

# Integration of SR into Budget Case of Kosovo

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Funded by the European Union.

# The structure of the presentation

- The general approach to budget preparation in the country- **Part 1**
- The approach to finding fiscal space for new policy initiatives – **Part 2**
- The approach to integration of budget preparation with policy planning- **Part 3**



# The general approach to budget preparation in the country- **Part 1**

- **Medium Term Expenditure Framework**
- The MTEF contains GoK's strategic priorities and fiscal year and estimates for the two following years. **detailed macroeconomic and fiscal objectives that should drive the budget process, covering the next two years.**
- The fiscal objectives are quantified in terms of targets for the level of fiscal deficit, sources of financing, central government expenditures and revenues, changes in the stock of financial assets and liabilities.
- The deadline for approval of the MTEF by the Government is no later than **April 30 of the fiscal year.**



# The general approach to budget preparation in the country- **Part 1**

- The formal budget planning process, starts on **mid May**, when the first **Budget Circulars** are issued by the Ministry of Finance to the Budget Organisations
- The first budget circular provides the first instructions on the preparation of Kosovo Budget for the fiscal year “**N**” and “**N+1**” and “**N+2**”,
- The first Budget Circular contains indicative budget ceilings by **economic categories for each BO**, and the timetable for drafting the budget
- The indicative ceilings issued by the first circular are based on the MTEF ceilings.



# The general approach to budget preparation in the country- **Part 1**

- The second budget circular is prepared only if needed, which might be the case due to unforeseen circumstances
- Following submission of the budget circulars each BO, is responsible for preparing and submitting to the Minister its proposed budget and appropriations request in accordance with :
  - (i) the applicable expenditure ceiling, if any; (ii) the information and instructions contained in the budget circular(s); and (iii), in the case of a municipality, the applicable grant amounts calculated in accordance with the formulae specified in the Law on Local Government Finance.



# The general approach to budget preparation in the country- **Part 1**

- In the first Budget Circular, the BO are advised to adopt and prioritise their policies within the given ceilings.
- BO's during the preparation of their requests, are advised to give priority to:
  1. Projects that assist in the realization of Government priorities set out in the National Development Strategy 2016-2021 and the Economic Reform Programme 2019-2021.
  2. Projects that are on-going from previous years and have contractual obligations,
  3. Government commitments for the Stabilization and Association Agreement Action Plan and the program - Instrument for Pre-Accession (IPA),



# The general approach to budget preparation in the country- **Part 1**

4. New legislation or amendment supplementing the existing one,
5. Include within the budget appropriations the external financing obligations of individual projects,
6. Ensure that they enter into co-financing obligations only to the level that their budget framework allows.

# The general approach to budget preparation in the country- **Part 1**

- Following receipt of budget requests, a series of budget hearings on the requests are held between MoF and BOs during August/September.
- During the budget hearings process, the Ministry of Finance, engages in an open debate with BO's, in cases where the budgetary requests of a budget organization exceed the present budget ceiling.
- In cases where there are proper justifications by BO's, MoF in consultation with BO's may adjust BO ceilings
- These changes are reflected in the second Budget Circular issued by MoF





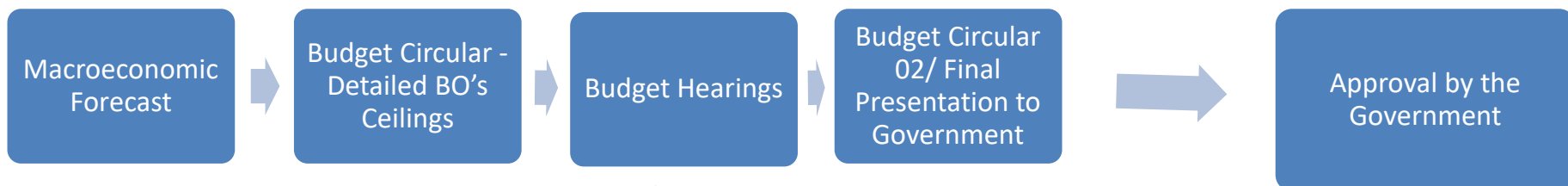
# The general approach to budget preparation in the country- **Part 1**

- Second Circular constitutes the final budget Ceilings for Budget Organisations
- These Budget ceilings in the future, can be amended only by the Government and the Assembly- respecting external budget ceilings
- **Upon approval by the Government, the Minister of Finance is required to send a proposed consolidated budget, a proposed Appropriation Law, and an updated MTEF, to the Assembly of Kosovo no later than the 31st of October (LPFMA Article 22).**

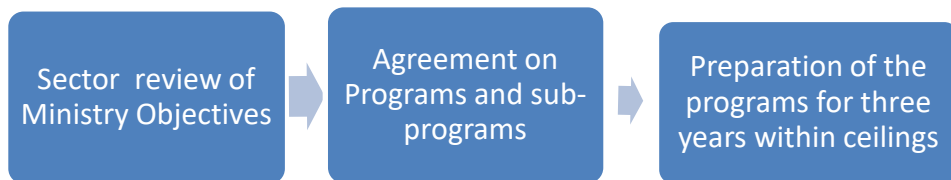


# The general approach to budget preparation in the country- **Part 1**

## Top- Down MoF



## Bottom- up LINE MINISTRIES 's



**PARLIAMENT**



# The general approach to budget preparation in the country- **Part 1**

## **Concluding SLIDE- Part 1**

- 1. The budget process well established based on the laws**
- 2. Mixed bottom up/ top down approaches**
- 3. The role of MTEF to be enhanced during the budget process**
- 4. Kosovo has not yet adopted a practice of setting hard expenditure ceilings in the MTEF**
- 5. In reality the MTEF usefulness in the preparation of the annual budget is limited**



# The approach to finding fiscal space for new policy initiatives – Part 2

- Costing of new initiatives regulated by :
  - Gov. Regulation
  - Administrative Instruction No.03/205 on Budget Impact Assessment for new Government Initiatives.
- AI No. 03/205 - the New Initiatives means any new Initiative or a revision of an existing Initiative (Sectorial strategies, Laws, Concept documents and any other piece of legislation), which is proposed by a Proposing Body for adoption at the Government Meeting
- New Initiatives: including those in the ERP – Budget Circular 1- priority projects those included in the ERP



# The approach to finding fiscal space for new policy initiatives – Part 2

## Procedure for proposing and deciding on financing of new policy initiatives

- Budget Impact Assessment (BIA): means the process of assessing the impact a New Initiative has on the Budget of the Republic of Kosovo. Therefore, based on this definition, the BO should estimate only the cost that the implementation of the new initiative will have on the budget of Kosovo
- The BIA- shall be provided by Line Ministries to the Ministry of Finance as part of the intra- ministry consultation

# The approach to finding fiscal space for new policy initiatives – Part 2

## Procedure for proposing and deciding on financing of new policy initiatives

- Budget Department of the MoF, drafts an Independent Opinion which describes any omissions or unrealistic budget impact estimates, and sends it back to the Proposing Body
- BIA determined – sources of finance:
  - Saving options- within current budget ceilings
  - Additional Funds Requested-
    - a) Additional Budget Request during the budget formulation process; or
    - b) Changes to the current budget as approved by the Government and Assembly;

# The approach to finding fiscal space for new policy initiatives – Part 2

## Procedure for proposing and deciding on financing of new policy initiatives

- Borrowing, means the proposer intends to fund the initiative, fully or partly through borrowed funds, which will eventually become part of the budget ceiling.
- Development partners, means the proposer intends to fund the initiative, fully or partly, by using donor grants.
- Other funding (PPP), Public-Private Partnerships are another form of financing; which Budget Organizations can use should such form is feasible.

# The approach to finding fiscal space for new policy initiatives – Part 2

## Procedure for proposing and deciding on financing of new policy initiatives

- BIA – Methodology in line with the ERP Costing methodology
  - Bottom up approach
  - Incremental Costing
  - Three year forward estimates
- Only New Measures in the first year of the ERP are considered as new policy initiatives during the budget process
  - Budget impact assessment – considered during budgeting phase
- New ERP measure within BO's budget planning





# The approach to finding fiscal space for new policy initiatives – **Part 2**

## Procedure for proposing and deciding on financing of new policy initiatives

- ERP sometimes used as “tool” for prioritizing policies
- Inclusion of new policies under ERP – bargaining power during budget negotiations LM and MoF
- Prioritization of new policies not yet fully based on the costing evidence
  - Political influence still remains!
- However Several good examples throughout the years:

# The approach to finding fiscal space for new policy initiatives – **Part 2**

## **Examples of ERP- Budget**

1. **Increase judicial efficiency through reduction of court case backlog -ERP 2018 :**
  - Total cost of the measure 2018-2020 over 8,000,000
  - Detailed costing of each activity
  - Funding sources well defined : Budget of Kosovo, Other Donors Loan.
  - The ERP 2019 notes that all activities were fully implemented
  - Financial sources budgeted and ensured on time



# The approach to finding fiscal space for new policy initiatives – **Part 2**

## **Examples of ERP- Budget**

1. **Reform Measure #3: Structural changes in agriculture sector- ERP 2020 :**
  - Detailed costing of each activity
  - New proposed activity : **Development of the software for the Agency for Agricultural Development**
  - Funding sources planned under 2020 Budget of Kosovo
  - ERP costing considered during Budget Preparation



# The approach to finding fiscal space for new policy initiatives – **Part 2**

## Concluding SLIDE – **Part 2**

1. Kosovo has developed a satisfactory process of costing new initiatives based on the Administrative Instruction
2. Some good practices in terms of policy coordination and costing have been established, however the overall process needs to be strengthened further- in some cases the quality of costing remains poor/unrealistic
3. The link between sector strategies ( new initiatives)- MTEF-Budget is not yet at the desirable level
4. Line ministries and agencies still need to strengthen their capacities in terms of policy planning and costing



# The approach to finding fiscal space for new policy initiatives – **Part 2**

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- **The approach to integration of budget preparation with policy planning- Part 3**
- **National Development Strategy ( NDS) 2016 -2021 – setting top Government Priorities**
- **MTEF and ERP coordination shared between MoF and SPO**
- **MTEF – 2020-2022**
  - **Part 1. Statement of Priorities (SPO) – based on the NDS – 5 main pillars / ERP priorities**
  - **Part 3. Sectorial Expenditure (MoF) – COFOG classification**

- **The approach to integration of budget preparation with policy planning- Part 3**
- **MTEF leads the Budgeting process**
- **REMINDER – BUDGET CIRCULAR 1 REQUEST**
  - Projects that assist in the realization of Government priorities set out in the National Development Strategy 2016-2021 and the Economic Reform Programme 2019-2021.
  - Government commitments for the Stabilization and Association Agreement Action Plan and the program - Instrument for Pre-Accession (IPA).
- Satisfactory alignment between policy planning documents
- LM – Budget Proposals aligned to specific ERP and IPA projects



- **The approach to integration of budget preparation with policy planning- Part 3**
- Budget submitted in the Parliament among others contains:
- Annex 1- Macro fiscal Framework- narrative description of revenues and expenditures
- Section 2.3.2.1 of this Annex- describes:
  - Expenditures on Government Priorities – deriving from NDS and ERP Priorities
  - Expenditure descriptions are aggregated under main COFOG classification :a) rule of law and public security, b) health, c) education, d) environment protection, e) entrepreneurship





- **The approach to integration of budget preparation with policy planning- Part 3**

## **Concluding Slide – Part 3**

- 1. 2021-2024 MTEF- enhanced process of coordination between SPO and MoF**
- 2. Alignment of strategic objectives with Sectorial Expenditures based on the COFOG**
- 3. Strategic Objectives – in line with ERP priorities and the Government Annual Plan**
- 4. Better coordination with MoF**

# Questions for debate

## •Can the role of the MTEF be enhanced during the budget process ?

- Setting hard expenditure ceilings in the MTEF?
- Lowering discrepancies between MTEF projections and the Annual Budget ?

## •Are all new policy initiatives costed properly ?

- Role of Budget Department on reviewing them?
- Is AI on costing new initiatives properly followed by LM's?
- How to further enhance costing capacities within LM's ?

## •Are the priority ERP measures well reflected under annual budget

## •Fiscal space for potential new ERP measures after addressing emergency/economic recovery measures for COVID 19?

