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PERFORMANCE AUDIT REPORT

Medium Term Expenditure Framework 2018 – 2020 for the Sectors of Education and Infrastructure



Prishtina, december 2019

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control, and is accountable to the Assembly of the Republic of Kosovo for its work.

Our mission is to strengthen, through quality audits, accountability in public administration for an effective, efficient and economic use of national resources. The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

This audit has been carried out in line with the International Standards on Supreme Audit Institutions (ISSAI 3000¹) and good European Practices.

Performance audit report carried out by the National Audit Office are independent, objective and reliable reviews which assess whether the Government's actions, systems, operations, programs and activities or Organisations comply with the principles of economy², efficiency³ and effectiveness⁴ and whether there is room for improvement.

The Auditor General has decided on the content of this report 'Medium Term Expenditure Framework 2018 - 2020 for the Sectors of Education and Infrastructure', in consultation with the Assistant Auditor General Vlora Spanca, who supervised the audit.

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¹ ISSAI 3000 - Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience

² Economy - The principle of economy implies minimising the cost of inputs. Inputs should be available at the right time, quantity and quality and at the lowest price possible.

³ Efficiency - The principle of efficiency implies achieving the maximum from the available inputs. It relates to the relationship between input and output in terms of quantity, quality and time.

⁴ Effectiveness - The principle of effectiveness implies the achievement of set objectives and the achievement of expected outputs.

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List of Abbreviations

ERA	European Reform Agenda
DEPPIC	Department for Economic, Public Policies and International Cooperation
BD	Budget Department
CI	Capital Investments
MTEF	Medium Term Expenditure Framework
SPC	Strategic Planning Committee
LB	Law on Budget
LPFMA	Law on Public Financial Management and Accountability
MEST	Ministry of Education, Science and Technology
MoF	Ministry of Finance
MIT	Ministry of Infrastructure and Transportation
MCYS	Ministry of Culture, Youth and Sports
SAA	Stabilisation and Association Agreement
BO	Budget Organisation
GoK	Government of Kosovo
BC	Budget Circulars
PIP	Public Investment Program
GAWP	Government Annual Work Plan
KESP	Kosovo Education Strategic Plan
KFMIS	Kosovo Financial Management Information System
NDS	National Development Strategy
NAO	National Audit Office
OPM	Office of the Prime Minister
SPO	Strategic Planning Office

Executive Summary

The Medium Term Expenditure Framework is an important document for planning of country's priority policies and budget on three-year basis. Based on the Law on Public Financial Management and Accountability, all the Budget Organisation develop their budget requests for their activities/priorities through the Medium Term Expenditure Framework based on strategic documents. These requests are dealt with by the Ministry of Finance which is a guardian of the state budget.

The Ministry of Finance plays a key role on development and budgeting of the Medium Term Expenditure Framework which must ensure proper review and thorough sifting of budget up to the adoption of the Law on Annual Budget. On the other hand, the BOs must make proper planning of activities and budgets to implement the strategic objectives.

The National Audit Office carried out the audit of the Medium Term Expenditure Framework 2018-2020 to assess whether the preparation and implementation process of the MTEF document addressed the strategic objectives defined for proper planning and financing of country's priority policies. In order to provide an in-depth analysis of this process, we selected the sector of education and that of infrastructure and the correlation of these sectors' objectives with the Medium Term Expenditure Framework and the National Development Strategy and their reflection on annual budget.

The Ministry of Finance, the Office of the Prime Minister namely the Strategic Planning Office, the Ministry of Infrastructure and Transportation and the Ministry of Education, Science and Technology were the subjects of audit.

Audit results indicate that the Medium Term Expenditure Framework largely serves for integration of policies, planning and budgeting in a medium term perspective. The education and infrastructure sector strategic objectives foreseen in the National Development Strategy are at a satisfactory level reflected to the Medium Term Expenditure Framework.

However, a complete reflection of education and infrastructure sector strategic objectives to the statement of priorities is lacking. It is also missing the correlation of the Medium Term Expenditure Framework with the law on budget appropriations and individual plans of the audited institutions. There are cases where projects were included in the budget law by Assembly amendments. Furthermore, improper planning, execution and monitoring of strategic objectives achievement at government level diminished the importance and purpose of the Medium Term Expenditure Framework in long-term planning of objectives and budget. Some of the reasons demonstrating that the Medium Term Expenditure Framework is not serving the purpose of sustainable planning are the following:

Firstly, the Strategic Planning Office within the Office of the Prime Minister failed to coordinate its activities, continuously monitor and report on implementation of strategic objectives in order to produce a proper statement of priorities. Additionally, the Strategic Planning Office and the Budget Department of the Ministry of Finance failed to sufficiently coordinate their activities in achieving the purpose of the Medium Term Expenditure Framework.

Secondly, the Ministry of Finance drafted the Medium Term Expenditure Framework universally by sectors but not by budget organisations, which was as such approved by the Government. This makes difficult the relation, assessment and supervision of activities per organisation. Furthermore, the Ministry of Finance finalized the budget in this framework based upon macroeconomic forecast and previous annual budget projections for the coming years, not based upon proper analysis of the requests from budget organisations. It also approved certain projects that were not strategic objectives of the central level.

Thirdly, the Ministry of Infrastructure and Transportation and the Ministry of Education, Science and Technology failed to conduct a proper financial planning of projects/activities and budget execution for certain projects by putting at risk the achievement of strategic objectives government priorities. Shortcomings in project planning and implementation resulted in inefficient and ineffective budget spending. Moreover, these two ministries planned and executed projects that were outside the strategic objectives. Additionally, there are considerable differences between the MTEFs⁵ in 2018, mainly in capital investment category.

The recommendation with priority to the Assembly of Kosovo and the overall recommendations to audited parties are presented below, for the purpose to further improve the development of the Medium Term Expenditure Framework and the correlation with the strategic objectives, in one side, and the budget law, on the other side. The full list of audit recommendations is presented under Chapter 5 of the present report.

Recommendation to the Assembly of Kosovo

Through the Budget and Finance Committee to ensure that the budget law addresses the priority objectives set by strategic documents in order to minimise the deviations between the annual planning and the strategic ones. In addition, to hold the Government accountable for planning and execution of investment projects within the responsibilities and competences of the budget organisations.

Overall recommendations

The Office of the Prime Minister should ensure that the Strategic Planning Office undertakes adequate steps to properly monitor implementation of strategic objectives so that the Statement of Priorities, as a requirement for preparation of Medium Term Expenditure Framework, is comprehensive and serves the purpose of proper long-term planning.

The Ministry of Finance should ensure effective communication with budget organisations to make the Medium Term Expenditure Framework serve as a key document for planning strategic as well as annual activities. It should consider the drafting/approval of the Medium Term Expenditure Framework at ministerial level in regard to strategic objectives. It should also ensure that the Law on Budget Appropriations sent to the Assembly for approval clearly reflects all the strategic activities approved by the Medium Term Expenditure Framework and that they fall under the competence and responsibility of the central level. Only the projects

⁵ Comparison of MTEF 2017-2019 and MTEF 2018-2020 for year 2018.

that are supported by correct analysis, well-reasoned, with realistic financial costing and serving the strategic objectives should be subject to the approval.

The Ministry of Infrastructure and Transportation and the Ministry of Education, Science and Technology should ensure that the Medium Term Expenditure Framework serves as a baseline for planning their activities and budgets and thereupon spend the budget to implement strategic objectives. They should also ensure that the strategic objectives planned for implementation fall under their competence.

Response of the auditees

The Office of the Prime Minister, the Ministry of Finances, the Ministry of Infrastructure and Transportation, and the Ministry of Education, Science and Technology agreed with the audit findings and conclusions and committed themselves to address all the given recommendations.

1. Introduction

Each government performs its activities within a comprehensive framework whereby long-term and short-term policies and priorities are set and through which resources by policies and priorities are distributed ensuring thus a better future for the citizens.

Activities and budget planning is a process of strategic plans preparation for specified periods of time (short-, mid- and long-term). These plans contain statements of objectives and policies of the Government, strategies for objective achievement, resource framework for planning period (revenues and expenditures projections), program of activities to be implemented during the period and methods to measure whether the plan's objectives are met.

In our country, the Government of Kosovo (GoK), namely the Ministry of Finance (MoF), in compliance with the Law in Public Financial Management and Accountability (LPFMA), shall, by no later than April 30th of the current year, prepare the Medium Term Expenditure Framework (MTEF) for the following fiscal year and the estimates for the two subsequent years. This document stipulates a multiyear fiscal policy (in macro-fiscal framework) based on economic forecast and incomes and development objectives. The MTEF is a three-year strategic document prepared by MoF, pursuant to Article 19 of the LPFMA, aiming at allocation of spending sources for particular sectors, based on Government priorities, within the total resources of macro-fiscal framework. The document projects revenues and expenditures for both central and local government. Alongside this framework, the Government prepares and sends to the Assembly the proposed draft law on budget appropriations and December 31st is the deadline for the Assembly to adopt the law on annual budget.

To ensure that the key objectives of the Program of the Government of Kosovo are in line with the National Development Strategy (NDS), the European Reform Agenda (ERA), the Economic Reform Program and based on the Stabilisation and Association Agreement between Kosovo and the European Union, the GoK approved the MTEF 2018-2020 which addresses the statement of priorities of the country. GoK developed the MTEF based on five (5) main priorities, as below:

- Education and Employment;
- Good Governance and Rule of Law;
- Competitive Industries;
- Infrastructure; and
- European Integration, Foreign Policy and Security Issues.

1.1 Problem Indicators of the Audited Field

The MTEF 2018-2020 plays a key role on budget planning process, therefore there is an ongoing interest for analysis and estimations. In order to initiate audit of mechanisms that regulate mid-term – long-term budget planning, different national and international researches and analysis have assisted us. GAP Institute analysed and assessed the development of the MTEF for 2017 and it pointed out the main inconsistencies on MTEF and draft budgets for several years in a row. Significant dissimilarities were identified in all spending categories (Wages and Salaries, Goods and Services, Subsidies and Capital Investments).

Additionally, the PEFA and the SIGMA assessment reports point out that the midterm perspective in budgeting is not well developed yet, and the MTEF is not fully operational as an instrument for allocation of resources. Generally, the MTEF document is more focused on annual budget projections while the figures for the two subsequent years are mostly not quite sustainable estimates⁶.

Our researches during the planning phase of the current audit identified the lack of sufficient compliance with and coordination of the National Development Strategy and the MTEF, whilst the problem stands in reflecting the objectives from MTEF to activities in the annual budget law. The aforementioned indicators served for initiation of the field audit.

Therefore, taking into consideration the aforementioned problem indicators it appears that the development process of the MTEF is accompanied with shortcomings and it is not for the use of a sustainable and long-term planning of activities and budget yet.

1.2 Audit Objectives

The main objective of the present audit is to assess whether the Medium Term Expenditure Framework reflects the strategic objectives and whether it serves as a key document for annual budget preparation, specifically in education and infrastructure sectors, and the implementation of objectives through budget appropriations.

Our purpose through this audit is to provide recommendations for improvement of the long-term budget cycle in different stages starting from the MTEF preparation, law on annual budget and annual plans of budget organisations to ensure that allocation of public funds is carried out in compliance with the strategic objectives.

⁶ PEFA – Public Expenditure and Financial Accountability; SIGMA – Support for Improvement in Governance and Management.

The main questions of audit are the following:

- 1. Do the respective institutions properly develop the MTEF to address the government priorities?*
- 2. Is there a sustainable and comprehensive correlation between the MTEF and the law on annual budget in terms of distribution of the public funds by priorities?*

The audit covers the auditing period of the MTEF 2018-2020, focusing especially on year 2018, whereas for the purpose of analogy it covers also the MTEF 2017-2019. The subjects of audit are the Office of the Prime Minister, namely the Strategic Planning Office, the Ministry of Finance, namely the Department for Economic, Public Policies and International Cooperation and the Budget Department, the Ministry of Infrastructure and Transportation and the Ministry of Education, Science and Technology.

The scope of audit is limited to the central level, namely the Ministry of Infrastructure and Transportation, as the one receiving the largest share of country's budget, and the Ministry of Education, Science and Technology, as the one addressing the first priority of NDS, thus education. Eventually, at the same time both OBs address the two important priorities of the MTEF, being economy and education.

The audit methodology applied in the present audit, the audit criteria and audit scope are presented further in detail under Annex 1.

2. Roles and Responsibilities of Relevant Parties

Ministry of Finance

Budget Department (BD) – is the key party in preparation of the MTEF. The BD improves, coordinates and formulates budget policies to ensure better linkage between policies and resource allocation, increase the efficiency of public spending, fiscal discipline and higher transparency in MTEF development process and in drafting and implementing the budget. The department is also responsible for preparation of Kosovo budget proposal and execution and it manages Budget Development Management System (BDMS) and Public Investment Programme (PIP).

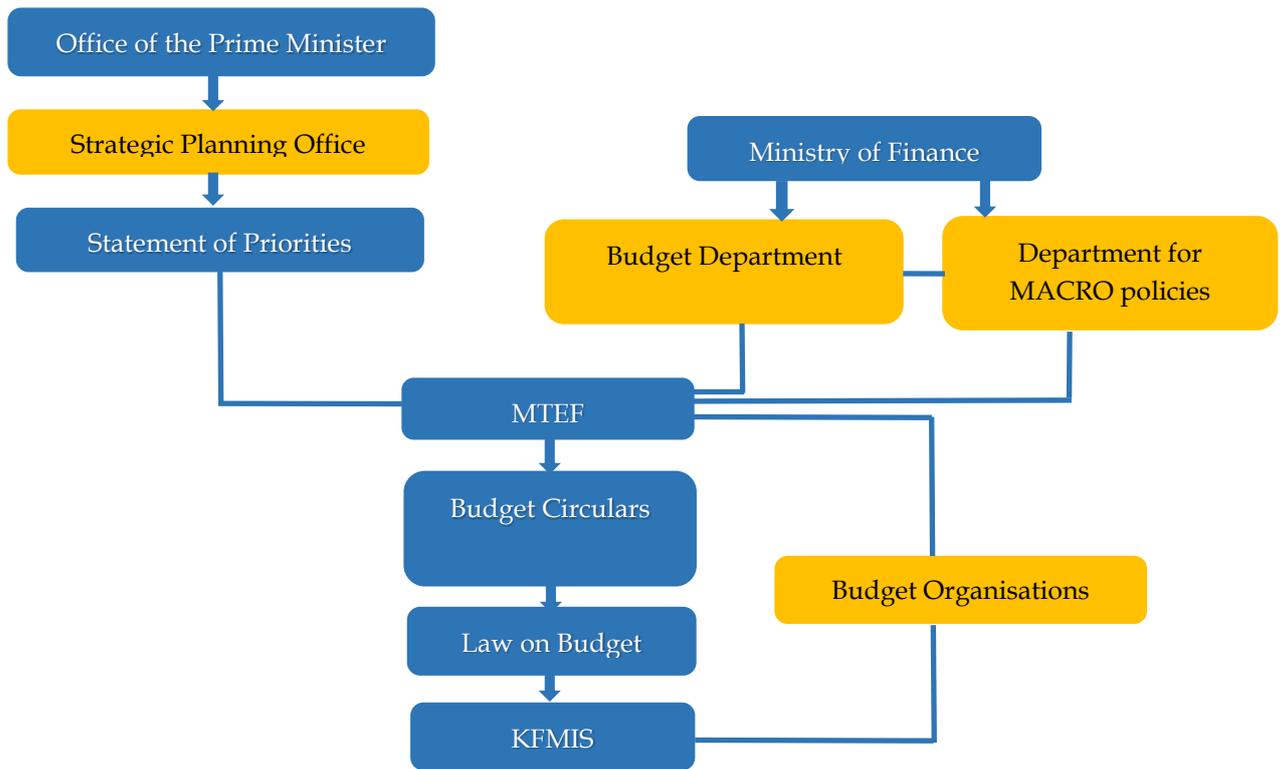
Department for Economic, Public Policies and International Cooperation – is another party responsible for drafting macro-fiscal policies to support the country's economic development. It prepares macroeconomic part of the Medium Term Expenditure Framework and Budget Book. It analyses the economic impact of planned strategic documents in the national economy and their fiscal implications.

Office of the Prime Minister

Strategic Planning Office - is another party which ensures that all Ministries act in compliance with Government strategic policies. In cooperation with the MoF, namely the Budget Department, the Office has to coordinate their activities in order to prepare the MTEF and the Government Annual Plan (GAP) based on Government priorities. SPO must also consistently monitor the implementation of NDS. Within the OPM there is the Strategic Planning Committee which is the highest government body to set the strategic proprieties, monitor NDS, finalise MTEF, etc..

Budget Organisations (BOs) are, based on instructions of the Budget Department, obliged to plan the budget execution according to instructions on preparation of the MTEF and to address the priorities by taking into consideration the budget ceilings set in budget circulars. At the same time, they should base the budget execution on the criteria stipulated by the budget law based on limited movements within the different programs of the organisation. When movements are requested, the budget organisations must ensure that they are well justified.

Chart 1. Description of the process on MTEF drafting and responsible actors



3. Audit Findings

This chapter presents the audit findings concerning the activities of the parties in charge of drafting the Medium Term Expenditure Framework. These findings are structured into three sections related to audit questions.

- The first part covers the coordination and cooperation of the Strategic Planning Office with the Ministry of Finance in drafting statement of priorities as a prerequisite for preparation of MTEF and the monitoring of strategic objectives implementation.
- The second part covers the role of the Ministry of Finance in the MTEF process of preparation and approval of budget requests/strategic objectives of the Ministry of Infrastructure and Transportation and the Ministry of Education, Science and Technology.
- The third part covers the drafting of strategic objectives, budget requests in the MTEF and implementation of projects by the Ministry of Infrastructure and Transportation and the Ministry of Education, Science and Technology.

3.1 Statement of Priorities as a prerequisite for drafting the Medium Term Expenditure Framework

The Strategic Planning Office must ensure the government priorities are reflected in the short- and mid-term budget planning documents of the Government. At the same time, it must draft the Statement of Priorities based on monitoring of strategy implementation and send it to Strategic Planning Committee for review and approval, and afterwards to the government for final approval. The SPO must coordinate the activities with the Budget Department to address the priorities, accurate costing of activities and the MTEF drafting and review.

The National Development Strategy is the government's main strategic document that was approved in April 2016 which serves as a guide to the Statement of Priorities 2018-2020⁷. The key measures for different priorities in different sectors (as Education, Infrastructure and Competitiveness, Rule of Law, etc) with no time limitations are broadly presented in this document. In April 2017, the Strategy Roadmap (action plan) was approved where objectives, activates, sub-activities and related costings are clearly presented.

The Strategic Planning Office (SPO) serves as the Secretariat of the Strategic Planning Committee⁸ hereby arranging meetings of the committee. The committee is responsible to set

⁷ This statement includes priorities planned thereto and other strategic documents such as SAA, ERA, etc..

⁸ The Strategic Planning Committee is a government structure chaired by the Prime Minister and composed by Deputy Prime Minister and other Ministers the role of which is planning of priority policies before presenting them to the Government for final decision.

government strategic priorities, to monitor implementation of the National Plan for Implementation of SAA, to set the aggregate and sectorial ceilings in MTEF and finalisation of the MTEF, etc. Yet, the SPC did not finalize the MTEF along with its responsibilities. Whereas, other than the decision on establishment of this committee, there was no instruction or regulation that would define the timeline and schedule of other activities of this committee.

The Statement of Priorities 2018-2020, drafted by SPO includes the government priorities arising from strategic documents and the strategy. The first part of the Statement presents the budget planning and execution which has to be carried out in line with the fiscal rule limiting the budget deficit to 2%. The second part presents the strategic priorities in narrative form.

Nevertheless, presentation of strategic priorities in the Statement of Priorities 2018-2020 is incomplete given that there were not included all the strategic objectives planned by strategy, specifically in infrastructure sector such as Expansion of road Prishtina – Podujevo, Expansion of road Prishtina - Gjilan - Dheu i Bardhe, Expansion of road Peja – Decan - Gjakova – Prizren. There is no explanation for such exclusion; there is no information regarding the activity progress as to whether the objectives are achieved, whether they commenced, or whether there is any setback in execution.

Failure to monitor implementation of activities by the SPO lead to a statement that does not properly address the priorities. Although the statement has to be a prerequisite for preparation of the MTEF, it was the later that addressed all the strategic objectives. This indicates that these two documents do not fully correlate with each other and it also indicates the lack of communication among parties in the preparation process of these key strategic planning documents. Improper and incomplete Statement of Priorities may risk the long-term planning and achievement of strategic objectives.

Furthermore, apart from the submission of the Statement of Priorities 2018-2020 to the Government for approval there was no sufficient communication between the SPO and the Budget Department of MoF on addressing the priorities and drafting the MTEF.

Based on the National Development Strategy Implementation Roadmap, the strategy monitoring should be carried out on semi-annual basis at operational level. Through the Government Annual Work Plan system the objective's achievement at the measures level will be monitored on annual basis, and the impact of this strategy will be measured on a six-year period.

The SPO developed the methodology for strategy monitoring where semi-annual and annual reporting by respective institutions is foreseen⁹.

⁹ Methodology for reporting on and monitoring of NDS implementation, results and financing followed by Passport indicators, pg.5 clause 2.1

In October 2018, the Strategic Planning Office developed the first report on the implementation of the National Development Strategy 2016–2021. **No other reporting from the respective institutions was done apart from this one, therefore information at country's level on implementation of strategic objectives is missing.** According to SPO, the proper monitoring was missing because of the shortage in capacities to carry it out.

Furthermore, the aforementioned report on strategy implementation was not presented to the Strategic Planning Steering Group¹⁰ and the Strategic Planning Committee for discussion and agreement on the rectification measures to be taken by the government. Failure to present such report for discussion/approval before the relevant bodies resulted with unaddressed findings and recommendations regarding the implementation of strategy measure. Therefore, such irregular reporting caused the produce of Statement of Priorities for MTEF without a good analysis.

In conclusion, the SPC failed to make any effort in finalisation of the MTEF document. Achievements or setbacks on implementation of priorities were not identified in the Statement of Priorities. The SPO and MoF failed to communicate sufficiently on addressing the priorities into the MTEF. The SPO also failed to sufficiently monitor implementation of NDS priorities.

3.2 Medium Term Expenditure Framework in relation to the Strategic Objectives

The MTEF should be developed by the Ministry of Finance based on the Statement of Priorities. The strategic objectives on education and infrastructure sectors should be planned in the MTEF by the respective institutions. These objectives should be dealt with by MoF and then approved on the MTEF and other filters up to the Law on Budget. This process must be carried out according to the instructions and legal requirements for a consistency between the objectives and budget.

It must be stated initially that the budget organisations responsible for education and infrastructure sectors planned the strategic objectives of the respective sectors and they were addressed in the MTEF to a certain extent. However, the process was followed up by some weaknesses that may affect the quality and content of the framework.

The MTEF approved by the Government of Kosovo is aggregate by sector, not by ministry. This makes the analysing and comparison of the budget by organisations/ministries and by

¹⁰ Following the discussions within the Strategic Planning Steering Group, analytical reports on NDS top priorities implementation are presented for information and further discussion to the Strategic Planning Committee chaired by Prime Minister.

individual budget requests difficult/unable. Based on practices of other countries and with reference to PEFA¹¹ report, it is foreseen that MTEF should be approved in aggregate (in total) and in ministry-level¹².

An analysis of the budget requests of the respective Ministry of Education, Science and Technology (MEST) and the Ministry of Infrastructure and Transportation (MIT) was carried out in order to assess the correlation and consideration of individual budget requests.

Our analysis indicate that the initial budget request of MIT was not prepared in full compliance with MTEF guidance and it was not unified. The request of MIT was presented only in spread sheets by providing no explanation or reasoning in that regard. As far as the Capital Investments projects are concerned, there are two tables; one showing the totals and the other prepared analytically. The figures in these tables are not the same and the reasons for such differences are not provided. Differences are presented under Annex 2. According to guidance on the MTEF preparation, new budget requests should contain the project justification and must be presented in the specified form, which MIT ignored.

On the other hand, the Budget Department (MoF) failed to make sufficient effort in terms of providing advice to MIT for improving and unifying its requests according to the guidance on MTEF preparation. Furthermore, initial budget ceilings by BD-MoF are set based on projections from the previous year, without a proper analysis of project proposal in the MTEF document.

The strategic objectives of BOs in terms of Capital Investments category are addressed and managed through public investment program presented below.

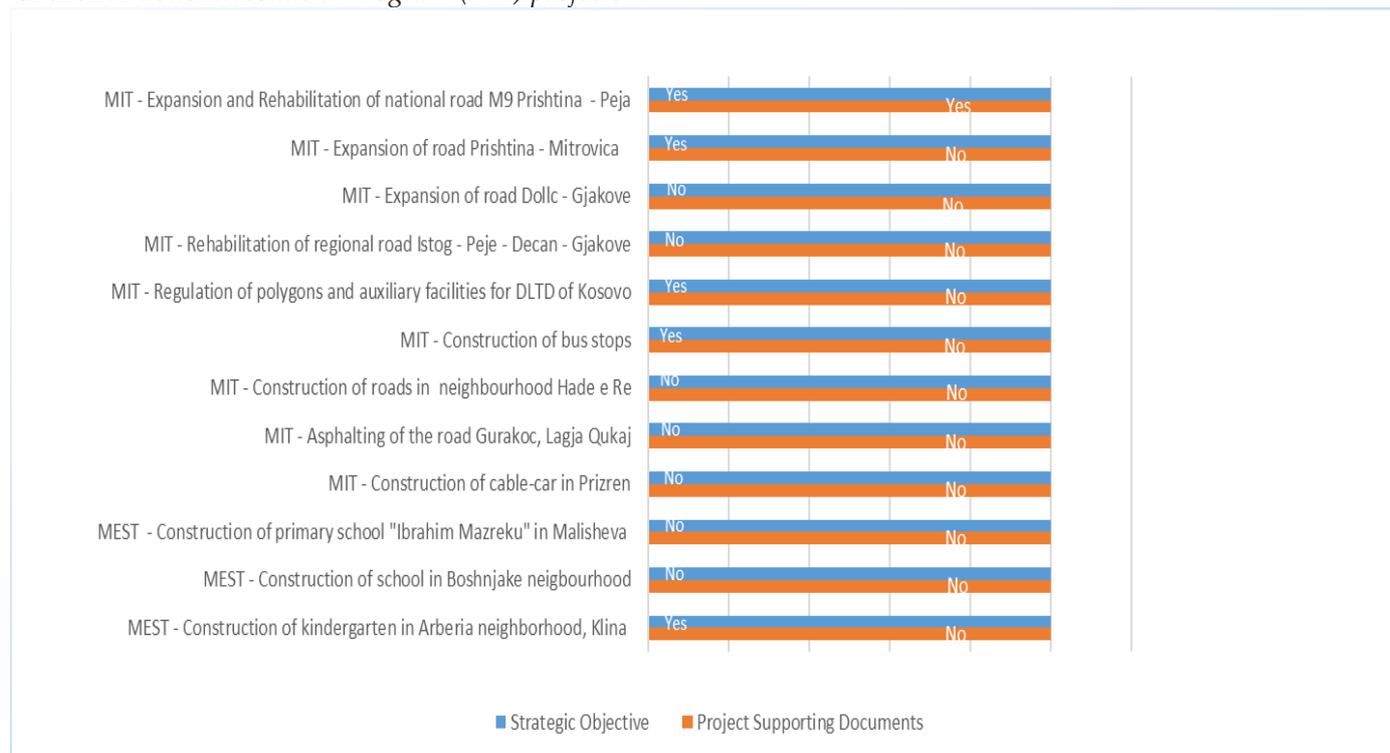
Public Investment Program (PIP)

MEST and MIT should plan their strategic objectives from the Capital Investments category through PIP. PIP projects should be planned in detail and they should be approved by the head of organisation based on analysis and reasoning. On the other hand, MoF approves these BOs' requests based on documents submitted to PIP regarding the reasoning and by ensuring that their fall under their competence and responsibility.

An analysis of twelve (12) capital projects in PIP, of which nine (9) at MIT and three (3) at MEST, has been made. The chart below shows which projects were related to strategic objectives and whether they provided supporting documents for projects.

¹¹ Public Expenditure and Financial Accountability, Framework for the Assessment of Public Financial Management, page 48, PI - 16

¹² By sector-level, not by budget organisation-level (e.g. education sector includes MEST, Academy of Sciences and University of Prishtina)

Chart 2. *Public Investment Program (PIP) projects*

From the nine (9) MIT projects, only four (4) of them were strategic-objective-related, the remaining five (5) were not MIT objective, three (3) of them were neither strategic objectives nor responsibility of MIT. These projects were approved as such by the head of the ministry, dealt with by MoF and thus included in the 2018 budget law.

Concerning the MIT, apart for the project *"Rehabilitation and Expansion of national road M9 Prishtina-Peja"* which contained the cost-benefit analysis, other projects did not contain any PIP supporting document. The MIT also planned and funded construction of roads in neighbourhoods at local level although it is a responsibility of the local level. Likewise, in regard to MEST, the three tested projects contain no PIP supporting documents on the reasoning and other required analysis. Furthermore, construction of school buildings is not foreseen as a strategic objective of the MEST. The MEST's competence in school buildings construction is to fund and provide technical assistance to municipalities in planning and design of school buildings whereas municipalities are responsible for construction of school buildings including construction-related procurement procedures.

We noted that despite the project *"Construction of kindergarten in Arbëria neighbourhood, Klina"*, the other two projects planned by the MEST on construction of school buildings, one being in in Boshnjake neighbourhood and the other in Malisheva, are not qualified as strategic objectives and do not fall under the competence and responsibility of MEST, whilst they are approved by MoF under PIP.

In conclusion, BOs planned projects in PIP the MoF approved such projects which did not meet the criteria required by PIP manual (no detailed analysis and no supporting documents) and, yet they were budgeted in the Law on Budget for 2018. Some of the budgeted projects in the Budget Law come from amendments by the Assembly; they were neither planned by MEST nor MIT.

3.2.1 Planning and achievement of strategic objectives in MIT and amendments in Capital Investment category during planning

In order to analyse the planning and achievement of strategic objectives in infrastructure sector, MIT in particular, special focus has been given to the Capital Investments category given that it addresses such objectives.

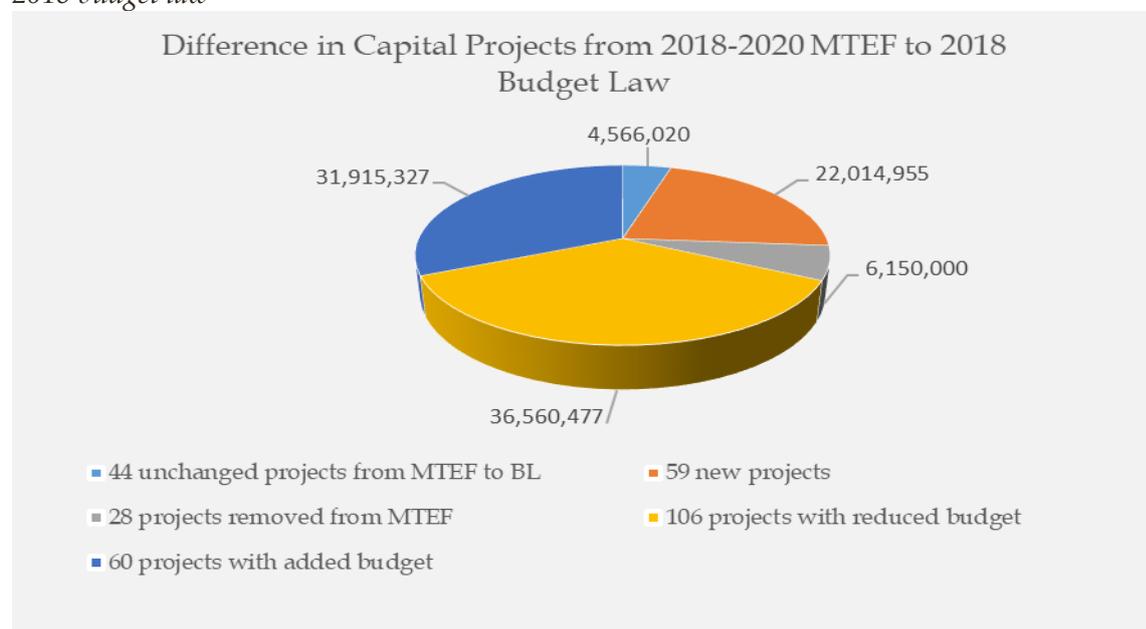
The MIT should, through MTEF budget requests, make realistic and detailed estimates of projects/activities based on analyses. Projects planned through this document should be in line with the objectives and government priorities. Planning of requests should be accurate and realistic in order to have as little difference between MTEF and budget law as possible.

The SPO and Budget Department shall be guardians in ensuring that the objectives/priorities are being addressed and budgets ceiling are being respected.

During the MTEF drafting process in MIT some shortcomings were identified. The Department of Finance had been based on discussions with requesting units in MIT and based upon such discussions the submission were drafted. However, despite discussions with these units, MIT does not have any detailed/proven analysis on addressing them and drafting MTEF. Therefore, the MTEF document kept changing constantly, such changes were not justified and they went on up to their approval in the budget law.

Regardless of the fact that the purpose of the MTEF is to crate stability, to reflect the same projects in the budget law, and to have as minor changes as possible, our analysis indicate that there are variations and deviations from one document to the other.

Chart 3. Changes in capital project planning costs in MIT from the MTEF up to the approval of the 2018 budget law



As it appears in the chart above, in regard to project expenditures planned by MIT there is a significant difference between the MTEF and the budget law. There are only 21 % of projects planned in the MTEF 2018-2020 that are included in the 2018 budget law without changing anything in terms of funding. There are 59 new projects included in the 2018 budget law which were not foreseen in the MTEF. The difference in terms of costs between the MTEF and the budget law at around 79% of projects indicates poor planning and does not serve the MTEF purpose for stable and long-term capital investment planning. Besides, MoF was not proactive on maintaining the consistency between the MTEF and the budget law at projects level.

There are other projects, as presented below, which demonstrate the poor planning of budget starting from the MTEF up to law on budget for 2018.

The MIT planned strategic objectives in the MTEF, yet without financial planning. The seven (7) projects that have been analysed were planned by MIT as strategic/priority objectives in the narrative part of the MTEF, but they have no financial planning and thus have not been executed.

Table 2. *Projects set as strategic objectives of MIT in the MTEF*

Project planned for 2018 - 2020 (2018 -2020 MTEF Objectives)									
Proj. no.	2018 -2020 MTEF Objectives	Program name	2017 Budget	2018 MTEF detailed table	2019 MTEF detailed table	2020 MTEF detailed table	Final budget request October 2017	Total Budget Law 2018	KFMIS Balance
			€	€	€	€	€	€	€
1	Objective 1.10	Construction of safe driving polygon	100,000	-	-	-	-	25,000	-
2	Objective 1.11	Construction of seven facilities for candidates driving test	-	-	-	-	-	-	-
3	Objective 1.13	Renovation of airport in Dumosh	-	-	-	-	-	-	-
4	Objective 1.14	PIA Adem Jashari groundfloor in Prishtina	-	-	-	-	-	-	-
5	Objective 2.3	Setting up data base (bus station, licence, etc.)	-	-	-	-	-	-	-
6	Objective 2.4	Construction of bus stops	-	-	-	-	-	280,000	-
7	Objective 2.5	Setting up Geographic Information System (GIS)	-	-	-	-	-	-	-

As it appears from the above table, there were two projects planned within the budget law for 2018, but by the end of 2018 they had not been executed yet. The project “*Construction of safe driving polygon*”, which was planned in the budget law for 2017 in amount of €100,000, was not further projected in the MTEF 2018-2020, while €25,000 were budgeted in the budget law for 2018. Regarding the other project, “*Construction of bus stop shelters*”, for which there was no planning in the MTEF, €280,000 were appropriated by 2018 budget law yet they were not spent. These projects are still objectives of MIT in the MTEF although with no financial plan.

That occurred due to absence of initiative from the requesting/responsible units for project implementation at MIT and lack of a financial assessment by Directorate of Finance. Consequently, the priorities set by MTEF remained unaddressed and unimplemented.

Failure to properly develop the MTEF document, based upon which the priorities/objectives are set, failure to properly plan and cost activities based on realistic assessment and project

justification, and failure of MoF to pay sufficient attention made the MTEF a document that provides no sufficient security in reaching the targeted objectives.

Planning, approval and implementation of strategic objectives of MIT

The project *Expansion of Road Kijevë-Zahaç* was also planned as a strategic objective in the Roadmap for Implementation of the National Development Strategy 2016-2021. This priority of MIT was planned in the MTEF 2018-2020, budget circulars, 2018 budget law and it was supposed to be executed according to the plan. However, there have been weaknesses in the budget process from the MTEF up to the budget law and delays in implementation.

Table 3: *Expansion and rehabilitation of road Prishtina – Peja, segment Kijevë – Zahaç – 2018*

Source Fund	2018-2020 MTEF	Request after the final budget circular	2018 Law	Expenditures	Percentage
	€	€	€	€	
KB	2,500,000	-	-	-	0%
Funding from Loan	-	32,800,000	37,000,000	-	0%

This project was planned with the initial request for MTEF in order to start with the feasibility study and environmental impact. At the same time, a budget in amount of €2.5 million was planned in the MTEF. In the latest request following the final budget circular for 2018, a budget in amount of €32.8 million was planned, whereas €37 million were budgeted in the 2018 budget law. These budgetary movements were justified with signed funding agreements. However, this budget was not used at all in 2018. As a result, the project has not served for improving services to citizens.

Failure to execute the project is due to lack of comprehensive planning and coordination with all relevant stakeholders. Expropriations procedures commenced in delay and the Ministry of Environment and Spatial Planning approved the environmental impact just in April 2019.

The project *Construction of highway Prishtina-Gjilan-Dheu i Bardhe* was planned as a strategic objective and activity in the Roadmap for Implementation of the National Development Strategy 2016-2021. This priority of MIT was planned in the MTEF 2018-2020, budget circulars, 2018 budget law and it is supposed to be executed according to the plan.

Table 4. Execution plan of project Construction of highway Prishtina – Gjilan – Dheu i Bardhe according to Strategy Roadmap 2016-2021

Activity 29.6. Construction of highway Prishtina- Gjilan- Dheu i bardhë	2016	2017	2018	2019	2020	2021		€272,000,000
Preparation of implementation documents, local EIA	x						47.1 km of highway constructed	272,000,000
Preparation of implementation documents, Environmental Impact Assessment (EIA) for permit approval	x							
Preparation of documentation for bidding and commencement of works		x						
Execution of works			x	x	x	x		

This project/priority was planned and budgeted with the MTEF request, other budget requests and the 2108 budget law in amount of €17 million (€7.9 million from Kosovo Budget revenues and €9.1 million from Privatisation Agency of Kosovo-PAK revenues). The budget planned to come from PAK revenues was transferred late, in July 2018, therefore the MIT by government's decision transferred a budget of around €5.4 million from other projects, including priorities (the priority Prishtina-Mitrovica road €1.6 million).

In total, the budget appropriated for this project, including the transfers during the year, was around €22.4 million, of which €20.6 million were executed while the remaining €1.8 million were unspent and resulted in surplus.

This demonstrates improper analysis during budget planning for this project which is also characterised with budget movements and decisions that were made without a good analysis. Lack of coordination with all the stakeholders and poor planning is characterised by poor project execution and budget surplus.

The project *Modernisation of international railway – Line 10* was an objective included in the Roadmap for Implementation of the National Development Strategy 2016-2021 as an activity. This priority was planned in the MTEF, budget circulars and 2018 budget law.

In September 2015, the Government of Kosovo entered into a Loan Agreement with the European Bank for Reconstruction and Development for this project.

The project was planned in the MTEF request with a budget of €15 million which continued further with planning in the budget circulars and in the 2018 budget law as well, where €10

million were appropriated from the Investment Clause¹³. The project was planned by MIT, while it should have been implemented by Kosovo Railways infrastructure (Infrakos) which is a central Publicly-Owned Enterprise (POE).

Table 5. Execution plan of project Modernisation of international railway – Line 10 according to NDS Roadmap

Activity 29.7. Modernisation of international railway - Line 10	2016	2017	2018	2019	2020	2021		€208,400,000
Approval of WBIF project design funding request for railway line (Fushë Kosove-Mitrovice-Leshak)	x						149 km railway line constructed	208,400,000
Preparation of implementation documents, project design and tender for phase (1) and phase (2). Project design execution	x							
Line rehabilitation for phase (1)		x						
Preparation of implementation documents, project design and tenders for phase (3) and phase (3)								
Line rehabilitation for phases (2) and (3)			x	x	x	x		

Table 6. Execution of works based on the Law on Ratification of the Financial Agreement

	Phase 1	Phase 2	Phase 3
Section	FushëKosovë - Hani I Elezit (border with FYRM)	Fushë Kosovë- Mitrovicë	Mitrovicë-Leshak (border with Serbia)
Length	61.1 km	34.4 km	50.0 km

According to the Strategy Roadmap 2016-2021 and the Loan Agreement, the first phase of the projects should have been finalized in 2017. The tender for phase one (1) for prequalification of construction companies was announced in April 2016; during this period the project design was developed. However, due to requests coming from Ferizaj municipality to change some activities related to the project, in 2017 the tender was cancelled while in May 2017 the tender for phase 1 was re-announced. The contract for phase 1 was signed in February 2019, i.e. one year late. Afterwards, the tender for phase two (2) for prequalification of companies was announced during the same month. The Project design was completed in February 2019.

The delay of more than one year to finalise phase 1 indicates lack of coordination among MIT, Infrakos and Municipality of Ferizaj regarding the strategic activities of the project. Delays in implementation of phase 1 reflect to delays in implementation of the other two phases.

Consequently, the budget appropriated for this project was not spent demonstrating inefficiency of the institution in execution of projects and budget by plan.

¹³ In 2015, the Government of Kosovo in agreement with IMF introduced the so-called “investment clause”, an opportunity that allows additional spending above the deficit of 2% of GDP related to developing projects with economic growth impact funded by IFI. One of the projects to be funded through the Investment Clause is the Railway Rehabilitation-Line 10.

The project *Expansion of national road M2 Prishtina-Mitrovica* was a priority of MIT planned to be funded through the Islamic Development Bank, Saudi Fund for Development, and OPEC Fund for International Development consortium. The Loan Agreements were signed and ratified by the Assembly of Kosovo and the President of Kosovo in 2014. The implementing unit for this project was established in early 2016.

Table 7. Execution plan of the activity/project according to NDS Roadmap and 2018 project plan

Sub-activities for measure implementation	NDS measures' activities implementation timeline						Measures' indicator	Cost in EUR
	2016	2017	2018	2019	2020	2021		
Segment Prishtina-Mitrovica							29 km national roads constructed	€ 49,170,000
Project design	×							
Tender procedures and selection of construction company	×							
Execution of works		×	×	×	×	×		

Table 8. Expansion of national road Prishtina – Mitrovica M2

NDS	2018 - 2020 MTEF	Request after the Final Budget Circular	2018 Budget Law	Expenditures	Percentage
	€	€	€	€	
Total	11,600,000	21,100,000	19,100,000	5,869,904	31%
KB	-	9,100,000	6,100,000	1,655,837	27%
Funding from Loan	-	12,000,000	12,000,000	4,214,068	35%
PAK Revenues	-	-	1,000,000		

This project was planned by MIT with the initial MTEF request in amount of €11.6 million, while in the latest budget request it was planned the amount of around €22.1 million. The amount of €19.1 million (€6.1 million from KB, €12 million from the Loan, and €1 million from PAK) was approved in the budget law. MoF possesses no evidence to justify the changes this project went through from MTEF to budget law.

In additions, by the end of 2018 the project resulted in low budget spending or 31% of the plan. Failure to expropriate the land in time and failure of the Ministry of Environment and Spatial Planning to approve the Expropriation Elaborate contributed to this situation.

Unjustified changes in the key planning documents and failure to carry out administrative procedures for expropriation are indicators that projects were not planned and approved based on proper analysis and stakeholders' inclusive coordination.

The project *Expansion of national road Prishtina-Podujeva* was a priority of MIT and it was planned in the MTEF 2018-2020, budget circulars and 2018 budget law. Yet, we identified weaknesses in budget planning and execution process of this projects.

Table 9. Execution plan of the project Expansion of national road Prishtina-Podujeva according to National Development Strategy Roadmap

Sub-activities for measure implementation	NDS measures' activities implementation timeline						Measures' indicator	Cost in EUR
	2016	2017	2018	2019	2020	2021		
Activity 29.4. Expansion of national road Prishtina - Podujeve								60,000,000
Preparation of project implementation and documentation for bidding and execution of works	x						20 km national roads constructed	€ 60,000,000
Execution of works		x	x	x	x	x		

Table 10. Planning and Execution – Expansion of national road Prishtina – Podujeva

NDS	2018-2020 MTEF	Request after the Final Budget Circular	2018 Law	Expenditures	Percentage
	€	€	€	€	
KB	3,000,000	3,500,000	2,633,716	1,732,023	66%

For the project *Construction of the road Prishtina-Podujevo*, the MIT planned in the MTEF request €3 million, the request after the latest circular was €3.5 million, while in the 2018 budget law the amount of €2.6 million was appropriated. By the end of 2018, approximately €1.7 million was spent on this project, or only 65% of budgeted funds.

The deviations in budget planning between the MTEF, the request following the final circular and the 2018 budget law result from new projects planned in the filters of law drafting process for what budget was taken from the above project. On the other hand, poor budget spending for this project is due to the slow expropriation process.

The project *Construction of road Dollc-Gjakova* was not set as strategic objective in the National Development Strategy, it was not planned in the MTEF 2018-2020, nor in the MTEF request from MIT neither in the initial budget circular. Following the budget hearings, this project was planned through the final budget circular in amount of €5 million, while in the budget law it was budgeted the amount of €10 million¹⁴.

Table 11. Planning and execution of project Construction of road Dollc-Gjakova

¹⁴ The amount of €10,000,000 for this project (15658 Expansion of road Dollc-Gjakove), according to LB for 2018, was appropriated from two funding sources: €4,900,000 from government grant, and the remaining €5,100,000 from PAK revenues.

Strategic Objective	2018-2020 MTEF	Request after the Final Budget Circular for 2018	2018 Budget Law	Expenditures 2018/ KFMIS	Percentage of expenditures 2018
		€	€	€	%
NO	-	5,000,000	10,000,000	32,125	0.31

We have not been provided with any evidence or decision that justify the inclusion of this project in the budget law, financial changes or project analysis. We could not find sufficient evidence on justification and cost-benefit analysis of this project in the Public Investment Program (PIP) report, either. Further, in 2018 only one payment in amount of €32,125 for project design (or 0.3% of budget) was executed.

Whereas, from the remaining budget of this project, two other payments in amount of €288,987 for other projects were executed and the budget amounting around €128,000 and €1,500,000 was transferred by government's decisions for construction of highways. The rest of budget resulted in surplus.

Deviations and budget reductions in infrastructure sector priorities, and planning new nonstrategic projects destroy the budget stability and damage projects by putting at risk their timely implementation. In addition, poor budget spending for this project and obstruction of this activity create negative effect by moving planned funds to projects that are not priority and resulting in surplus.

In conclusion, MIT objectives were poorly executed because they were not properly planned. Some of the projects set as strategic objectives did not contain financial planning and there were cases where the project was put for implementation without having been planned as a strategic objective.

Similarly, individual projects contained no proper analysis in the planning stage and there was no coordination between relevant stakeholders regarding the implementation thereto.

As a result, the planning process went through many budgetary changes and the project implementation is generally poor.

3.2.2 Planning of MIT Capital Projects that are not Strategic Objectives

The MIT should, through MTEF, address its objectives in line with priorities and strategic objectives. While analysing we noticed that MIT included in MTEF and implemented non-strategic projects that do not fall under its competence. Based on the Law No. 06/L-068 on the Roads, the MIT is competent for construction and maintenance of roads, highways, national and regional roads, while municipality is responsible for construction and maintenance of local and urban roads.

Table 12. *Planning and approval of capital projects in MIT beyond its objective/competence*

No.	Project Name	Circular I - 2017	Circular II - 2017	2017 Budget Law	2017 KFMIS	2018-2020 MTEF	Circular I-2018	Circular II- 2018	2018 Budget Law	2018 KFMIS	Percentage	2019-2021 MTEF
		€	€	€	€	€	€	€	€	€	%	€
15427	Construction of cable-car in Prizren	-	-	1,000,000	-	-	-	800,000	800,000	176,642	22.08	1,000,000
15053	Asphalting of the roads in the neighborhood Luzha, village	-	250,000	-	-	200,000	-	246,464	246,464	280,952	113.99	-
15756	Construction of Roads in the neighbourhood Hade e Re	-	-	-	-	-	-	-	300,000	70,258	23.42	-
15431	Infrastructure in the neighborhood of martyrs in Poklek, Glogovac	-	-	-	-	100,000	-	10,000	10,000	36,764	367.64	-
15332	Asphalting of the road Gurakoc - Lagja Qukaj	-	-	-	-	100,000	-	7,967	7,967	58,100	729.26	-
15757	Construction of road in neighb. Bandunilla-Brezovica	-	-	-	-	-	-	-	130,851	100,000	76.42	-
15755	Building the Square in Obiliq	-	-	-	-	-	-	-	300,000	110,000	36.67	-

The capital projects presented in the above table, which were planned by MIT, are not strategic objectives; they are neither a responsibility of MIT for implementation. Three of them are projects cofounded with relevant municipalities. On the other side, the MoF, though responsible to ensure consistency and adequate planning, approved projects that are beyond the responsibility of MIT by providing no reasoning for that.

Furthermore, the execution thereof is low. The project “*Construction of cable-car in Prizren*” was a project that had been continuously planned by MIT but not executed. From the KFMIS code of this project we found that by the end of 2018 there were spent around €176,000 or 22% of the budget on road maintenance, not in the planned project; MIT did not even initiate its implementation. Nevertheless, the project is still planned also in the MTEF 2019-2021.

Additionally, we identified that the budget law contained capital projects that were neither planned by MTEF nor by budget circulars. Some of them were included in the budget law through the amendments by the Assembly.

The projects “*Asphalting of the roads in the neighbourhood Luzha, village Begrace, Kacanik*”, “*Infrastructure in the neighbourhood of martyrs in Poklek, Drenas*”, “*Asphalting of the road Gurakoc-Lagja Qukaj*” were included in the 2018 budget law without any proper analysis; to that end, expenses higher than planned were incurred. The additional budget for these MIT projects was appropriated from other projects including those with priority. The projects “*Construction*”

of roads in the neighbourhood Hade e Re”, “Construction of road in neighbourhood Bandunilla-Brezovica” and “Building the square in Obilic” were included in the budget law through the amendments by the Assembly and resulted in poor project implementation and low budget spending due to lack of proper financial and technical project planning.

Absence of a proper project analysis by MIT and MoF and approval of projects with no sufficient justification and beyond competence diminished the MTEF importance and failed to ensure the effect of such strategic document in long-term and proper budget planning. Additionally, it put at risk the achievement of strategic objectives of infrastructure sector.

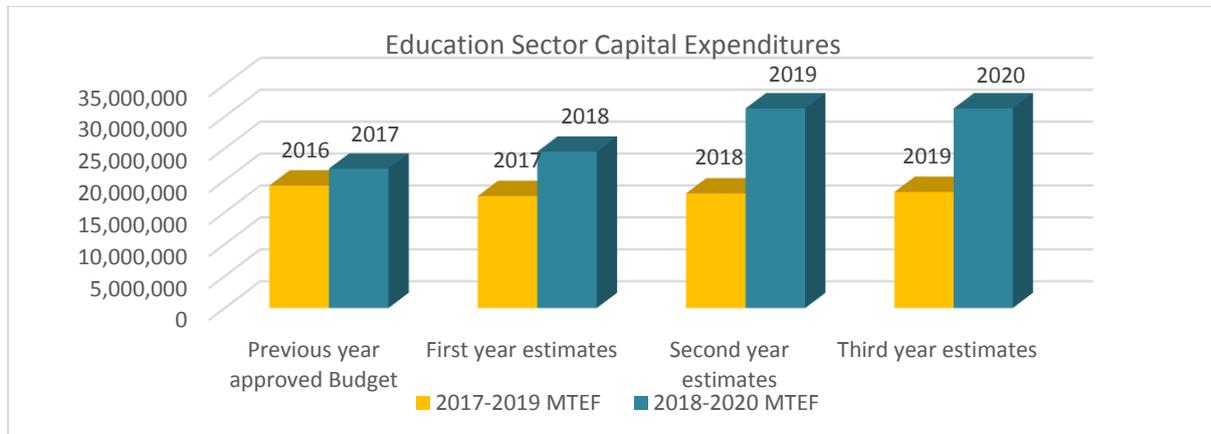
As a result, the MIT request for MTEF results to be insufficiently analysed. The final MTEF draft by MoF and the approval thereto with no proper and detailed analysis does not ensure that the strategic objective were properly planned and addressed.

3.3 Planning and Execution of MEST Strategic Objectives

In drafting the requests for MTEF, the MEST should plan its priority activities¹⁵, falling under its competence, through a proper and accurate costing so that such activities go through all filters prior to planning them in the budget law, and be executed according to the plan.

The Government of Kosovo must ensure through the MTEF that the education sector strategic objectives are fairly addressed and properly planned and thereafter transmitted to the annual law and individual plans of the relevant organisation. Our analysis conducted on the respective sector projects indicated that the key documents in long-term and annual planning show differences in both activity planning and financial costs. We have also analysed the planning of capital projects in education section for 2018 by comparing the MTEF 2017-2019 with the MTEF 2018-2020. The table below shows the identified deviations/differences

Chart 3. Deviations in CI category in 2018 comparing the MTEF 2017-2019 with the MTEF 2018-2020

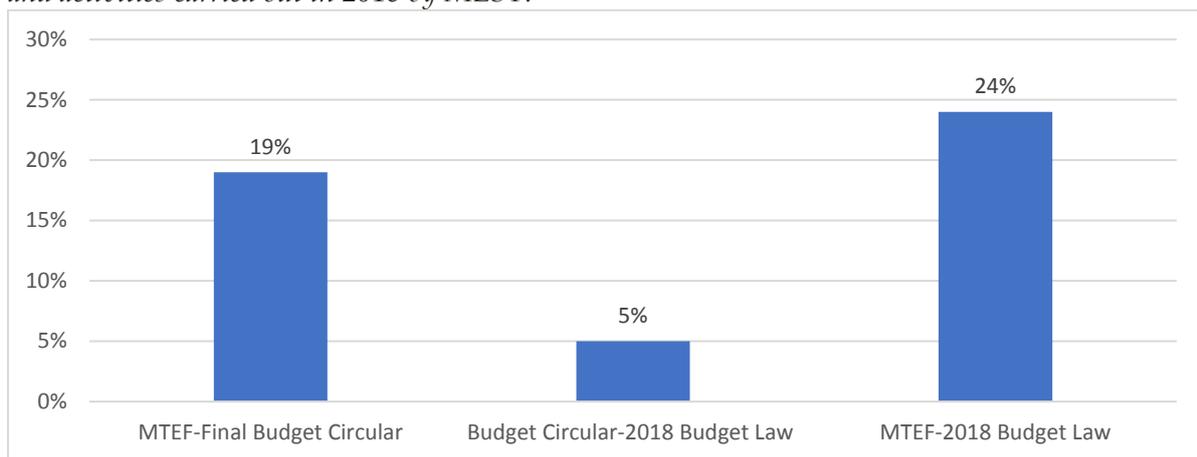


¹⁵ Based on SP prepared by SPO, Guidance on MTEF preparation, and strategic documents of education sector.

According to the MTEF 2017-2019, around €17.9 million were projected in education sector in the category of Capital Investment for 2018, whereas according to MTEF 2018-2020, for the same year (2018) and the same economic category the projection was €24.4 million, or €6.5 million more than the budget planned in MTEF 2017-2019. The MoF, namely the Budget Department, was not able to justify these differences in planning.

Budget changes and lack of evidence justifying these changes are indicators for unsustainability in planning at education sector and diminishes the confidence on achievement of strategic objectives of this sector. Some reasoning indicating the absence of proper budget planning for education sector are herein elaborated further.

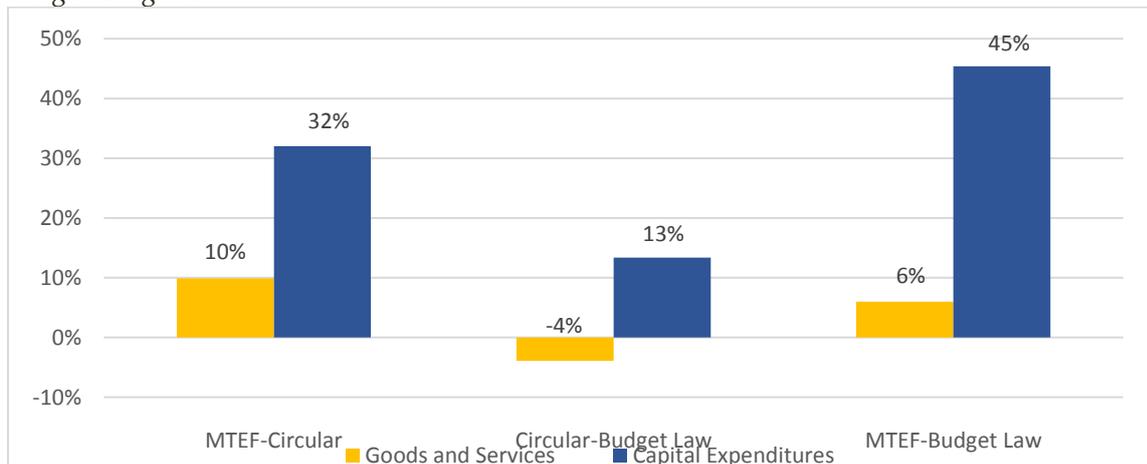
Chart 4. Deviations from MTEF, latest request following the final budget circular for 2018 budget law and activities carried out in 2018 by MEST.



The difference between the MTEF and the final 2018 budget circular in total is around €8,719 million or 19%; the difference between the 2018 budget circular and the budget law is around €2,584 million or 5%; the deviation of the budget law from the MTEF in total is 24%.

Analysis on MEST Capital Investment and Goods and Services categories addressing the education sector strategic objectives is presented under Chart 5.

Chart 5. Deviations from MTEF 2018-2020, final budget circular for 2018 and 2018 budget law by budget categories



With reference to the above chart, a presentation of deviations by economic categories is given below:

- **Good and Services:** deviation from MTEF to the final circular is at the amount of €920,747 or by 10%, whereas there is a decline in budget planning from the final circular to the budget law in amount of €400,000 or by -4%. The total deviation in Goods and Services from MTEF to the budget law is by 6%. Regarding municipal expenditures in this category, deviation from MTEF 2018 to the final circular is at the amount of €451,200 or by 39%, whereas there is no deviation from the final circular to the 2018 budget law.
- **Capital Investments:** deviation from MTEF to the final circular is at the amount of €5,231,500 or by 32%, whereas from the final budget circular to the 2018 budget law it is €2,884,178 or by 13%. The deviation in Capital Investments is by 45%.

Chart 5 shows that 39% of the 6% total deviation in the category of Goods and Services is municipal expenditures from MTEF to the budget law. Despite the fact that planning for this category could be achieved based on previous years' planning, yet this indicates poor planning. Significant deviation in higher percentage is in the category of Capital Investments by 45%.

These deviations/differences in economic categories are due to amendments of the 2018 budget law by the Assembly and the Government, whereas the differences up to the final circular, for what the MoF is responsible, are as a result of MEST. MoF provided explanations regarding these changes, amongst them the project for making operational the dormitory no. 8, but it did not justify them with sufficient documents.

In the 2018 budget law the budget planned for MEST in Capital Investments is in amount of €14.5 million of which €7.7 million is spent for construction of 43 school buildings. The applicable legislation provides funding of municipalities for construction of school buildings by MEST, but not the procedures for construction. Other than the construction of pre-school/pre-primary institution buildings, the construction of school buildings in municipalities by MEST was not set as strategic objective in the Strategy document. Nevertheless, Kosovo Education Strategic Plan (KESP) planned the construction of 25 school buildings, although this activity is in conflict with the National Development Strategy as it was not set as a priority. Moreover, MEST planned and appropriated the budget for construction of 43 school buildings during 2018.

The reason for this deviation from MTEF was due to the mechanisms for drafting the annual budget law which failed to specify for approval the projects that fall within the objectives/competences of MEST.

The deviations in budget planning between the MTEF and the budget law are significant which therefore also resulted in deviations from education sector strategic objectives. In the subchapters below are presented weaknesses in planning and implementation of education sector projects.

3.3.2 Budget Planning for Strategic Objectives from MTEF up to 2018 Budget Law

The strategic objectives should be analysed and planned in the MTEF by timeline and realistic costs, be translated into the 2018 budget law and thereafter be executed.

Table 13. *MEST Strategic Objectives*

Activity	MTEF	Circular I	Circular II	2018 law	Implementation
	€	€	€	€	€
Training of Teachers	200000	200,000	601,291	382,291	356,072.00
Drafting Textbooks	7750	-	-	-	-
Development of Curriculum	705400	200,000	250,000	143,000	130,407.00

The three projects presented in the table fall within the education strategic objectives and, as it appears, they had changed during financial planning. The MoF provided no evidence to justify the financial movements in these projects. These changes indicate unsustainable financial planning for these strategic activities.

The project *Drafting of textbooks*¹⁶ was foreseen in the National Development Strategy Roadmap as a priority activity that would start in 2017 and it would have been finalised by the end of 2019. The cost estimate for drafting 288.000 new textbooks was around €41 million for the three-year period.

Table 14. *Implementation plan of this activity in the 2016-2021 Strategy Roadmap*

Activity 2. Review existing textbooks and develop new	2016	2017	2018	2019	2020	2021		€41,660,620
Develop textbooks for grades 1,2,3, 6,7,8,9,11 & 12		x	x	x			288,000 new texbooks developed	41,644,800

However, by the end of 2018 this priority had not started the implementation yet. In May 2019, the process for the announcement of winning companies for publishing manuscripts for grades 0, 1, 6, 10, 2, 7, and 11 ended, whereas the process of drafting textbooks for grades 3, 5, 8 has not started yet. Compared to timelines planned in the National Development Strategy and the education strategic documents the implantation of this activity has been delayed.

¹⁶ For grades 1,2,3,6,7,8,9,11 and 12"

In the request of MEST for MTEF, it was planned a budget of €3.6 million in Capital Investments, the project code “Purchase of Textbooks”, under this strategic objective, whereas an additional request of €7.5 million was made for drafting new textbooks. The budget of €5.6 million was approved in the 2018 budget law. By the end of 2018, the expenditures for this project were €7.5 million, which is around €1.9 million higher than the budget approved by law. The additional budget was approved through government decisions.

The reasons for not approving the additional budget request with the initial request of MEST for MTEF in time have not been provided and we have insufficient evidence on the analysis that led to approval of this priority in amount of €5.6 million in the 2018 budget law. We identified that by the end of the year through government decisions around €1.9 million were transferred from other projects to purchase textbooks. Absence of a costing and insufficient and detailed analysis for budget approval for this objective by MoF resulted in poor budget planning, inadequate reporting and approvals for additional budgets.

The project *Development and Implementation of the Curriculum* was set as a strategic objective. “Development and implementation of the Curriculum in all schools of the pre-university education level in Kosovo for grades 2, 3, 4, 5, 7, 8, 9, 11 and 12” in amount of €1,882,710 should, according to the National Development Strategy, have been finished in 2019.

Table 15. Implementation plan according to the National Development Strategy Roadmap for Development and Implementation of Curriculum

Sub-activities for measure implementation	NDS measures' activities implementation timeline						Measures' indicator	Cost in EUR
	2016	2017	2018	2019	2020	2021		
Activity 2.4. Expanding the use of new curricula in all								€ 1,882,710
Development and implementation of the Curriculum in all schools of the pre-university education level in Kosovo for grades 2, 3, 4, 5, 7, 8, 9, 11 and 12.		x	x	x			Curriculum developed and implemented in all schools	€ 1,247,450
Development and piloting of New Curriculum for pre-school education (ages 0-5), and implementation of Core Curriculum for pre-primary education (ages 5-6)		x					Training of 7 trainers and 930 educators in core curriculum piloting	€ 39,210

The MEST made insufficient efforts to address this activity in time. There were delays in establishment of the expert council for programmes and textbooks, which occurred only in February 2018.

Drafting of the curriculum was divided into two stages. The public call for proposal for development and implementation of curriculum for grades 0, 1, 6 and 10 was advertised in April 2018, while for grades 2, 7 and 11 it was advertised in June 2018. The call for proposal for grades 3, 8 and 12 has not been advertised by MEST yet.

On the other hand, there is no matching of timelines between the Strategy and KEST. This may effect on delayed implementation of the activity¹⁷. In this regard, the MEST officials in charge confirmed that the development and implementation of new curriculum is delayed, i.e. not in line with timelines.

Mismatched strategic documents (NDS – KESP) and delays in implementation of this priority affect the education quality and impede implementation of other priorities related to this activity.

The project *Development of new curriculum and review of all curricula for Vocational Education and Training (VET) and the conversion into modular form*, as a strategic objective set in KESP 2017–2021, was planned to be executed by the end of 2017. Whereas, by the National Development Strategy it was estimated to be finalized by the end of 2021 with the amount of €1,260,000 for development of curricula in 100% of profiles.

Table 16. Roadmap for implementation of National Strategy Development 2016 – 2021. Priority (sub-activity of activity 3.2)

Activity 3.2. Determination of top priority areas in VET and development and implementation of core curricula	2016	2017	2018	2019	2020	2021		€1,839,600
Development of new curricula and review of all curricula for VET and the conversion into modular form (MEST)		X	X	X	X	X	100% of profiles	€1,260,000

By the end of 2018 this activity had not been completed yet. The last draft of curriculum framework on Vocational Education and Training was submitted for comments to the working group in late 2018, and it was decided that following the completion thereto to start working on the core curricula. It was also established a working group on the formula for financing the VET and by the time of audit (July 2019) this activity had not been completed yet. Based on that, due to setbacks in execution from the relevant department in MEST, this priority is being implemented with significant delays.

¹⁷ KESP Strategic Objective: Teaching and Learning, pg. 29. Result 5.1. A competency-based curriculum is implemented in all schools of the pre-university education level in Kosovo, where subject-programs are developed from 2017 and are finalized in 2021.

Training of Teachers on Implementation of Curriculum Framework was planned in the National Development Strategy. By the end of 2021 there should be trained 35000 teachers of which approximately 7000 teachers should be trained within a year in order to be able to implement the new curriculum.

Table 17. Roadmap for implementation of National Strategy Development 2016 – 2021 (sub-activity of activity 2.4)

Activity 2.4. Expanding the use of new curricula in all remaining schools	2016	2017	2018	2019	2020	2021		€1,882,710
Training of Coordinator Teachers on Kosovo Curriculum Framework Implementation and Organization of Seminars on Vocational Education Core Curriculum Implementation (curriculum specified) in all municipalities of Kosovo		X	X	X	X	X	35000 in total /7000 teachers trained per year	€596,050

According to reports prepared by the division on professional development for teachers, it appears that by the end of July 2019 there were trained 17754 teachers, of which 9100 teachers were trained in 2017 to be licenced on curriculum implementation. Of 9100 trained teachers, 8100 were licenced. In 2018, 5054 teachers were trained, of which 3994 were licenced. Based on the abovementioned data, it results that there were delays in licencing and training of teachers on curriculum implementation as it was not carried out in line with the timelines planned by strategic documents (NDS – KESP) and affected the implementation of the new curriculum.

Based on the analysis of the expenditures from codes of priorities (teacher training, drafting textbooks and development of new curricula), it resulted that, in addition to the delays in implementation of these strategic objective, MEST spent the designated project budgets for other purposes.

We analysed eight (8) payments from these projects and found that the budget planned for these priorities was spent for other purposes such as book exhibition, administration management and dispute settlement, budget execution and budget process management from planning to audit, Training on International Assessment-TIMSS, expenditures for accommodation, allowances and per diem for the workshop ‘Analysing 2018 State Matura and 2019 planning’.

3.3.3 Capital Projects beyond the MEST Strategic Objectives

MEST should plan projects/activities it is competent and responsible for which address the strategic objectives. Projects must be based on detailed analysis and provide sufficient justification for the needs and planning thereto.

Pursuant to the Law No. 03/L-068, the competencies of the MEST in educational facility construction shall include provision of technical assistance to municipalities; reviews of all plans and designs for conformance with design and construction standards; funding and

approvals of construction to be funded by direct grants from the MEST etc. Municipal competences include determination of location, design and construction of building and procurement of services and materials for construction.

Table 18. 2018 MEST unexecuted capital projects, unplanned in 2019

2018 Unexecuted Capital Projects					
Code	Program Name	2018-2020 MTEF planning	2018 Second Circular	2018 Budget Law planning	2018 KFMIS
		€	€	€	€
15778	Supply with inventory to all schools in the Municipality of Shterpce	-	-	200,000	-
15781	Construction of elementary school in Sferka, Peja	-	-	124,178	-
15782	Facade of elementary school "Aziz Sylejmani", Mitrovica	-	-	10,000	-
TOTAL				334,178	

Projects presented in the above table that became part of 2018 budget law through the Assembly amendments were not a priority of MEST and therefore they were not included in the MTEF 2018 and 2019. Although these projects were included in the 2018 budget, they were not executed in 2018 and therefore the planned budget remained unspent.

The MEST reasoned that the project "Supply with inventory to all schools in the Municipality of Shterpce" failed to be executed due to complaints filed with the Procurement Review Body (PRB). Therefore it was not planned for 2019.

Furthermore, the project "Construction of elementary school in Sferka, Peja" was not executed in 2018 due to lack of budget and because of small number of schoolchildren. Additionally, in absence of bill-of-quantities and cost estimates of the project and due to small number of schoolchildren, the project "Facade of elementary school 'Aziz Sylejmani' Mitrovica" failed to be executed.

There are also other projects that were included in the 2018 budget law, they were not executed during 2018, but they have been part of 2019 budget law.

We requested to be provided with the reasons as to why they were not implemented in 2018, yet they were planned in 2019 by both MEST and MoF; we did not receive any sufficient reasoning that is based on any evidence therein.

Table 19. 2018 MEST unexecuted capital projects, still planned in 2019

2018 Unexecuted Capital Projects					
Code	Program Name	2018-2020 MTEF planning	2018 Second Circular	2018 Budget Law planning	2018 KFMIS
		€	€	€	€
15783	Construction of primary school in Boshnjake neighb., Mitrovica	-	-	400,000	-
15785	Construction of kindergarten in Arberia neighborhood, Klina	-	-	150,000	-
15788	Construction of primary school "Ibrahim Mazreku" in Malisheva	-	-	300,000	-
TOTAL				850,000	

By the end of 2018, the budget planned for these projects resulted in surplus. To that end, we may conclude that the MTEF drafted by MoF was not based on sufficient and reasonable analysis and allowed for planning and budgeting of projects that were not MEST strategic priorities. On the other hand, MoF approved and budgeted such projects thus resulting in poor budget planning.

We also analysed education sector projects of the 2017 MTEF and 2017 budget law to assess whether such weaknesses were present even in the past budget processes.

Table 20. 2017 unbudgeted and unexecuted Capital Projects

2017 Unexecuted Capital Projects					
Code	Program Name	2017-2019 MTEF planning	Second Circular for	2017 Budget Law	2017 KFMIS
		€	€	€	€
14030	Modernization of educational system of Kosovo through e-education	-	-	547,400	-
15114	Castle in Marec	-	-	40,000	-
15115	Laboratory for preservation and restauration	-	-	70,000	-
15116	Protection, preservation, study and promotion of the spiritual heritage	-	-	180,000	-
15117	The permanent exhibition in the Museum of Kosovo	-	-	75,684	-
15273	Reconstruction of the object in church, village Brocan	-	-	15,000	-
15384	Houses Adjustments in old zones in Bajrakli and Kuril quarters - Prizren	-	-	250,000	-
15385	Statue of Anton Çetta	-	-	50,000	-
15386	Restoration and preservation of the tower of Fazli Boqolli, Raushic, Peja	-	-	50,000	-
15414	Multiethnic school in Mitrovica North	-	-	150,000	-
15415	The elementary school in Upper Fushtice - Drenas	-	-	50,000	-
15416	Construction of kindergarten in Prizren	-	-	100,000	-
15417	Construction of vocational high school in Komoran, Drenas	-	-	210,000	-
TOTAL				1,788,084	-

Our analysis indicate that MEST had, following the final budget circular for 2017 and in the 2017 budget law, planned 13 new capital projects in amount of €1,788,084 which were not priorities of the ministry. Furthermore, due to shortcomings identified with these projects, they could not be executed in 2017 which led to unspent budget.

The first five (5) projects listed in the above table in amount of around €415,000 in 2017 were transferred from MEST to the Ministry of Culture, Youth and Sports (MCYS), as the competent institution. The other four projects under nos. (15273, 15384, 15385, 14030) were not planned by MEST any further; either way they did not fall under the competence of the ministry.

Whereas, the last four projects listed in the above table under nos. (15414, 15415, 15416 and 15417) were planned further by both MEST and Ministry of Public Administration (MPA). Funds for these projects were budgeted through an agreement entered into by MEST and MPA whereby MPA would develop the procedures for execution of these projects. Out of these four projects amounting €510,000 only the project under no. 15416 "Construction of kindergarten in Prizren" was a strategic objective of MEST.

Approval of budget requests containing projects that were not strategic objectives of the ministry affect the education sector development in strategic respect and impedes efficient and effective budgetary use. It also diminishes the importance of Medium Term Expenditure Framework as a key document for activity and budget planning.

In conclusion, the budget for strategic objectives and other activities in MEST was not planned based on proper analysis. There were delays in execution of the strategic objectives of MEST due to lack of coordination between the strategic documents (NDS and KESP) and as a result of poor planning of activities by MEST.

4. Conclusions

The Medium Term Expenditure Framework 2018-2020 has largely addressed the education and infrastructures sectors priorities and strategic objective and it serves the government for long-term and annual budget planning. However, the drafting process of the medium term expenditure framework and utilization thereof for annual planning of budget organisations is characterised with some shortcomings that may impede the achievement of the objectives and strategic objectives. Such shortcomings derive from planning of projects beyond the strategic objectives, from planning with no realistic costing based on analysis and execution of projects beyond the competences and responsibilities of the organisations.

Initially, the Statement of Priorities developed by the Strategic Planning Office did not contain all the strategic objectives; this hindered the correlation and monitor the country's objectives. Furthermore, the Office failed to monitor implementation of objectives foreseen by the National Development Strategy in consideration of priorities which would serve to a better Medium Term Expenditure Framework preparation. The monitoring report for 2017 was not dealt with by the higher decision-making bodies.

The Ministry of Finances drafted the Medium Term Expenditure Framework 2018-2020 in general/aggregate by sectors, not by budget organisations. This makes the analytical and detailed supervision and comparison of projects difficult. Further, the Ministry of Finance, while developing this framework, did not sufficiently consider the budget requests of MIT and MEST. Thus, it did not ensure that the budget law reflects the education and infrastructure sectors strategic objectives foreseen in the Medium Term Expenditure Framework, and that the foreseen projects are based on proper analysis with realistic financial cost. The Ministry of Finances' effort to request evidence and supporting documents from budget organisations on activities plan was insufficient. Therefore, the Medium Term Expenditure Framework was produced without a proper planning of actives and with no realistic costing.

The annual budget law contained projects that were not strategic objectives and as such they did not serve for the strategic development of education and infrastructure sectors; they impeded the efficient and effective use of budget. These deviations / differences in some case are due to budget requests of budget organisations themselves, amendments of the 2018 budget law from the relevant committees of the Assembly of Kosovo, and amendments from the Government.

Deviations and budgets cuts for infrastructure sector priorities by planning new non-strategic projects affect the budget equilibrium by disturbing it and disrupt priorities by risking their timely implementation.

Additionally, significant differences in budget planning for Capital Investments in education sector between the MTEF 2017-2019 and MTEF 2018-2020 show a poor planning of activities.

The MIT and MEST planned projects without a proper analysis resulting and without meeting the criteria required by PIP manual. The MoF approved such projects while some of them could not start being implemented at all, some of them were characterised with delays in implementation and some others created higher expenditures than the initial plan thus making the OBs enter into obligations.

The identified shortcomings diminish the importance and the purpose of the Medium Term Expenditure Framework as a key document for activities and budget planning.

5. Recommendations

The Office of the Prime Minister through the Strategic Planning Office is hereby recommended to:

1. Address all the strategic priorities of the Statement of Priorities and ensure that it constantly monitors and records all achievements and setbacks in implementation of strategic objectives. That should be done in order to maintain the consistency and sustainability between the strategic documents and their reflection on the Medium Term Expenditure Framework, and
2. Increase cooperation with the Ministry of Finance, namely Budget Department, for the purpose of drafting the Medium Term Expenditure Framework by priorities and strategic objectives.

The Ministry of Finance is hereby recommended to:

1. Identify, when developing the Medium Term Expenditure Framework, the extent of implementation of projects/strategic objectives in order to draft and approve an MTEF that is based in detailed and rational analysis; Draft/break-down the MTEF into ministerial level in order to ensure transparency regarding the strategic objectives for each institution;
2. Increase communication with budget organisations during the budget process in order to ensure a proper planning of strategic objectives in financial respect and in terms of project implementation; Ensure the requests are based on sufficient and detailed analysis supported by relevant documents when approving the requests of budget organisations in both the MTEF and the Law on budget appropriations;
3. Contain in the project proposals for capital investments all the information requested by Public Investment Program and current requests; and
4. Include in the MTEF and the law on budget appropriations projects that are in line with the strategic objectives planned in NDS and other strategic documents; Ensure particularly that only projects that fall under the competence and responsibility of the relevant budget organisations are approved.

The MEST and MTI are hereby recommended to:

1. Draft the document of MTEF requests based on guidance on MTEF preparation and address the strategic objectives with a realistic costing plan; Plan activities in MTEF request based on sufficient documents and activities that justify the strategic objectives;
2. Include, when planning activities and budget requests, only those activities that are objectives and fall under their competence;
3. Reduce deviations between the initial planning in MTEF and that in the budget law through a proper planning of their activities in MTEF and other filters up to the budget law;
4. Address the planned priorities in MTEF and the Law on Budget in line with the set timelines in order to ensure efficient and effective spending of the planned budget; Notify the Ministry of Finance and the Strategic Planning Office when setback in project execution are noticed in order to use or designate the budget to other strategic priorities.

Annex I System Description, Audit Criteria and Questions, Audit Methodology

Audit Criteria

The audit criteria have been set based on laws, guidance, regulations which define the key actors and other parties in charge. At the same time, these documents stipulate the responsibilities, accountability, requirements, cooperation and the process that the relevant institutions must take into consideration when drafting and approving the MTEF. Thereupon, the Budget of the Republic of Kosovo must be prepared and approved, on one hand, and the implementation of priorities by OBs according to planned expenditures must be monitored, on the other hand.

The MoF is a party in charge which, through its activities, aims for better management of the state budget. It is the key authority, through BD, ensuring that the MTEF is developed in accordance with the NDS activities. The BD ensures that the MTEF covers the main government priorities deriving from the country's strategic documents such as the SAA, ERA, etc, and that the appropriations in the budget law comply with the MTEF plans. The projects approved in the Capital Investment category should be managed through the Public Investment Program (PIP) while all the categories of expenditures should be managed through the Budget Development and Management System (BDMS).

The SPO must coordinate its activities with the BD to align the priorities in NDS, MTEF and GAP and monitor the implementation thereto.

The DEPPIC must assess programs, budget appropriations and other spending policies including the analysis of alternative budget appropriations.

The BOs, namely MEST and MI, must spend their budgets according to the plans in MTEF and appropriations in the budget law. At the same time, they must execute the budget in compliance with the criteria stipulated in the budget law, with limited movements within different programs in an organisation; if any movement occurs, it must be well justified.

The Ministry of Finance (MoF), in particular the respective departments, and BOs are obliged to follow some steps when drafting the MTEF in order to coordinate their activities. The steps from preparation and approval of MTEF to the budget approval by the Assembly are as below:

- *Setting of national priorities by the Government and Strategic Planning* – (the government reviews the highest social and economic objectives and prepares the government statement of priorities. The Government in coordination with the MoF and other respective organisations prepares its strategic plan).
- *Macroeconomic and macro-fiscal framework consideration* – (the current or future macroeconomic and socioeconomic framework for budget period (MTEF) is

technically analysed at this stage. It also involves any Budget Review process (re-balance) that occurs in the middle of the year).

- *Determining the total available revenues* – (the total ceiling of expenditures for the budget cycle will be forecasted partly based on stage 2 and on detailed discussions with donors and agencies generating revenues that plan and expect the revenue level).
- *Medium Term Expenditure Framework (MTEF)* – the Government shall, by no later than April 30th of the current year, prepare the MTEF for the following fiscal year and the estimates for the two subsequent years.
- *Sending the Budget Circular to each Budget Organisation* – By April 30th of the current year, the Ministry of Finance issues and sends the Budget Circular to each BO providing them with a specified period of time to submit their budget proposal to the MoF.
- *BOs submit their initial budget request* – based on their plans and the budget circulars, each BO responsible for its budget must prepare its request in compliance with MoF's instructions.
- *Budget discussions and budget hearings between MoF and BOs; discussion from the government and decisions made* – if budget requests from OBs are beyond the available amounts, there shall be discussions to solve the issue. The MoF may be able to identify a small amount of additional funds and appropriate it if the request is reasonable. The MoF provides the government with recommendations regarding the requests; the government discusses and presents them to the Assembly as general budget requests.
- *Issuance of the final budget and annual budget law* – Ministry of Finance coordinates and drafts the annual budget law, for the Government, wherein the amount of funds and the distribution thereof is determined. The law is proposed to the government for approval. Further, following the discussions, the government approves the draft law on budget appropriations and thereafter sends it to the Assembly.
- *Budget appropriation process (decision-making stage)* – based on outcomes of stage 7, the final proposed appropriations for each OB are determined by the Assembly. Outcomes of the mid-year budget review are included in the proposed budget appropriations.
- *Submitting budget proposal to the Assembly* – following the approval of the Kosovo Budget Proposal and the draft Law on Budget Appropriations, the Government submits these documents to the assembly by no later than October 31st of that fiscal year.
- *Budget being approved by the Assembly* – following discussions in the assembly, prior to the start of planned fiscal year, the draft budget law in its initial or amended format is approved and turned into an applicable law.

- *Publication of budget and information to OBs on their annual budget appropriations – Budget is published. It must be available to public by means of a Budget Book which is published and posted on MoF’s website.*

AUDIT METHODOLOGY

In order to respond to audit questions, we analysed the following:

- Medium Term Expenditure Framework 2018 – 2020 and frameworks for 2017 and 2019 to make analogy;
- Compliance between MTEF 2018 – 2020 and LB 2018;
- Compliance between MTEF 2018 – 2020 and NDS;
- NDS and GAP and implementation monitoring;
- Law on the Budget of the Republic of Kosovo for 2018 and laws for other years to make analogy;
- Priorities addressed by MI and MEST along with planning;
- Expenditures incurred in MI and MEST in comparison with the budget appropriations;
- Movement of funds between programs within OBs;
- Public Investment Program (PIP);
- Budget Development and Management System (BDMS);

We have also interviewed persons in charge and managers of divisions/ departments involved in drafting of MTEF and of budget departments in budget organisations;

List of laws and regulations with relevance to the audit

Law on the Budget of the Republic of Kosovo for year 2018;
 Medium Term Expenditure Framework 2018 – 2020;
 Medium Term Expenditure Framework 2019 – 2021;
 Law No. 03/L-048 on Public Financial Management and Accountability;
 Book of Processes for Management of Public Expenditures;
 National Development Strategy 2016 – 2021
 European Reform Agenda;
 Economic Reform Programme 2018;
 Stabilisation and Association Agreement;

Report on the Implementation of the National Programme for Implementation of the Stabilisation and Association Agreement (NPISAA) during January - September 2018;

Public Investment Program (PIP);

Management of Budget Development and Management System (BDMS);

Budget Circular 2018;

Annex II. Differences between two tables in the MTEF request drafted by MIT

MTEF 2018-2020 protocolled by 10.03.2017						
TABELA NR 4. Trendet e financimit 2017 dhe vleresimet e hershme 2018-2020			TABELA NR 5. Funding trands in 2017 and early estimations 2018-2020 (Projects in detail)			
No	Description	Costo	No	Description	Costo	Difference
10032	Maintenance and repair of bridges	2,025,980	10032	Maintenance and repair of bridges	1,000,000	(1,025,980)
10438	Rehabilitation of M2 road Prishtina - Mitrovica- KB	11,600,000	10438	Rehabilitation of M2 road Prishtina - Mitrovica- KB	11,813,814	213,814
10034	Rehabilitation of road M 9 Prishtinë - Pejë	2,500,000	10034	Rehabilitation of road M 9 Prishtinë - Pejë	2,400,000	(100,000)
14156	Road extension of Komoran -Drenas-Skenderaj	2,500,000	14156	Road extension of Komoran -Drenas-Skenderaj	3,100,000	600,000
TOTAL (general table)		225,776,023	TOTALI (specific table)		225,776,023	-