The need for establishing an Independent Fiscal Institution in Kosovo

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Contents

List of Abbreviations and Acronyms

EU	European Union
GDP	Gross Domestic Product
IFI	Independent Fiscal Institutions
IMF	International Monetary Fund
MTEF	Medium-Term Expenditure Framework
NAO	National Audit Office
OECD	Organization for Economic Co-operation and Development

Executive Summary

Independent fiscal institutions around the world have been established due to the need for oversight, increased transparency and accountability in public financial management. One of the reasons that drove many European countries to establish such institutions were the challenges brought by the financial and economic crisis of 2008. Some of these challenges were: high public debt and non-compliance with fiscal rules by governments. The role of these institutions is to perform various functions such as: monitoring compliance with fiscal rules, analyzing fiscal sustainability, producing and/or monitoring macroeconomic and fiscal forecasts, as well as advising on fiscal policy costing. To achieve these functions, the Organization for Economic Cooperation and Development (OECD) has defined 22 principles. Key principles include: independence and non-partisanship, ownership, human resources, and access to information, as well astransparency.

Based on other countries' practices, there are several different institutional models practiced. According to a report, more than half of the independent fiscal institutions operate as standalone bodies, about 33% according to the parliamentary budget office model. The rest follow the model of an autonomous office under the Audit Office or the Central Bank. In the European Union, independent fiscal institutions have been established in almost all Member States, with more than one in some states. There are 32 such institutions in the 26 EU Member States (except Poland). In some Western Balkan countries, these institutions were established in 2008 and 2011 (Bosnia and Herzegovina and Serbia), while in others, they were established in 2023 (Montenegro and North Macedonia).

In Kosovo, over the years several challenges have emerged in the budgetary and fiscal processes. One of these challenges is the non-compliance of strategic plans with medium-term budget documents, as well as the non-compliance of medium-term budget documents with the annual budget. Consequently, various priorities may not be implemented due to poor budgetary planning. Another notable challenge in fiscal terms in Kosovo is the fiscal and budgetary estimation of new policies. This in many cases is superficial without any in-depth analysis. Regarding these, to date, there have not been any independent institutions dealing with fiscal analysis and monitoring in Kosovo. As a result, there is a need for the establishment of an independent fiscal institution. The mandate of this institution should be focused on independent assessments of fiscal and macroeconomic forecasts, assessments of compliance with fiscal rules, and budget and policy cost estimations.

Through this report, based on the research and practices of other countries, as well as on the current situation in Kosovo, GAP Institute proposes several options for the establishment of an independent fiscal institution that can be adapted to Kosovo. There are three potential options: 1) Independent fiscal institution as a standalone institution, 2) parliamentary office under the Assembly, or 3) fiscal institution under the National Audit Office. Based on this analysis, GAP Institute recommends the following:

- An independent fiscal institution should be established according to the minimum requirements set by the European Commission directives, as well as the key principles set by the OECD;
- It should be ensured that the established fiscal institution, either in a standalone setup from other institutions, or under the NAO or the Assembly, has complete independence;
- There should be fair and impartial recruitment of leadership, membership, and technical staff, who must be experts of the field;
- The institution should be included in budget processes; this should be overseen by local legislation (e.g., included in the Law on Public Financial Management);
- In the early stages of this institution's operation, technical assistance should be hired from international institutions with relevant experience in this area.

1. Introduction

The financial and economic crisis of 2008 had a positive impact on perceptions related to the significance of fiscal policies and increased transparency and accountability of public institutions. As a result, several independent fiscal institutions were established in the European Union (EU) Member States. Their function is independent oversight of fiscal policies and monitoring compliance with fiscal rules. They also assess the cost of legal initiatives and government policies, as well as macro-economic and fiscal forecasts.[1] Aside from necessity, these institutions, sometimes called Independent Fiscal Councils, were established because of the legal requirement set by EU directives.[2] To date, there are32 independent fiscal institutions in 25 EU Member States. These institutions operate under the framework of certain principles set by the Organization for Economic Co-operation and Development (OECD), including independence, non-partisanship, transparency, and accountability.[3] According to some studies, it has been observed that the presence of Independent Fiscal Institutions (IFIs) in different countries has resulted in more accurate and less biased or optimistic fiscal projections.[4]

Challenges encountered such as the partisanship of fiscal policies and historically high debt, as well as non-compliance with fiscal rules by governments, have influenced the establishment of these independent fiscal institutions. Apart from the European Union states, which are also legally required[5] to establish such institutions, these institutions have also been established in other countries. This is the case in some Western Balkan states. States like Serbia and Bosnia and Herzegovina have established Independent Fiscal Councils for more than a decade. In 2023, Montenegro and North Macedonia established them.

In Kosovo, there is a lack of assessments conducted by independent public institutions on the macroeconomic forecasts provided by the Ministry of Finance, analysis of the strengths and weaknesses of the annual budget law, detailed and analytical evaluations of the budgetary impact of new legal policies or initiatives, analysis of compliance with financial and fiscal rules on public budget spending and more. Such analyses are currently produced only by international or civil society organizations.[6] In addition, Government budget impact assessments are often non-analytical. They provide an incomplete reflection of the budget impact of a fiscal policy or new legal initiative. Also, one of the key challenges is the non-compliance of the annual budget document with the medium-term budget documents, which affects the non-achievement of the strategic development objectives and there is no institution that makes assessments from this aspect or that annually fact-checks such an approach to budgeting. Considering the above challenges, as well as EU Directive requirements,[7] there is a need for the establishment of an independent fiscal institution.

This GAP Institute report provides a literature review with information related to independent fiscal institutions. Since there is no specific model required in terms of institutional design, there are several institutional models that have

1 International Monetary Fund. Strengthening Post-Crisis Fiscal Credibility: Fiscal Councils on the Rise—A New Dataset. November 2016. Last accessed on March 21, 2024
2 Official Journal of the European Union. Directive No. 2011/85/EU. November 2011. Last accessed on March 21, 2024
3 Organization for Economic Co-operation and Development (OECD). Recommendations of the Council on Principles for Independent Fiscal Institutions. February 2014 Last accessed on March 30, 2024
4 European Parliament. Strengths and weaknesses of independent advisory fiscal institutions in the EU economic governance framework. May 2023 Last accessed on March 30, 2024
5 Ibid.
6 Gap Institute. Draft Budget 2024 – Analysis of Budget Revenues and Expenditures. December 2023. Last accessed on March 30, 2024
7 Official Journal of the European Union. Directive No. 2011/85/EU. November 2011. Last accessed on March 21, 2024

been adapted by other countries and may be suitable for Kosovo as well. The main ones are the following: 1) an independent fiscal institution as a standalone institution, 2) an independent institution under the National Audit Office, and 3) a parliamentary office under the Assembly. Depending on which criteria are deemed most critical, it can be decided which is the best option for Kosovo. From the perspective of independence of the institution, a standalone Independent Fiscal Institution would be more adequate. But, in case of budget constraints, the most sensible option would be to include an Independent Fiscal Institution under the Kosovo Assembly.

2. What are Independent Fiscal Institutions (IFIs) and what is their function?

An Independent Fiscal Institution is a public institution that has an oversight and independent role in relation to fiscal policies, budget matters and macroeconomic forecasts. The Government or Parliament establishes this institution. Its key role is the oversight of public finances, with a focus on accountability, transparency, and compliance with fiscal rules. Moreover, some of the significant responsibilities of this institution are policy costing as well as the evaluation and monitoring of macroeconomic forecasts made by the relevant institutions for fiscal policies, and in some cases, their drafting.[8] The need for the establishment of such institutions around the world arisedfrom the last economic and financial crisis which had an impact on the credibility of governments in managing public finances. More specifically, the historically high public debt, the budget deficit from anticipated revenue losses, as well as the government's delayed reforms are some of the factors that have eroded public trust. In this regard, there is a need for the 'depoliticization' of fiscal policies by creating independent fiscal authorities, whose mandate is to develop policies that affect long-term public debt sustainability and macroeconomic stability.[9]

In EU countries, the legal basis for an independent fiscal institution was first introduced in 2011, under EU Directive No. 2011/85, where the need to include independent fiscal institutions in budget processes was discussed. This directive requires Member States to ensure effective and timely monitoring of their fiscal rules. In addition, this monitoring is based on independent analyses by independent fiscal institutions.[10] Further, in 2013, the Treaty on Stability, Cooperation and Governance in the Economic and Monetary Union came into force. This obliged the 22 member states to have 'fiscal monitoring institutions' and specified their responsibilities and status. Moreover, this Treaty stipulated two key requirements for monitoring institutions: their independence defined by law and a "comply or explain" principle – whereby the advice of these monitoring institutions would either be followed, or the concerned institution would explain why it departs from it.[11] Another regulation of the European Commission[12] increased the responsibilities of independent fiscal institutions by assigning them the production of macroeconomic forecasts. It also required the relevant institutions to include those forecasts in the annual budget and medium-term fiscal frameworks. The EU legal framework provides some general minimum criteria for independent fiscal institutions across Member States. These criteria do not prevent them from designing these institutions as they see fit.[13]

8 European Commission. Independent Fiscal Institutions in the EU Member States. Luxembourg, 2017. Last accessed on March 21, 2024

9 International Monetary Fund. Strengthening Post-Crisis Fiscal Credibility: Fiscal Councils on the Rise—A New Dataset. November 2016. Last accessed on March 21, 2024

10 Official Journal of the European Union. Directive No. 2011/85/EU. November 2011. Last accessed on March 21, 2024

11 European Commission. Communication from the Commission. June 2012. Last accessed on March 21, 2024

12 Official Journal of the European Union. Regulation (EU) No. 473/2013 on common provisions for monitoring and assessing draft budgetary plans. May 2013 Last accessed on March 21, 2024

13 Ibid.

According to the Organization for Economic Co-operation and Development (OECD), there are 22 principles for independent fiscal institutions. These principles were set and forwarded as recommendations to states that have or plan to have such institutions. They were set to promote the key values under which they operate – independence, non-partisanship, transparency, and accountability.[14] These principles are clustered and divided into nine categories (see Table 1 in the Annex). In such institutions, independence and non-partisanship are central principles: i.e., the institution should be objective and professional, and its analysis should not be influenced by politics. Moreover, leadership must be selected independent from political affiliation. Another significant principle is ownership; the model of this institution should be adapted to the country where it is established, and models from abroad should not be imposed. Human resources and access to information are two other critical principles for these institutions to perform their work properly. Furthermore, public transparency is another key principle.

The institutional model practiced in independent fiscal institutions in European countries varies, so there is no specific model followed. According to a study, a positive relationship was observed between some institutional characteristics of these institutions and fiscal rule compliance. These characteristics are: sufficient financial resources, access to information, high degree of independence, broad mandate of duties, and visibility in the media.[15] According to a report from the OECD, more than half of the independent fiscal institutions in the OECD countries (56%) are independent and standalone (in some cases they report to the Government and the Parliament), while about 33% of them are set up in a parliamentary budget office model, which focuses more on assisting the work of the budget committee as well as the Assembly oversight of the budget. The rest of the states have used the model of an autonomous office under the National Audit Institution or the Central Bank.[16] It should be noted that in most developed countries of the European Union as well as in Great Britain, fiscal institutions are independent and operate standalone and separate from the legislature and the executive.[17]

Further, IFI functions vary across different states, however there are some that are more common. IFIs play a key role in almost all countries in monitoring fiscal rules compliance. Moreover, about 89% of IFIs in different countries analyze long-term fiscal sustainability, such as demographic trends, public policies, and public debt in public finances. Another function that about 83% of IFIs share is involvement in macroeconomic and/or fiscal forecasts. Their role in this process differs between countries: in some cases, the IFIs produce forecasts, while in others they only oversee and give recommendations on the Government's forecasts. Another function that only half of IFIs have is public policy costing.[18]

Unlike monetary policies, for which a consensus has been created that price stability requires a central bank, fiscal policies include decisions on the appropriation and allocation of funds which may be potential sources of political influence. For this reason, the role of IFIs is critical, although it depends on the functions allowed by their mandates. Some functions, such as fiscal

14 Organization for Economic Co-operation and Development (OECD). Recommendations of the Council on Principles for Independent Fiscal Institutions. February 2014 Last accessed on March 30, 2024

15 EU Independent Fiscal Institutions. Do institutional aspects shape the effectiveness of independent fiscal institutions? July 2023. Last accessed on March 30, 2024

16 Organization for Economic Co-operation and Development (OECD). Principles for independent fiscal institutions and case studies. 2016. Last accessed on March 30, 2024

17 European Commission. Independent Fiscal Institutions in the EU Member States. Luxembourg, 2017. Last accessed on March 21, 2024

18 Ibid.

rules compliance, macroeconomic forecasts, policy costing, and sustainability analyses, are more technical. On the other hand, long-term fiscal sustainability assessment will inform interim and short-term policy decisions. Further, even the 'normative recommendations' of IFIs may not be in line with politicians' approach, causing reluctance on the part of IFIs to fulfill this task.[19] In terms of human resources, according to analysis of different countries, most IFIs consist of a few decision-making members and technical and administrative support staff. These members usually have a fixed term contract for several years and are appointed by decision of the Parliament. While the administrative and technical staff are selected through open competition, and in many cases are hired on indefinite-term contracts.[20] The professional staff must be qualified and with a background in economics (economists and statisticians), while the rest are administrative staff responsible for the legal part and other duties. On average, an IFI employs 10 officers.[21]

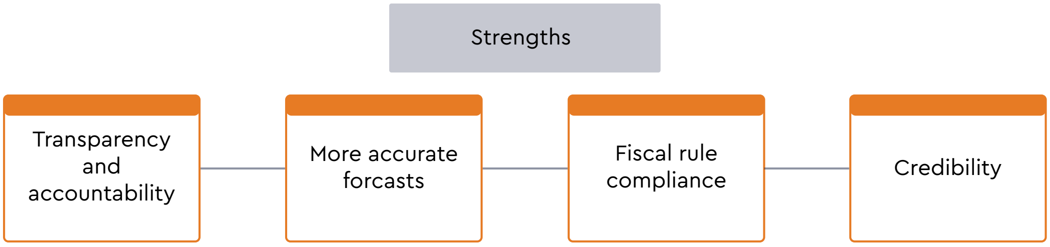
3. Strengths and weaknesses/challenges of Independent Fiscal Institutions (IFIs)

One of the key advantages of establishing independent fiscal institutions is to enhance the transparency and accountability of the relevant institutions that deal with fiscal policies. According to some studies, it has been observed that the presence of IFIs in different states has resulted in more accurate and less optimistic fiscal projections. More specifically, it has been observed that macroeconomic forecasting accuracy has improved since 2014, with a reduction in optimistic biases in Gross Domestic Product growth forecasting. This is the year in which IFIs took up the duty of official endorsers.[22] Furthermore, another strength of IFIs is accountability and a positive impact on fiscal rules compliance by relevant institutions. This has also been proven by an econometric analysis by the Network of EU IFIs[23] based on several case studies. It turns out that there is a statistically positive correlation between IFI presence in a country and fiscal rules compliance. In this regard, it was concluded that the impact on fiscal rules compliance also depends on IFI institutional characteristics such as adequate financial and human resources, access to information, independence, and visibility in the media. It also depends on the number of fiscal rules: the higher the number of rules, the lower the impact of IFIs.[24]

Another strength of IFIss is their credibility, more specifically, their institutional independence in their monitoring and evaluation work, which enhances their credibility. This enables them to make more accurate assessments of budgetary and fiscal matters, as well as to do so impartially and without political influences. Also, another advantage of these institutions is that they consist of independent professionals with a background in budgetary and fiscal matter analysis. If they perform as expected, they offer more specialized and professional analysis of fiscal matters. One of these is accurate public policy costing, either of proposed laws or other legal acts that contribute to more informed decision-making by policy makers.

19 European Parliament. Strengths and weaknesses of independent advisory fiscal institutions in the EU economic governance framework. May 2023 Last accessed on March 30, 2024
20 Romanian Fiscal Council. Fiscal Councils in European Union. May 2020 Last accessed on May 15, 2024
21 European Commission. Independent Fiscal Institutions in the EU Member States. Luxembourg, 2017. Last accessed on March 25, 2024
22 European Parliament. Strengths and weaknesses of independent advisory fiscal institutions in the EU economic governance framework. May 2023 Last accessed on March 30, 2024
23 EU Independent Fiscal Institutions. Do institutional aspects shape the effectiveness of independent fiscal institutions? July 2023. Last accessed on March 30, 2024
24 Ibid.

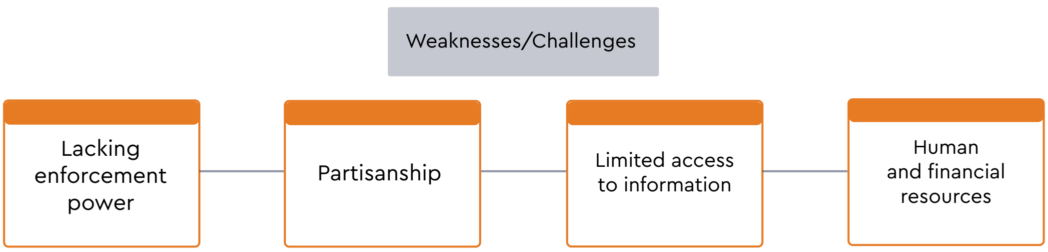
Figure 1. **Strengths of Independent Fiscal Institutions**



However, a significant aspect that must be taken into account for the success of IFIs and the effective implementation of their tasks, is the enforcement of the principles and minimum requirements determined by the international organizations mentioned above.[25]

A weakness of independent fiscal institutions is lacking enforcement power: advice and recommendations given to the government can be ignored as there is no legal obligation for the government to implement them.[26] Another shortcoming (or challenge) of IFIs is maintaining impartiality. Political parties may use these institutions to demonstrate their commitment to discipline, just to 'please' the constituents, and then proceed to politicize them. Another challenge that has been noted for the operation of IFIs is limited access to information. This may be the case where the government is reluctant to share certain data with IFIs, when it believes that such data may show them in an 'unfavorable' light in the eyes of the public. This can happen in cases where it is not legally required to share such data. Furthermore, another potential challenge for IFIs is the allocation of budgetary resources. This may happen in cases where the Ministry of Finance, responsible for the allocation of funds, uses the allocation of resources as a form of 'threat or punishment' for the institution, as a result of not agreeing with their criticism.[27] One last potential challenge for IFIs, but not least important, is the lack of human resources, i.e., poor human capacity that may hinder the institution's performance.

Figure 2. **Weaknesses/challenges of Independent Fiscal Institutions**



25 Table 1 in the Annex: OECD Principles for Independent Fiscal Institutions (IFIs)
26 Ibid.
27 Joint Vienna Institute. The work, the wins, and the worries. February 2021 Last accessed on March 30, 2024

4. Structure and functions of Independent Fiscal Institutions in other countries (Europe and the Western Balkans)

In **Europe**, independent fiscal institutions have been established in almost all member states, except Poland. Together, these institutions have created the Network of European Union Independent Fiscal Institutions. This network consists of 32 Independent Fiscal Institutions in 25 EU Member States and aims to enable cooperation and expertise sharing between them.[28] They differ in terms of the institutional model under which they are established and the functions they perform. Some of them operate independently but report to the Government or Parliament, some are incorporated as an office in the Parliament, and others as part of the National Audit Office.

In the **United Kingdom**, the independent fiscal institution is called the Office for Budget Responsibility. It was created in 2010 and is funded by the UK Treasury. It operates as a standalone and independent institution and has five main roles: 1) economic and fiscal forecasting, 2) evaluating performance against targets, 3) sustainability and balance sheet analysis, 4) evaluation of fiscal risks, and 5) scrutinizing tax and welfare policy costing. This Office has 45 officers as regular staff, a Budget Responsibility Committee composed of three members, an Oversight Board composed of six members (three from the Committee, and three non-executive members), and an Advisory Panel. Committee members are appointed by the Chancellor of the Exchequer, in consultation with the Treasury Select Committee, for five-year terms. While non-executive members are appointed for a three-year term.[29]

In **France**, the independent fiscal institution is the High Council of Public Finance (Haut Conseil des Finances Publiques). It was established in 2012. This Council operates as part of the Supreme Audit Institution, independent of the Government and the National Assembly. It is funded by the state budget. The main roles of this institution are: sustainability for a balanced return of public finances with with France's European commitments; the sustainability of annual targets presented in budget documents, and the evaluation of assumptions and the evaluation of assumptions and execution of macroeconomic forecasts. In terms of human resources, this Council is staffed with 11 officers, including the leader, four 'magistrates,' and five qualified persons. The leader of this institution is the President of the Supreme Audit Institution, while the magistrates are appointed by the same. Other qualified persons are appointed by the President of the National Assembly, the President of the Senate, the Chairperson of the Finance Committee of the National Assembly, the Chairperson of the Senate Finance Committee, and the President of the Economic, Social, and Environmental Council. The Council members serve for five year terms.[30]

In **Italy**, the independent fiscal institution operates under the Parliament. It is known as the Parliamentary Budget Office. This Office is an independent body and analyses and assesses macroeconomic and fiscal forecasts, verifying compliance with national and European fiscal rules. This office analyses, verifies, and assesses macroeconomic and fiscal forecasts, including validating government macroeconomic forecasts. It also assesses developments in public finances and fiscal rules compliance, the long-term sustainability of public

28 EU Independent Fiscal Institutions. Our members. 2024. Last accessed on March 30, 2024
29 Office for Budget Responsibility. who we are. 2024. Last accessed on March 30, 2024
30 Haut Conseil des Finances Publiques. The members of the High Council of Public Finance. 2024. Last accessed on March 30, 2024

finances, and other economic and financial matters. This office employs 31 officers and has a board consisting of three members.[31]

Figure 3. List of IFIs in European countries according to the institutional model

Independent standalone institution

Austria (WIFO), Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Greece, Spain, Hungary, Ireland, Luxembourg, Latvia, Malta, Portugal, Sweden, Slovenia, Slovakia

Under the Audit Office

Finland, France, Lithuania

Under the Parliament

Greece (second fiscal institution), Croatia, Italy

Source: European Commission (2017)

In the **Western Balkans** countries, although challenges have been encountered with fiscal policies and implementation, only four of them have established independent fiscal institutions (two in 2023). According to a World Bank report, there are some issues with fiscal information in these countries. Firstly, the data does not cover all public institutions: government statistics do not include all public institutions. Moreover, none of the region's governments publish financial data on an accrual basis, as required by International Monetary Fund (IMF) standards. Another issue that has been raised is the bias (or optimistic bias) in macroeconomic and fiscal forecasts. Moreover, governments' short-term planning has been noted as another issue. Regarding this, the inconsistency of medium-term budget plans with the annual budget has been raised as an issue. Some of the reasons for this may be optimistic revenue forecasts, unrealistic investment plans, and the impression that medium-term budget plans do not have any impact and it is not particularly worthwhile to produce them properly.[32]

In **Serbia**, a Fiscal Council was established in 2011, as an independent institution under the Serbian Assembly. The Council was established after several amendments to the Budget Law, which included its establishment too. This Council consists of three members, whose selection was made by the Assembly. Its main functions include fiscal policy assessment and fiscal rule compliance. It also assesses macroeconomic and fiscal forecasts, and the fiscal risks. Moreover, the Council members are also involved in the budget process, where an analysis of the draft budget and the draft report on the fiscal strategy is prepared and assessments of the fiscal impacts of draft laws are made.[33]

Similarly, in **Bosnia and Herzegovina**, a Fiscal Council was established in 2008. This Council has six members, who are the highest ranking members of the government (the Leader of the Council, the Prime Minister of the Federation, the President of Republika Srpska, and the Ministers of Finance of the two institutions). Moreover, this Council also consists of the Advisory Group of the

31 Ufficio Parlamentare di Bilancio. About the PBO. 2024. Last accessed on March 30, 2024
32 World Bank Group. Fiscal Rules for the Western Balkans. August 2019. Last accessed on April 2, 2024.
33 Fiscal Council of the Republic of Serbia. About the Fiscal Council. Last accessed on April 2, 2024.

Council, which has seven members. The key functions of this Council are the coordination of fiscal policy in Bosnia and Herzegovina, the endorsement of important fiscal documents, the endorsement of macroeconomic forecasts, the monitoring of the realization of targets set in the budget, and the coordination of the budget process.[34]

In **Montenegro**, several amendments to the Law on Budget and Fiscal Responsibility, where the establishment of an Independent Fiscal Council is mentioned, were adopted in 2023. This Council is expected to have three members nominated by the Assembly, and a Secretariat that does professional and administrative work. The responsibilities planned for this Council are providing opinions on the impact of draft laws, regulations, strategies, and other significant documents. In addition, it will give opinions on the budget law, analyzing macroeconomic forecasts and fiscal trends, risks, public contracts, etc.[35]

Likewise, in **North Macedonia**, the Fiscal Council was established in 2023 as an independent institution, based on the 2022 Budget Law, and approved by the Assembly. This Council consists of three members, and two departments: the Research and Analysis Department and the General and Administrative Services Department. Three institutions select its members: Academy of Arts and Sciences of North Macedonia, National Audit Office, and Central Bank of North Macedonia, with a six-year mandate. The Council's main functions are the assessment of macroeconomic and fiscal assumptions, Fiscal Strategy and Budget, and fiscal rule compliance.[36]

In the case of **Albania**, there are no records of any independent fiscal institution.

Unlike other European countries, the institutional model of independent fiscal institutions in the Western Balkan countries is more high-level decision-making and members are appointed by their assemblies. This differs from Europe's independent fiscal institutions which are more technical and advisory in nature. An issue that may arise regarding these institutions in the Balkan countries is independence and partisanship. Considering that in some cases the Council members are ministers, this may affect the objectivity of the evaluations.

5. Fiscal challenges and potential options for Kosovo

In Kosovo, analyzing and reporting on fiscal policies is the responsibility of the Ministry of Finance, Labor, and Transfers. Public debt and fiscal rules are defined according to the Law on Public Financial Management and Accountability.[37] Budgetary processes are led by the Budget Department in this ministry, where budget policies are drawn up, the Medium-Term Expenditure Framework (MEF) is produced, the Draft Law on Budget Appropriations is drafted, the budgetary impact of various initiatives is assessed, and alike. On the other hand, economic and fiscal policies are the responsibility of the Economic Policy Department, where macroeconomic and fiscal forecasts are made, assessments are produced for various scenarios that may impact the economy, and analyses are produced for fiscal risks and contingent budget obligations. Moreover, the Kosovo

34 Official Gazette of Bosnia and Hercegovina. Law in the Fiscal Council in Bosnia and Hercegovina. 2008. Last accessed on April 2, 2024.

35 Ministry of Finance of Montenegro. Fiscal Rules and Fiscal Council in Montenegro. December 2023. Last accessed on April 2, 2024.

36 Fiscal Council of the Republic of North Macedonia. Fiscal Council. December 2023. Last accessed on April 2, 2024.

37 Official Gazette of the Republic of Kosovo. Law on Public Financial Management and Accountability. June 2008. Last accessed on April 2, 2024

Treasury was established to deal with matters related to managing the budget and public debt execution, accounting, reporting, and monitoring. It operates under the Ministry of Finance, Labor, and Transfers.[38]

However, although the fiscal rules defined by the Law have been respected so far, there are still some challenges in these processes. One of the challenges of budget processes in Kosovo is the non-compliance of strategic plans with the medium-term budget. More specifically, policy planning should have a better connection with budgeting in the annual and medium-term periods.[39] Consequently, various priorities may not be implemented due to poor budgetary planning. Moreover, medium-term budget documents do not comply with the annual budget, where the previous year's estimates are not updated and therefore the medium-term concept is not practiced.[40] Another challenge in the fiscal aspect in Kosovo is the budgetary and fiscal assessment of new policies (legislation).[41] Budget estimates and costs of proposed laws are often made superficially, without deeper analysis. This results in inaccurate budget planning. An example of this is the Law on the Status of Albanian Education Workers of the 1990s. For this law, a budget analysis and assessment was made by GAP Institute in 2018.[42] Regarding this law, there was an underestimation of the budget cost by the Ministry of Finance. The calculations of GAP Institute showed that the cost would be 114% higher. Consequently, the approval of this law would burden the budget more than planned. In some other cases, due to delays in the approval of laws by the Assembly, the budget estimates made in a certain year remain the same even after two years when the draft law is voted on in the Assembly, which is not a real estimate.

Moreover, in some cases 'ad-hoc' legislative amendments are proposed to serve political campaigns during elections. Also, as in other countries, without an independent fiscal institution, an optimistic judgment has been observed in macroeconomic forecasting. This has resulted in inconsistencies with actual values. Furthermore, in some cases, the Government tends to allocate funds as a general sum in the form of contingencies, with no specific purpose. These funds can then be spent in different ways according to the need of the Government (for example for pensioners, maternity cases, or for children). This has also been criticized by international institutions such as the International Monetary Fund (IMF), because such budget allocations are not clear and enhance policy makers' 'freedom' to allocate funds according to their discretion.[43] Another challenge that has been noted in the budget processes in Kosovo is failure to mainstream gender. More specifically, although this is foreseen by the 2015 Gender Equality Law, no budget organization conducts gender budgeting during the budget process.[44]

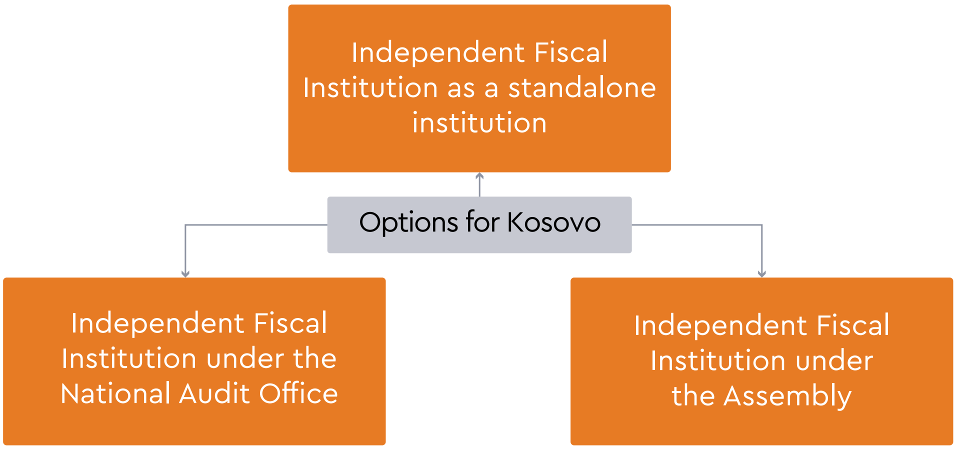
Regarding these, to date, there have not been any independent institutions dealing with fiscal analysis and monitoring in Kosovo. Currently, these assessments and recommendations for budget processes are made by non-governmental organizations such as GAP Institute, international organizations and donors such as the World Bank, IMF, or the European Union, and others. As a result, considering the above noted challenges, there is a need for the

38 Ministry of Finance, Labor, and Transfers. 2024. Last accessed on April 2, 2024
39 European Commission. Kosovo Report 2023. November 2023. Last accessed on April 23, 2024
40 Public Expenditure and Financial Accountability. Kosovo, PEFA performance assessment report. February 2022 Last accessed on April 2, 2024
41 Center of Excellence in Finance. Challenges for Developing Costing and Budgeting in Kosovo. Last accessed on April 2, 2024.
42 GAP Institute, Budget Impact of the Law on Albanian Education Workers of the 1990s. May 2018. Last accessed on April 28, 2024
43 International Monetary Fund. Republic of Kosovo. June 2023. Last accessed on April 28, 2024
44 Gap Institute. Gender-Responsive Budgeting in Municipalities. May 2023, Last accessed on April 30, 2024

establishment of an independent fiscal institution. Such an institution would enhance citizens' confidence that public institutions spend public money adequately. Similar to other countries in the region and beyond in Europe, the mandate of this institution should focus on independent assessments of fiscal and macroeconomic forecasts. It should also assess compliance with fiscal rules, and budget and policy cost assessments. In the fiscal and macroeconomic forecasts currently produced by the Department of Economic Policies at the Ministry of Finance, the role of the independent institution would be to assess these forecasts and provide recommendations and an independent opinion. Further, another function of significance for this institution is the independent assessment of policy costing. Considering that many laws or amendments to laws have been proposed during election campaigns, it is crucial to assess such policy costing accurately and independently. Furthermore, the inclusion of new policy proposals in the annual budget should be monitored, as well as their compliance with other medium-term documents (the medium-term expenditure framework). Consequently, this institution must produce a report with recommendations for the budget annually, to inform the members of parliament in advance, so they can prepare for discussion before voting. Moreover, another function of this institution is monitoring fiscal rule compliance. In legal terms, the establishment of this institution can be done by Government decision and approval of the Assembly. Based on other countries' practices, the scope of this institution can be included in the Law on Budget Appropriations for each year. It can also be provided as part of the budget process in the Law on Public Financial Management. Executive members should be selected independently and voted in the Assembly. To preserve the institution's independence, it is crucial to legally require that persons selected to these executive positions have not held any political positions in the last three years. While technical and professional members must be selected through an open and transparent competition and have the necessary qualifications. Some of these qualifications are: education and knowledge in economics, experience processing and analyzing data, and knowledge of fiscal policies.

In terms of the institutional model, there are several options that could be adapted for Kosovo. Most common options adopted in other countries are: 1) Independent fiscal institution as a standalone institution, 2) parliamentary office under the Assembly, or 3) fiscal institution under the National Audit Office. Another option, not so common in other countries, is a Fiscal Council under the Ministry of Finance.

Figure 4. Potential options for Kosovo



Option 1 – Independent Fiscal Institution as a standalone institution

This option is the most widely used in European countries. One of the key advantages of this option is independence – being a standalone institution, there are greater opportunities to have independence in its assessments and there is no conflict with another organization's scope. Moreover, separation from other institutions also enables financial independence, i.e., separate resources. Furthermore, this independence allows more independent and non-partisan expert selection, and greater independent expertise.

On the other hand, a shortcoming of this option is the duration of the establishment since it is a new institution and there are more establishment procedures. In addition, there is a higher cost attached. Another shortcoming or challenge is the recruitment of qualified staff with experience in fiscal policies, which takes time and is not easy.

Option 2 – Independent Fiscal Institution under the National Audit Office

This option is less common in other countries. Although the nature of the work of these two institutions is similar, having a monitoring role, the main difference is that the IFIs work is also involved in budget planning processes, while that of the Audit Office is only involved in post-reporting processes. One of the advantages of this option would be expedited establishment, bypassing establishment procedures and utilizing the Audit Office infrastructure. This would also allow reduce administrative costs. Another advantage would be easier access to budget data, which are already owned by the NAO.

As a drawback, this option also involves the recruitment of qualified staff. Moreover, there could also be a shortcoming in any potential conflict with the NAO's scope.

Option 3 – Inclusion of the Independent Fiscal Institution under the Assembly (Office of Budget and Financial Analysis)

This option could be implemented by strengthening the Office of Budget and Financial Analysis under the Kosovo Assembly. The advantage of this option is that the establishment costs are lower since existing infrastructure is used. Moreover, access to data is easier.

This institution's key shortcoming may be its limited independence. Being part of the Assembly, it could be subject to political interference and consequently partisanship and lack of independence of fiscal experts. Another shortcoming is the limited capacity of officers which creates the need for qualified staff.

6. Conclusion and recommendations

The importance of establishing independent fiscal institutions was underscored after the 2008 financial crisis, when the need for improving fiscal policies and their monitoring was noted. In addition, the European Commission drafted directives that require Member States to establish such institutions. To date, EU countries have 32 independent fiscal institutions in 25 Member States, except Poland. Their role and functions are key to monitoring relevant public institutions and maintaining fiscal stability.

Some of the advantages of establishing such institutions are increased transparency and accountability of public institutions. In addition, they provide more accurate macroeconomic and fiscal forecasting, fiscal rule compliance, and credibility. On the other hand, some of the shortcomings and challenges of these institutions include lacking enforcement power (since their recommendations can be ignored by governments), their politicization through staff, limited access to information, and human and financial resource constraints. The institutional model of these institutions is not legally determined; therefore, states have adopted models that fit them. The most common institutional model of IFIs is the independent and standalone institution (implemented in 17 EU countries). The other model practiced in the EU countries is the IFI under the Audit Office (in three EU countries), and the third model practiced is the IFI under the Parliament (in three EU countries). While in the Balkans, independent fiscal institutions have been established in four countries. In Serbia and Bosnia and Herzegovina, Independent Fiscal Councils were established more than a decade ago. In North Macedonia and Montenegro these were established within the last year.

To date, there have not been any independent institutions dealing with fiscal analysis and monitoring in Kosovo. However, there have continuously been various budget challenges such as inconsistency of strategic plans with the medium-term budget, inconsistency of medium-term budget documents with the annual budget, budgetary and fiscal assessments of new policies (legislation), and optimistic judgments in macroeconomic forecasting. Consequently, an independent fiscal institution is needed. This analysis lists three potential options for Kosovo: 1) Fiscal Institution as a standalone institution, 2) Fiscal Institution under the National Audit Office, and 3) Fiscal Institution under the Assembly of Kosovo.

Based on this analysis, GAP Institute recommends the following:

- An independent fiscal institution should be established according to the minimum requirements set by the European Commission directives, as well as the key principles set by the OECD;
- It should be ensured that the established fiscal institution, either in a standalone setup from other institutions, or under the NAO or the Assembly, has complete independence;
- There should be fair and impartial recruitment of leadership, membership, and technical staff, who must be experts of the field;
- The institution should be included in budget processes; this should be anticipated by local legislation (e.g., included in the Law on Public Financial Management);
- In the early stages of this institution's operation, technical assistance should be hired from international institutions with relevant experience in this area.

7. Annex

Table 1. **OECD Principles for Independent Fiscal Institutions (IFIs)**

Ownership	To be effective and enduring, an Independent Fiscal Institution requires national ownership and consensus across the political spectrum. The model of this institution should be adapted to the country where it is established, and models from abroad should not be imposed.
Independence and non-partisanship	Independence and non-partisanship are two key pre-requisites for a successful independent fiscal institution. This institution should be objective and professional, and not base its analysis on political perspectives. Moreover, leadership must be selected without regard to political affiliation.
Mandate	IFIs' mandate should be clearly defined, including the general types of reports and analyses they are to produce. In addition, who may request reports and analysis, and associated timelines for their release.
Human resources	IFIs must have a budget commensurate with their mandate and human resources. The appropriations for IFIs should be comparable to those for other independent institutions.
Relationship with the legislature	Mechanisms should be put in place that require IFIs to report to the Assembly; more specifically, in the budget process of a state, there should be a sufficient period of time that allows the IFIs to submit the appropriate reports to the Assembly.
Access to information	IFIs should be allowed access to all necessary information from the Government, guaranteed by law, so that they can do their work properly.
Transparency	Transparency is one of the objectives of IFIs and should be a principle in their work. All reports and analysis must be accessible to the public.
Communications	IFIs must engage in communication with all relevant stakeholders such as public institutions, civil society, and the media.
External evaluation	IFIs should develop dedicated mechanisms for external experts to evaluate their work.

Source: Organization for Economic Co-operation and Development (2014)

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GAP Institute is a Think Tank established in October 2007 in Kosovo. GAP's main goal is to attract professionals to create an environment of professional development and research, as seen in similar institutions in Western countries. This also provides Kosovars with opportunities to research, develop and implement projects in order to advance the Kosovo society. Priority for this Institute is the mobilization of professionals to address the country's economic, political and social challenges. GAP's main goals are to fill the gaps between government and citizens, and between problems and solutions.

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The need for establishing an Independent Fiscal Institution in Kosovo

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