes in debt interest expenditure.
 - At the most 30% of technical margin can be used in budget preparation and the rest is a buffer for supplementary budget preparation.
 - Unallocated technical margin is left unused in case there are no compulsory needs of budget financing as stated above, or if the projected revenues decrease causing pressure to cut down the expenditure levels.
- In case of pure technical extraordinary changes of budget structure, the expenditure ceilings must be changed, when the change is deficit neutral for the public sector.

Indicative expenditure ceilings are also calculated by policy areas and programs as soon as the new program classification has been introduced. When new performance-oriented program budgeting is implemented, additional instruction will be given by Ministry of Finance also in the field of medium term budgeting.

4 Processes: timetable and responsibilities

4.1 Introduction

Fiscal policy making needs well defined process, timetables, procedures and structures, so that it is clear for all stakeholders, what should happen and when. This sets an efficient framework for the political decision making. To create credibility into fiscal policy, it is crucial to keep the timetables set.

Fiscal Strategy preparation process and the main timetable for it will be defined in the Budget Law. However, each year by January 15 Ministry of Finance (MoF) will publish on its web-site a more detailed timetable for the medium term planning process.

4.2 Fiscal Strategy

The process of preparing the Fiscal Strategy starts with setting up the baseline scenario per budget user for the upcoming 3 years. By the beginning of February, the MoF sends Fiscal Strategy Circular Letter with instructions for the preparation of the Fiscal Strategy to the budget users. The Circular Letter shall contain the following elements:

- Strategic priorities of the Government
- Baseline scenario drafted by MoF for the budget user concerned for the upcoming 3 years
- Instructions and guidelines for estimating medium term expenditure and revenue baseline projections
- Instructions and guidelines for estimating medium term expenditure and revenue effects of new initiatives for financing
- Deadline for submitting the data to MoF
- Other necessary information.

During February, each budget user prepares its own detailed baseline scenario, and a proposal for new initiatives for financing (policies, projects and activities). Preparation will be done according to instructions given by MoF, and the number of new initiatives for financing is limited.

In the period between 1st of March and mid-April:

- MoF holds meetings with the budget users, thus defining the overall baseline scenario per budget user.

- Macroeconomic Policy Department of the MoF prepares macroeconomic projections, which MoF submits to all relevant institutions.
- MoF prepares the revenue projections in cooperation with other stakeholders.
- Fiscal space is assessed for new initiatives for financing or for cutting in the baseline scenario.
- MoF makes systematization of the budget user new initiatives for financing in a format that supports the Government decision making.

Mid-April MoF submits to the Government the total baseline scenario and a list of new initiatives for financing (within the Government there should be a separate body/committee which will make decisions on this issue).

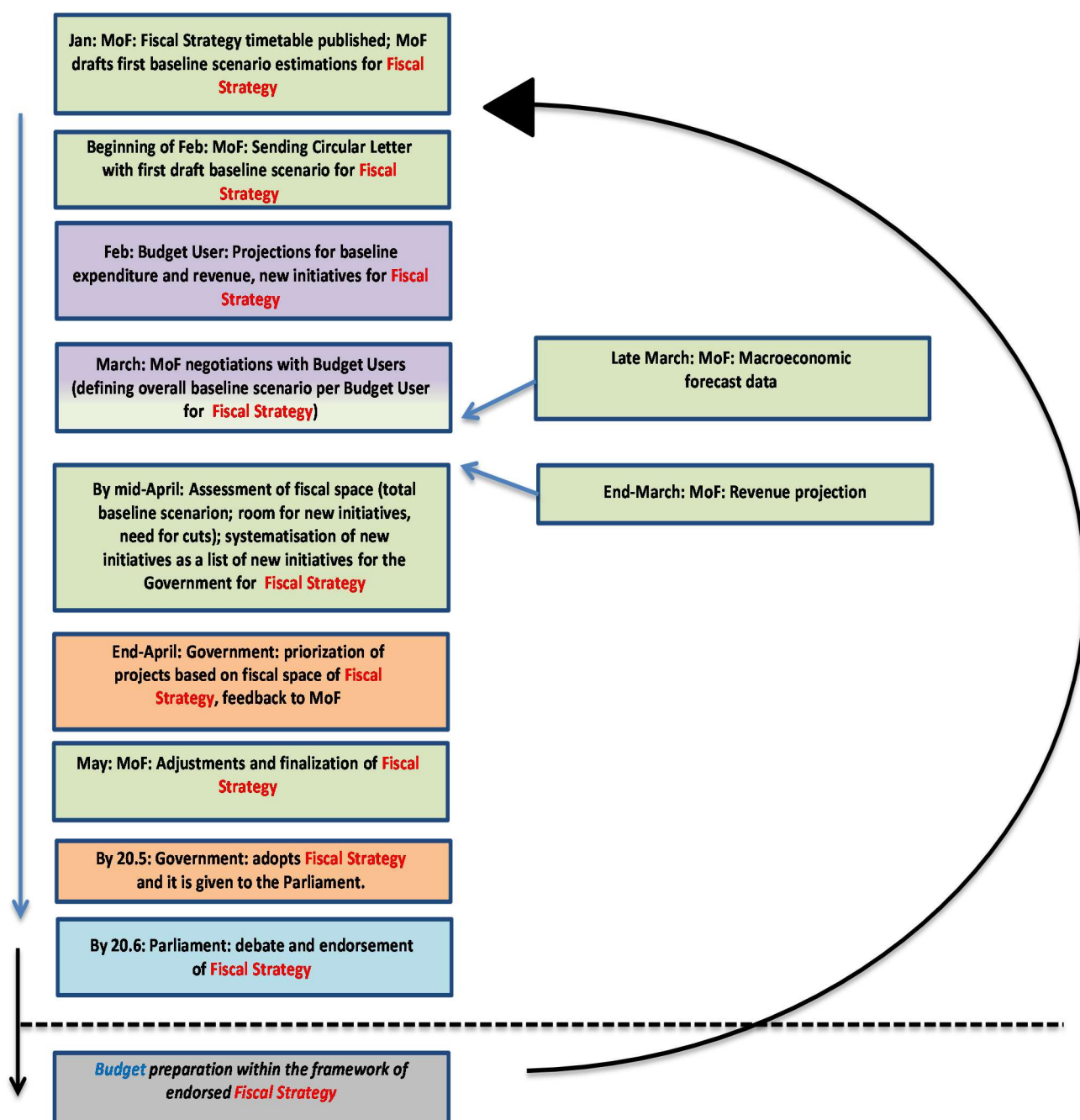
By the beginning of May, the Government submits its feedback to the MoF of its decisions on e.g. which new projects will be covered from the fiscal space or which cuts and other changes or reallocations are needed.

By mid-May MoF makes the needed adjustments in the Fiscal Strategy, which is then sent to the Government for adoption.

Government adopts the Fiscal Strategy by the 20th of May with a total binding expenditure ceiling for the first year and semi-binding for the second and the third year. In the Fiscal Strategy, there is an annex included containing the expenditure ceiling per budget user.

The Fiscal Strategy is sent to the Parliament for discussion and adoption. By 20th of June the Parliament shall adopt the Fiscal Strategy with a total binding expenditure ceiling for the first year and semi-binding for the second and the third year.

In case the Fiscal Strategy is not approved according to the timetable above, special rules will apply in regard to the right of the MoF to define the expenditure ceiling for budget preparation.



4.3 Budget

The process for drafting the Budget starts after the above-mentioned process for the Fiscal Strategy. The expenditure ceilings approved by the Parliament by June 20th in the Fiscal Strategy form the framework for the preparation of the Budget.

Basically, immediately after approval and publication of the Fiscal Strategy, the budget users can already start to draft their Budget requests based on their ceilings in order to finish most of the work before the summer holidays.

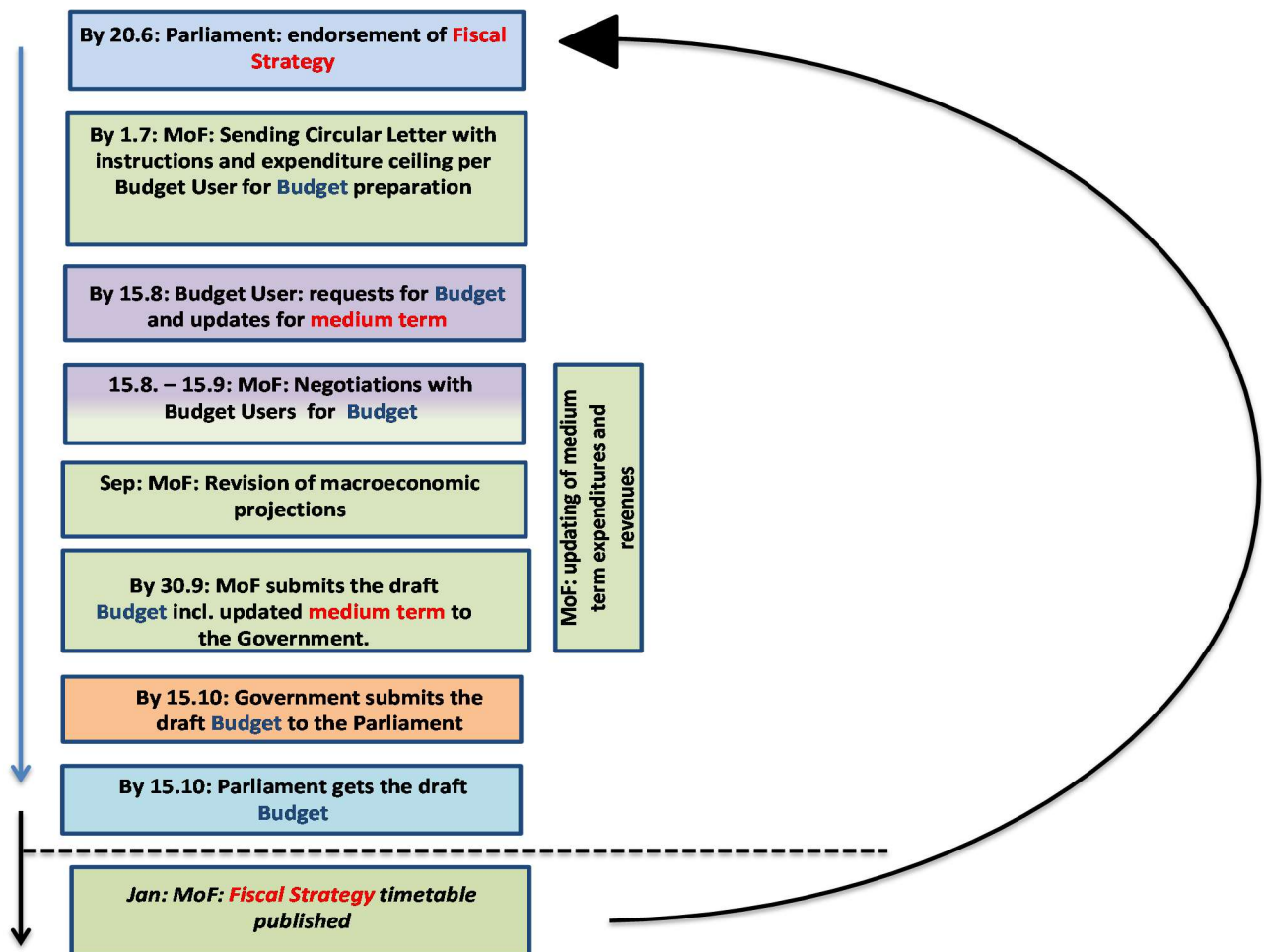
The Circular Letter including the expenditure ceiling per budget user is send by the MoF to the budget users latest by 1st of July (including e.g. instructions on wages and other activities arising from legal obligations, instructions on data submission).

Budget user requests arrive at MoF at the latest by 15th of August. The focus should be on the budget year, but also the data for the two latter years is updated.

After that MoF negotiates with the budget users in the period between 15th of August until 15th of September.

MoF Macroeconomic Policy Department makes revisions on the macroeconomic projections during September. By 30th of September the MoF submits the Draft Budget to the Government.

The Draft Budget will be given to the Parliament for debate by 15th of October at the latest, and will be approved in December at the latest.



5 Calculations for the medium term budget

The focus in this chapter is on how to make medium term budget projections in two categories: 1) the baseline (compulsory / non-discretionary changes) and 2) the new policies for financing (discretionary / new requests).

As a starting point, it needs to be understood that building up a new medium term budget projection will not start from scratch and from an empty table. As a starting point, we will use the previous medium term budget plan, and explain which changes have taken place compared to that. This is a way to bring continuity and transparency into decision making.

- For example, it might be the case that in spring 2017 it was estimated in the Fiscal Strategy that the deficit for year 2019 will be -2.5%. However, it could happen that during autumn 2017 the projected deficit for 2019 is -2.7%. The Government must explain at least on general level in the Budget, what has changed and what are the reasons for the change. There might be changes in GDP forecast, there might be new projects, etc.
- The same logic is followed in budget users' medium term calculations. Budget users can, for example, propose changes to year 2019 baseline expenditure during spring 2018 Fiscal Strategy preparation, but it must be explained why this change is needed compared to autumn 2017 expenditure estimation for 2019.

The picture below illustrates that the start figure for the Fiscal Strategy is always the previous Budget, whereas the start figure for the Budget is always the previous Fiscal Strategy. The pink arrows in the picture point out, which two years must be compared with each other while explaining the change.

However, please note that the first ever baseline estimation will be calculated in a slightly different way. Please see Annex 1.

Fiscal Strategy 2018-2020 (spring 2017)	2018 x den	2019 x den	2020 x den	
Budget 2018 (autumn 2017)	2018 x den	2019 x den	2020 x den	
Fiscal Strategy 2019-2021 (spring 2018)		2019 x den	2020 x den	2021 x den
Budget 2019 (autumn 2018)		2019 x den	2020 x den	2021 x den

...

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5.1 Expenditure baseline scenario

5.1.1 Introduction

Reliable medium term budget planning is of key importance in medium term fiscal policy making. First thing needed is a reliable medium term baseline scenario so that fiscal space for new initiatives for financing or need for possible cuts can be estimated.

Baseline scenario is needed so that unrealistic budgeting can be avoided. This means that there should be no over-budgeting (which might result in unnecessary spending) and no under-budgeting (which might lead to difficult budget planning and in building up arrears). Expenditure baseline is calculated separately from revenue projections (except e.g. in case of donations and self-financing activities). The idea is to get full understanding of the central government and funds' medium term expenditures, if nothing is changed.

Building up baseline scenario needs trust between the MoF and the budget users. It must be understood that the purpose is not to calculate a cutting scenario, but to work together to achieve the most realistic expenditure calculation for fulfilling the basic tasks, duties, obligations and commitments. If there is a need for cuts, those will be planned later. However, making baseline scenario does not mean that e.g. all price level changes of operating expenditure should be automatically included in the budget user budgets. There is a need to negotiate, how can the efficiency of a budget user be improved to keep e.g. the operating expenses under control.

BOX: Baseline scenario

- By baseline scenario we mean estimation of expenditures and revenues in the medium term with no discretionary changes (and in accordance with existing legislation).
- In other words, this means expenditures and revenues with “business-as-usual” of existing legislation, existing commitments, and existing tasks. Thus, baseline scenario does not include any new initiatives for financing for the upcoming years.
- Baseline scenario must be realistic and based on most recent macroeconomic forecast.
- For calculating baseline scenario, various issues should be considered. The realization of the previous budget and the current year budget is a good starting point - adjusted regarding one-off measures. In addition, all the known compulsory needs should be analyzed. These can be coming from e.g. legislative obligations, index development (consumer price index / cost of living and average salary increase in adjustment of pensions and unemployment compensations), or signed and approved multiannual commitments and projects.
- The baseline scenario is drafted for each budget user separately and MoF also calculates it as a total amount.

BOX: Fiscal space

- Fiscal space means the room for maneuver between the budget balance and debt based on baseline scenario of revenues and expenditures, and what is the limitation for balance and debt according to the numerical fiscal targets.
- If there is a positive fiscal space, this means that some new initiatives for financing can be approved and new commitments can be made.
- If there is a negative fiscal space, this means that expenditure cuts or (tax) revenue increase should be planned so that the numerical fiscal targets are not broken. Also, reallocation of expenditure between the budget users is of course possible in order to create room for some new initiatives for financing.

5.1.2 Calculation

MoF will draft and submit for each budget user their estimated baseline scenario at total level in the beginning of the year together with Fiscal Strategy Circular Letter. Issues considered are, for example, the realization of the previous year and all the known compulsory needs coming from e.g. legislative obligations and signed, approved multiannual commitments and projects, and index developments. It will also be considered, if some one-off measure or project will come to

end or if in previous year there has been some one-off expenditure increase e.g. in the supplementary budget.

Taking this total level as a guideline, the budget users will draft their baseline scenario in detail by subprograms (with economic classification and revenue source details). These requests are submitted to MoF with explanation.

As mentioned already earlier, in the Fiscal Strategy the requests and changes are always presented and explained compared to the medium term baseline scenario of the previous autumn Budget. If some new multiannual commitment was included already in the Budget preparation for the budget year and for the medium term, it is already part of the “start figure”. When the Budget is prepared, the starting point is always the medium term baseline scenario of the Fiscal Strategy. However, please note that the first ever baseline estimation will be calculated in a slightly different way. Please see Annex 1.

The requested changes should be presented by categories:

- E=end of activity
- C=approved new commitment
- T=timing change
- R= technical reason
- L=legislative need
- O=other obligatory

End of activity (E) is used when some project or activity stops and money for this purpose is no longer needed.²

Approved new commitment (C) is used for changes coming from obligatory decisions that Government/Parliament has already made and contracts have been signed. The database for multiannual commitments and the estimations on which year the payments take place should be used.

Timing change (T) can take place, if there is a change in the spending profile of a project. It might be that more money is needed for one year and less for another one. However, to create a neutral timing change, the sum of the change must equal to zero.

Technical reasons (R) happen, for example, when some task and the budget for the task is shifted from one budget user to another or when two budget users are merged with each other.

Legislative needs (L) can be various and always need to be explained in more details. It might be that the legislation forces to do indexation of some social benefit expenditure every year. It might

² When a project ends, it must be indicated in the baseline calculation, that this financing ends in the budget. In case the budget user wants to finance some other activity in the future, it should be proposed as a new initiative for financing.

be that there is a change in the users of the services and all have equal legislative right to receive their service (e.g. population changes with more pensioners or more children; e.g. economic factors cause decrease in the number of the unemployed people). The macroeconomic forecast is reflected in many of the changes in this category L.

Other obligatory (O) changes can also be various and need to be explained in detail. There might be a need to make changes into the payments of principals or interests of some loans. There might be need to consider major changes e.g. in the exchange rate or in the oil price.

Regarding personnel and salary expenditure, the baseline should be based on approved annual plan for employment (i.e. the current situation with personnel, retirements and approved new staffing). For additional information, see the MISA-Homepage with the current law for civil servants. Explanations for changes in personnel and salary expenditure should be explained in the baseline template (accounts 401, 402, 403, 404).

5.2 Baseline revenue estimation

Calculation of the fiscal space needs reliable medium term baseline scenario, not only for expenditures, but also for revenues. This is highly important so that it can be estimated, “what can be afforded” as new projects and commitments – or are e.g. spending cuts needed.

The idea is to build as credible as possible “business-as-usual” estimation of revenue development considering the latest MoF macroeconomic forecast and all the known variation in revenue items. This applies to both tax revenue and to non-tax revenue, and to all different budget revenue accounts.

In this Manual, the focus is on non-tax revenues. However, Tax and Customs Policy Department of the MoF will develop separate tax revenue estimation process and procedures which will include those budget users, who are in charge for tax revenues. The idea is that the role of the Tax and Customs Policy Department is increased in the projections of tax revenues whereas the projections of non-tax revenues shall be prepared by the Budget and Funds Department in the Ministry of Finance.

The revenue baseline by budget user is created starting from the 6-digit-level, so from very detailed level. All changes compared to the previous medium term baseline must be explained.

The donation budget revenues should be projected so that only those donations are included where the contracts are already signed, or where the process is in the phase of signing and contracts will be signed shortly.

In projecting the loans budget revenues, the budget user project unit and Ministry of Finance (International financial relations and public debt management department) data should be used. International financial relations department is in charge for the cooperation with international and bilateral financial institutions. Cooperation with the EU covers decentralized management

of EU Funds and monitoring the status of realization of measures and activities under the National Program for Adoption of the Acquis Communautaire (NPAA).

Some revenues are collected to self-financing revenue accounts. Based on Budget Law the self-financed activities are additional to the basic activities defined under law. The realistic projection of the level of the self-financing revenue accounts is one focus point in the reform. Budget users are expected to be cautious and realistic in their projections and all changes in the requests must be explained in detail. MoF has special surveillance for these revenue and expenditure items.

5.3 New initiatives for financing

5.3.1 Introduction

High quality fiscal effects evaluation of the new initiatives for financing (new projects, new activities) is also important so that the Government can assess and prioritize new proposals, new investment projects, new legislation changes etc. New initiatives for financing will be assessed carefully because they typically affect multiple years in budget planning.

Budget users submit their requests for new initiatives for financing to MoF together with their baseline scenario. These requests must be accompanied with adequate analysis of the fiscal impacts of the new initiatives for financing.

The only time of the year to propose new initiatives for financing is during the Fiscal Strategy process or during the Budget process. At other times of the year financing should not be provided for new initiatives with multiannual financing needs.

BOX: New discretionary initiatives for financing are collected with a separate template on top of the baseline scenario. Some examples of these:

- In operating expenditure: major IT-purchases, new projects and commitments...
- Public procurement of new project or acquisition
- Significant change of timing of projects or other commitments
- Changes in legislation e.g. concerning the social benefits and other transfers

5.3.2 Calculation

There is a separate template which is used to propose new initiatives for financing. The basic idea is to make reliable calculation of the fiscal impacts that the new initiative for financing has on budget expenditures / revenues, and on other public sector expenditures / revenues. It is also important to know, how the new costs are divided between e.g. wage expenditure, expenditures for goods and services, capital expenditure and transfer expenditure. Also, sources of funding and possible cost sharing must be considered.

For new major initiatives, the impacts on the overall Macedonian economy need to be considered and assessed (e.g. effect on employment, on GDP, on regional development etc.) It needs to be explained, if guarantees, loans or other actual or contingent liabilities will arise from the new initiative for financing. Cost-benefit analysis is important especially for major infrastructure investments.

New initiatives for financing should be estimated with the best available data and the best available experts who know the substance. This expertise might be found within the implementing department/unit of the ministry, within implementing second line budget user, within a working group, etc. It is important to do a comprehensive documentation of all the calculations, so that it is transparent how the effects have been estimated.

BOX: Guided analysis for estimating new initiatives for financing

- Is the change planned efficient and effective?
- What is the total cost of the new initiative for financing (new project, new activity)?
- For how many years these costs will occur? What will be effect for the first year? Which year the costs are the highest?
- Or will the new initiative for financing bring permanent costs?
- Is some part of the proposed initiative already part of budget user budget and expenditure ceiling?
- Which accounts are concerned? Investments? Revenues? Salary cost?
- Would it be good to do a broader internal evaluation of the change? And concerning the evaluation: which indicators must be defined for that in advance?
- Cost-benefit analysis must be done, especially regarding new major investments.
- Assessment of fiscal impacts should be done with high quality.

New initiatives for financing are submitted to the Government. In the future, the Government should evaluate all the new initiatives at the same time considering the medium term fiscal space. Government should be able to do prioritization of different projects and other proposals. For this reason, clear calculations and explanations are needed.

5.4 Data submission and templates

Filled in data templates for Fiscal Strategy and Budget preparation are submitted by every budget user. There are templates for making baseline scenario (compulsory / non-discretionary changes) and a template for new initiatives for financing (discretionary / new requests). Same templates are used for Fiscal Strategy preparation and for Budget preparation.

Within the templates the budget user request need to be classified by subprograms, economic classification (3-digit level for expenditures; 6-digit level for revenues) and by revenue source. This means that concentrated work is needed in filling in the data in a clear and transparent way. This includes clear explanations compared to the previous medium term plan – as it was already explained in the previous chapters.

This chapter explains the main excel-templates for budget users as they were developed for spring 2017 pilot baseline projections. These are the excel-templates for the trainings of the Twinning Project. Before the actual moment of implementing the medium term budget reform, the templates may have been further developed and the appearance may have changed. Ministry of Finance will give more detailed instructions for the medium term budget planning.

5.4.1 Template for expenditure baseline

The excel-template for baseline expenditure is built in a way that the data always needs to be filled in and explained for each subprogram separately. Each subprogram has its own excel-sheet (pink sheets in the picture below).

From these subprogram sheets the data is summarized to programs (purple sheets) and all the way to the total baseline expenditure of the budget user. All the grey cells of the excel-tables are automatic, so please don't touch these automatic calculations. Budget users should only add data into the white cells.

D7

fx

785

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MTEF template: Projection of baseline expenditures for 2018-2020

Budget user name:

Budget user number:

Realization of 2016:

Budget for 2017:

Baseline projection 2018 (sum from programs):

Baseline projection 2019

	630	631	785	786	787	total	630	631	785	786	787	total	630	631	785	786	787	total	630	631	785
40	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
401	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
402	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
403	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
404	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
41	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
411	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
412	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
413	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
414	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
42	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
420	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
421	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
423	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
424	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
425	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
426	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
427	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Instructions

budget user summary

program1

subprogram10

subprogram11

subprogram12

subprogram13

100%

Each pink subprogram excel-sheet contains three tables:

- Start figure for calculation
- Proposal for new baseline expenditure
- Explanation for changes made

The table "start figure for calculation" shows automatically the expenditures of the previous medium term plan:

Start figure for calculation																		
Start figure 2018							Start figure 2019							Start figure 2020				
	630	631	785	786	787	total	630	631	785	786	787	total	630	631	785	786	787	total
40	25839996	0	0	0	0	25839996	25839996	0	0	0	0	25839996	25839996	0	0	0	0	25839996
401	18861162	0	0	0	0	18861162	18861162	0	0	0	0	18861162	18861162	0	0	0	0	18861162
402	6978834	0	0	0	0	6978834	6978834	0	0	0	0	6978834	6978834	0	0	0	0	6978834
403	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
404	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
41	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
411	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
412	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
413	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
414	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
42	12447204	0	0	0	0	12447204	12447204	0	0	0	0	12447204	12447204	0	0	0	0	12447204
420	191155	0	0	0	0	191155	191155	0	0	0	0	191155	191155	0	0	0	0	191155
421	8420039	0	0	0	0	8420039	8420039	0	0	0	0	8420039	8420039	0	0	0	0	8420039
423	393557	0	0	0	0	393557	393557	0	0	0	0	393557	393557	0	0	0	0	393557
424	873822	0	0	0	0	873822	873822	0	0	0	0	873822	873822	0	0	0	0	873822
425	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
426	2568631	0	0	0	0	2568631	2568631	0	0	0	0	2568631	2568631	0	0	0	0	2568631
427	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
43	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
431	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
432	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
433	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Instructions | budget user summary | program1 | subprogram10 | program2 | subprogram21

In table "proposal for new baseline expenditure" budget user must write the new projection of the baseline expenditure for this subprogram including all three years. Please also add notes about the calculation methods you use! Only white cells must be used for inserting text and figures; grey cells contain automatic calculation and cannot be changed. Figures must be inserted in denars (NOT in 1000 denars and NOT in 0.5 denars).

AF68																				
A	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE		
Proposal for new baseline expenditure																				
2018 baseline proposal:							2019 baseline proposal:							2020 baseline proposal:						
	630	631	785	786	787	total	630	631	785	786	787	total	630	631	785	786	787	total	Notes from	
40	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
401																				
402																				
403																				
404																				
41	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
411																				
412																				
413																				
414																				
42	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
420																				
421																				
423																				
424																				
425																				
426																				
427																				
43	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
431																				
instructions budget user summary program1 subprogram10 subprogram11 subprogram12 subprogram13																				

The last table "explanation for changes made" calculates the difference between the start figure and the new projection for the baseline. Here budget users must explain, why there is a change compared to the start figure. Explanation must be given for each economic classification separately including "reason code" for the change (see also chapter 5.1.2).

N152

=N153+N154+N155

A	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	AF			
Explanation for changes made (non-explained changes are excluded)																						
2018 / Change from start figure							2019 / Change from start figure							2020 / Change from start figure								
	630	631	785	786	787	total	630	631	785	786	787	total	630	631	785	786	787	total	Reason code:	Explanation:		
40	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
401	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
402	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
403	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
404	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
41	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
411	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
412	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
413	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
414	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
42	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
420	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
421	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
423	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
424	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
425	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
426	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
427	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
43	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
431	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				

End of activity (please explain why)

Approved new commitment (please explain why)

Timing change (only timing changes)

Technical reason (please explain)

Legislative need (please explain why)

Other obligatory (please explain why)

Instructions

Budget user summary

Program1

Subprogram10

Subprogram11

Subprogram12

Subprogram13

Data must be filled in for all the subprograms and after that summary data can be reviewed from purple program excel-sheets. Please note that it is not possible to add new subprograms without consulting MoF first.

As a last thing budget user must explain on aggregated level the major issues affecting the baseline expenditure compared to the previous medium term budget. This is done in excel-sheet “budget user summary” (dark purple sheet). Explanation must be written into the white box below the table which summarizes the changes (this table is calculated automatically).

2018: Change from start figure																			2019: Change from start figure										2020: Change from start figure									
	630	631	785 donation	786 loans	787 self-fin.	total	630	631	785 donation	786 loans	787 self-fin.	total	630	631	785 donation	786 loans	787 self-fin.	total																				
40 salaries and allowances	16900	0	0	0	0	16900	17000	0	0	0	0	17000	17100	0	0	0	0	17100																				
41 stocks and undefined exp.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0																				
42 goods and services	20000	1300	100	0	1300	22700	20000	1300	0	0	1300	22600	20000	1300	0	0	0	21600																				
43 cur. transfers to funds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0																				
44 cur. transfers to local gov.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0																				
45 interest payment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0																				
46 subsidies and transfers	150	0	0	0	0	150	150	0	0	0	0	150	150	0	0	0	0	150																				
47 social benefits	2000	0	0	0	0	2000	2200	0	0	0	0	2200	2400	0	0	0	0	2400																				
48 capital expenditure	330000	0	100000	1500	0	431500	330000	0	5000	1500	0	336500	330000	0	0	0	0	330000																				
49 repayment of principal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0																				
total	369050	1300	100100	1500	1300	473250	369350	1300	5000	1500	1300	378450	369650	1300	0	0	1500	372450																				
Explanation for change in short:						Explanation for change in short:						Explanation for change in short:																										

</

5.4.2 Template for revenue baseline

Each budget user has its own excel-template for its revenue baseline. The excel-template contains two different sheets – the data sheet where the data is inserted and the instruction sheet, where some explanation is given on how the template should be used and what kind of data is needed.

The focus is in making baseline projections for all revenues, except for core budget tax revenues (as mentioned already earlier, Tax and Customs Policy Department would be responsible for the tax revenue estimation process and procedures).

Just like in the expenditure template, only white cells must be used for inserting text and figures; grey cells contain automatic calculation and cannot be changed. Figures must be inserted in denars (NOT in 1000 denars and NOT in 0.5 denars).

First, all the needed items at 6-digit level must be chosen and background data filled in. For example, all 6-digit items that were in use for the budget user concerned during budgets of 2016 or 2017 or that will be needed for 2018-2020 must be inserted.

Projection of baseline revenues for 2018-2020													
Item code at 6-digit	Program	Realization of 2016					Total	Budget for 2017					Total
		660	631	785	786	787		660	631	785	786	787	
6							0						0
7							0						0
8							0						0
9							0						0
10							0						0
11							0						0
12							0						0
13							0						0
14							0						0
15							0						0
16							0						0
17							0						0
18							0						0
19							0						0
20							0						0
21							0						0
22							0						0
23							0						0
24							0						0
25							0						0
26							0						0
27							0						0

After that projection data for the medium term must be added. A separate column for notes of calculation should be used. For efficient budget negotiations it is necessary to explain the change from start figures compared with the projected data for medium term and to add comprehensive notes on how the projections were calculated.

	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	AF	AG	
1																				
2																				
3																				
4	Projection 2018					Projection 2019					Projection 2020					Notes from calculation				
5	660	631	785	786	787	Total	660	631	785	786	787	Total	660	631	785					
6						0						0							0	
7						0						0							0	
8						0						0							0	
9						0						0							0	
10						0						0							0	
11						0						0							0	
12						0						0							0	
13						0						0							0	
14						0						0							0	
15						0						0							0	
16						0						0							0	
17						0						0							0	
18						0						0							0	
19						0						0							0	
20						0						0							0	
21						0						0							0	
22						0						0							0	
23						0						0							0	
24						0						0							0	
25						0						0							0	
26						0						0							0	
27						0						0							0	
28						0						0							0	
29						0						0							0	
30						0						0							0	
31						0						0							0	
32	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
33	2018, change from 2016					2019, change from 2016					2020, change from 2016					Explanation for change				
34	660	631	785	786	787	Total	660	631	785	786	787	Total	660	631	785					
35	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
36	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
38	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
39	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
40	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
41	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
42	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
43	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
45	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	

instructions

Baseline-6 digit

5.4.3 Template for new initiatives for financing

The excel-template for the new initiatives contains two different sheets – the data sheet where the data is inserted and the instruction sheet, where some explanation is given on how the template should be used and what kind of data is needed.

The template for the new initiatives for financing is a combination of:

- a) background information and justification for the new initiative
- b) budgetary effects of the new initiative.

The template must be filled in carefully for all the new proposals and as annex should be provided all additional documents of, for example, cost-benefit analysis or impact analysis or other background memos.

First information needed is basic data for the proposal:

- title/name of the proposal (please use short and descriptive name)
- the program code
- budget user contact information
- type of proposal (EU-related regulation, new program/activity, new regulation, increase/decrease of existing program/activity, change of timing)

In “proposal in short” one should explain what is the main output or outcome of the new initiative, i.e. where the money would be used – in which service, project, activity or benefit.

In “rationale for new initiative” one should explain the benefits from the new initiative. For example: will new financing and new activity solve some existing problem, will the new financing increase efficiency, productivity etc., who are the ones getting the benefit (which companies, which citizens, which administration institutions...), and will there be effects on the overall Macedonian economy (e.g. on unemployment, on GDP growth, on foreign investments, etc.). Of course, it is also important to explain, how the new initiative is linked to Government Program and strategic objectives of the Government – and how it will support achievement of some strategic objectives of the Government. If needed, background memos could be added as attachment.

One must also indicate, if cost-benefit analysis has been made or if the analysis is under preparation. The analysis should be added as attachment.

In “prior agreements and authorities” should be explained, if some decision concerning this new initiative has already been made. E.g. has there already been approval for the project/activity in a Government session or has some agreement already been made between some ministers etc. Or is there already some framework agreement at the background.

In “timetable of implementation” should be explained, what is the planned and technically possible timetable for the new initiative. Here should be explained and estimated, for example, how much time will be needed for the public procurement or for legislation changes or for some IT-issues before the reform can be implemented.

The screenshot shows a spreadsheet template for 'New initiatives for financing during 2018-2020'. The template is organized into columns (A-S) and rows. Key sections include:

- Title of proposal:** A text input field.
- Program code:** A text input field.
- Contact:** A text input field with a note '(person, tel, email)'.
- Type:** A dropdown menu with options: (x) EU related regulation, New program, New regulation, Increase/decrease of existing program, and Change of timing.
- Proposal in short:** A large text input area.
- Rationale for new initiative:** A large text input area.
- Cost-benefit analysis or other supporting impact analysis:** A large text input area.
- Prior agreements and authorities:** A large text input area.
- Timetable of implementation:** A large text input area.

The spreadsheet also shows a status bar at the bottom with tabs for 'new initiative' and 'new initiative with instruction'.

The second part of the template is for explaining the budget effects. Detailed proposal must be made based on classification by organizational, program (subprogram code), revenue source and economic (3-digit) classification. Also, explanations can be added. It is restricted so that one new initiative can cause budget effects to maximum two different subprograms. In case the new initiative concerns e.g. all the budget users and various subprograms, it should be explained separately in detail and in the budget effect table should be included the total increase or decrease of expenditure (budget user code and subprogram code should be left empty in this case).

One must also answer some questions concerning the new initiative by marking with “X” when applicable:

- Is it one-off measure (with clear end date); if yes, what is the total maximum budget and the end year of the expenditure needs;
- Is it permanent measure; if yes, what is the estimated annual expenditure
- Are there effects on budget revenues; if yes, it should be explained which budget items will be affected, during which years and by how many denars (estimation)
- Does the new initiative have effects on Government liabilities, guarantees, loans etc. directly or indirectly?

- Are there effects to the number of public employees or civil servants and their salary costs; if yes, it should be explained which institutes will need the new employees, for which years, what is the estimated cost, is this already fully/partly included in the annual plan for employment etc.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	
16	Budget effects:																			
17	(X)																			
18	One off activity with total maximum expenditure of: <input type="text"/> 1000 denars And end year of: <input type="text"/>																			
19	Permanent cost with estimated annual expenditure of <input type="text"/> 1000 denars																			
20																				
21	Effect on revenues? If (X), please explain: <input type="text"/>																			
22	Effect on guarantees, loans, other actual or contingent liability? If (X), please explain: <input type="text"/>																			
23	Effect on amount of public employees and salary costs? If (X), please explain: <input type="text"/>																			
24																				
25	In the tables below should be explained the detailed budget effects of the proposal for the medium term by programs:																			
27	Detailed budget effects by programs:																			
28	- budget user code: <input type="text"/>																			
29	- sub-program code: <input type="text"/>																			
30	<div> <div>2018 budget effect from new initiative:</div> <div>2019 budget effect from new initiative:</div> <div>2020 budget effect from new initiative:</div> </div>																			
31	630	631	785	786	787	total	630	631	785	786	787	total	630	631	785	786	787	total	Explanation	
32	40	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
33	401																			
34	402																			
35	403																			

new initiative new initiative with instruction

ANNEX 1: Special instructions for creating first baseline scenario

When baseline scenario is made for the first time, the start figure can't be from the previous medium term plan – because there is no previous plan.

That is why during the trainings in spring 2017 of the Twinning Project, the start figure for the baseline scenario for 2018 is not the previous medium term plan for 2018, and the start figure for the baseline scenarios for 2019 and 2020 is not the previous medium term plan 2019. Instead, it was decided that the start figure for all the baseline scenario of all the years is the realization of 2016.

This also means that all the changes must be explained compared to realization of 2016.

In expenditure baseline templates the MoF has inserted data for realization 2016 and budget 2017. Budget 2017 is there for comparisons, and 2016 is there for comparisons – but also as start figure for calculation.

Especially now in this situation, where we don't have existing previous medium term plan, the estimation of baseline must start from history data (it is recommended to analyse minimum 3 years of execution data plus the budgeted for the ongoing year). To estimate baseline per budget user, it is good to analyse the total expenditure levels by economic classification and make more detailed analysis by different programs following for example these ideas:

- Last years' trends (is the expenditure stable and always on the same level? is there a trend upwards or downwards? is there some average percentage of annual increase that would be good projection for the trend?)
- Last years' averages (is there some average amount of denars that would be suitable for projection?)
- Last years' budget vs. execution (has there been typically over-budgeting? or under-budgeting?)

Be careful with one-off measures and exclude their effects from the above-mentioned history data estimations! It might be impossible to track down all small one-off projects and activities, so the key issue is to focus into the biggest projects and activities which also make difference for the financing levels.

Make sure that you document and explain the reasoning behind your baseline calculation.

Within Twinning Project trainings, the focus is in the expenditure baseline and accounts 630, 631, 660, and 786 (so basic/core budget and loans budget). However, same basic principles can be applied also to other accounts and for estimating the baseline revenues.