

# *Challenges for Developing Costing and Budgeting in Kosovo*

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# Linking reforms with fiscal framework

## Costing and budgeting of reforms

**COSTING:** Fully cost each activity of the measure.

**BUDGETING:** Make sure that the planned budgetary financing is in line with the approved budget and the MTEF document – have the entries checked by the Budget Department in the MoF.

**AGGREGATION:** In Chapter 5, calculate the total expected costs of reforms by year, and the total expected budgetary funding per year. Highlight the most costly and the most financially risky reforms.



# Linking reforms with fiscal framework

## Medium-Term Budgetary Outlook (ERP Chapter 3.3)

**EXPENDITURE OUTLOOK:** Make sure that at least the costliest reforms are mentioned among spending priorities – have the text of the chapter checked by the ERP Structural Reforms Coordinator.

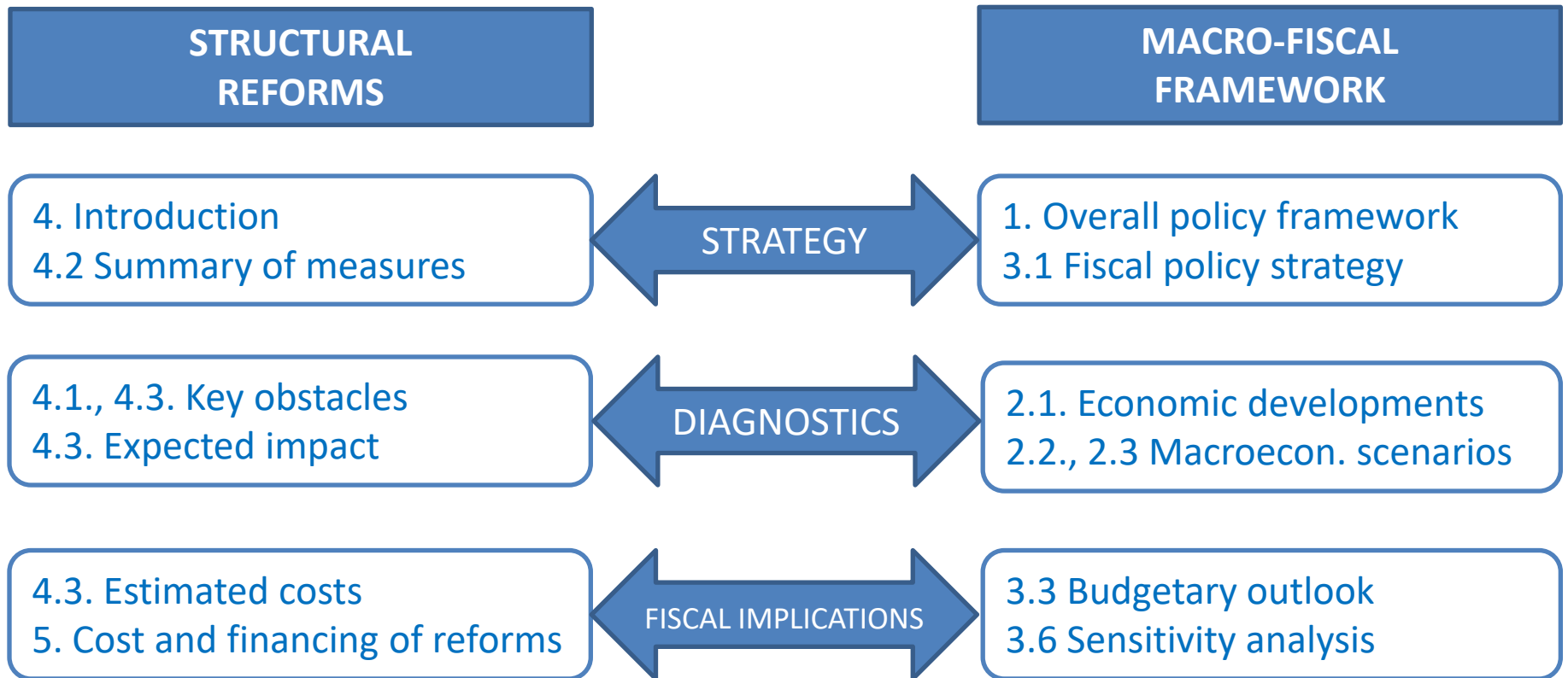
**REVENUE OUTLOOK:** Specify whether any expected revenue effects from structural reforms are included in the estimations. If yes, provide quantitative estimates of expected effects.

**MACROECONOMIC FRAMEWORK:** Specify whether any expected economic effects of reforms are included in the baseline scenario which was used for fiscal projections. If yes, provide quantitative estimates of expected effects on economic growth and the budget.



# Linking reforms with fiscal framework

## Framework for internal consistency of ERPs



# Linking reforms with fiscal framework

## Assuring consistency through cooperation

- ❑ Strategy. **Policy-makers** should be involved early in the process to define the overall policy strategy.
- ❑ Diagnostics. **Macroeconomic unit** and the **structural reforms coordinator** should align their views on key challenges and possible effects of reforms.
- ❑ Fiscal implications. **Line ministries** and **budgetary department** should assure that costs of reforms are realistic, funded and reflected in the mid-term budgetary outlook. **Structural reforms coordinator** should assure that key reforms are referred to in the fiscal and in the macroeconomic chapter.

# Key challenges in costing of structural reforms

1. Administrative capacity in line ministries is insufficient to properly analyze the fiscal impact of the structural reforms.
  - In most of the cases, these strategies are costed but the costs are inconsistent with aggregate fiscal forecasts and do not necessarily include all recurrent costs implied by capital investments
  - BO, due to lack of technical capacities for estimating the costs of the structural reforms that they are proposing, present very indicative figures that do not reflect realistically the entire implications of these measures.

# Key challenges in costing of structural reforms

## 2. Donor funded reforms

- High donor reliance – **delays in the donor procedures hampers implementation of the reform**
- Incorrect information on donor distribution
- Reliance on foreign borrowings – lengthy procedures for ratifying international agreements
- Incorrect identification of funding gap

# Key challenges in costing of structural reforms

3. Integration of implementation of strategies into a mid-term fiscal planning- MF
  - **The absence of fully costed sector strategies implies the absence of fully costed medium term budget expenditure frameworks for each budget organization**
  - **This led to a situation where a number of the approved strategies were never fully implemented due to a lack of budgetary resources**
  - **There were evident cases that despite negative independent opinions issued by the MoF, some laws and strategies have been approved in the Government**



# Key challenges in costing of structural reforms

4. Increased coordination among key strategic stakeholders ( SPO- MF) , would ensure better performance during the budget process
  - Limited involvement of the SPO in the MTEF process – only at the beginning of the MTEF – Declaration of Priorities
  - there is no strong link between the macroeconomic and fiscal framework that falls under the responsibility of MoF/ Macro and the structural reform agenda, that falls under SPO responsibility-
  - develop further on the good practice of ERP costing – Budget Department

# Conclusions

- The fiscal impact assessment of new legislation should be strengthened at both the MoF and line ministries
- Increasing costing assessment capacities at the level of line ministries
- Integration of cost assessment into mid year budget planning, MoF
- Monitoring and reporting on costs of implementation.

