Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 18-Jul-2018 | Report No: PIDC158593

BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental Assessment Category	Project Name
P167597		C - Not Required (C)	Strengthening cash planning and execution
Region	Country	Date PID Prepared	Estimated Date of Approval
EUROPE AND CENTRAL ASIA	Kosovo	18-Jul-2018	
Financing Instrument	Borrower(s)	Implementing Agency	Initiation Note Review Decision
Investment Project Financing	Ministry of Finance	Minsitry of Finance	The review did authorize the preparation to continue

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	0.37
Total Financing	0.37
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing	
Counterpart Funding	0.15
Borrowing Agency	0.15
Trust Funds	0.22
Strengthening Accountability and the Fiduciary Environment	0.22

B. Introduction and Context

Country Context

Kosovo, is Europe's youngest but also one of Europe's poorest countries. With its new statehood and the average age of its population (26 years) Kosovo is the youngest country on the continent. But almost a third of its 1.8 million people live below the national poverty line.

With policies anchored in its overarching political objective of joining the European Union (EU), Kosovo has made progress in promoting growth, reducing poverty, and improving its business climate. Between 2008 and 2016 gross domestic product (GDP) per capita grew an average of 2.8 percent annually in real terms and reached USD 3890. From 2012 to 2015, the poverty rate at the 2011 PPP US$3.2 per day fell from 5.7 in 2012 to 2.9 percent in 2015. Ranked at 113th in the Doing Business Report in 2010, by 2018 the country had moved to 40th, the third top-performer in the lower middle-income category. Yet, serious barriers to greater economic growth remain. These include a narrow production base, persistently limited improvement of competitiveness and productivity of the private sector, over reliance on an economic growth model of domestic consumption fed by remittances and donor investments, and existing disparities within the population along geography, ethnicity, and gender lines. Kosovo is also prone to natural hazards some of which will be exacerbated by a changing climate--including floods, landslides, droughts, earthquakes, and wildfires—that threaten the economy, fiscal balances and well-being of vulnerable populations. Kosovo has also failed to dent its high levels of female (31.7%) and youth unemployment (50.5% for 15-24-year-olds), with the country scoring particularly low on labor dimensions of gender equality, including from a regional perspective.

Despite the progress achieved so far some of Kosovo's institutions are still weak and under developed. Building strong institutions is a long-term endeavor which requires continuous work and support. Developing the structures, legal frameworks as well as the processes and capacity within government institutions is an underlying challenge that cuts across numerous sectors and that needs to be addressed by government, civil society, private sector and international donors. The Government of Kosovo's National Development Strategy (NDS) for 2016-2021 outlines governance and rule of law as priority areas and sets specific goals and concrete actions for (among other things) enhancing customer focused service delivery and reducing administrative burdens for citizens and businesses.

The Government of Kosovo's commitments to public finance and public-sector management (PSM) reform agenda are well documented. The Public Finance Management (PFM) Strategy 2016-20 stresses the importance of efficient and effective PFM as a key enabling factor for delivery of public services to citizens. The PFM Strategy is well informed by diagnostic analyses, produced by donors based on internationally recognized diagnostic frameworks, including a PFM performance assessment based on the Public Expenditure and Financial Accountability (PEFA) framework, Public Investment Management (PIM) diagnostics, and Tax Administration Diagnostic Assessment Tool. Other sources that informed the Strategy preparation include OECD SIGMA reports and reports of the Kosovo national audit office. While Kosovo significantly benefits from variety of donor-funded assistance in PFM, it is fragmented and concentrated in policy work, budget support, or as pilot programs with limited coverage.

Sectoral and Institutional Context

Kosovo has participated in a number of detailed reviews and diagnostics of its PFM system, which have plotted the significant progress Kosovo has made. The key strengths recognized include a sound legal framework, a centralized and integrated Treasury system, and an increasingly effective external audit office. The strengths are offset by limited professional capacities and gaps in implementation. The Government has received significant assistance from several donors in PFM. However, the donors supporting the MoF view the results of the prior assistance as mixed and highlight significant remaining weaknesses in staff capacity and continuing dependence on external advisors.

Within reforms foreseen in Public Administration Reform (PAR), Kosovo aims at ensuring a modern PFM system which is in harmony with best international practices. Kosovo's PFM Strategy 2016-20 is a very comprehensive document providing multiple opportunities for the Bank's engagement in support the reform agenda. The Strategy defines 12 priority areas organized in 4 pillars. Pillar 1 focuses on strengthening aggregate fiscal discipline and addresses weaknesses in macroeconomic forecasting, commitment controls and revenue collection. Pillar 2 focuses on strengthening budget allocation efficiency and covers the development of a medium-term expenditure framework, strengthening of expenditure controls and improving quality of information on public investments. Pillar 3 targets operational efficiency including issues in public procurement, internal and external audit. Pillar 4 covers cross-cutting issues, including strengthening of Information and Communication Technology (ICT) systems, budget transparency and staff capacity.

The Treasury Department (TD) has been looking actively for resources to strengthen Kosovo's budget execution performance through improvements and modernization in cash flow planning and budget allocations. Cash management is the function of TD[1], which controls all government receipts and payments through the treasury single account (TSA) system. PEFA and SIGMA observe that the main aspects of cash management including the TSA, cash forecasting and maintaining budget allocation limits function well[2], while acknowledging significant pressure of year end expenditure, persistent occurrence of arrears, and limitations posed by the fragmentation of the systems. Monitoring and stock of arrears and commitment controls are two areas that have been rated poorly in those assessments[3].

Cash allocation data is entered and maintained in the treasury information system (KFMIS), however the existing system's functionality is not sufficient to support efficient cash management. Cash planning is based on the forecasts of revenues and other financial resources and annual cash plans submitted[4] by each budgetary organization (BO) through a simple Cash Plan database package[5] that is not integrated with the treasury system. The TD prepares monthly forecasts of revenues and other financial resources, and finally combines with BO's forecasts of monthly planned expenditure commitments, associated payments, and own-source revenues, which have been subject to previous scrutiny. The Treasury then informs all BOs on the planned allocation of funds to them during the year and registers these in KFMIS. Cash flow plans are prepared annually by BOs, which the Treasury uses as a basis for issuing quarterly spending allocations[6]. Commitments (purchase orders/contracts) made by BOs are recorded against these allocations in the Treasury system. In practice, BOs update their cash flow plans quarterly, however there is little evidence that TD is using these updates to determine the subsequent allocations. There are no defined procedures and methods on the preparation of BO's cashflow forecast for own revenues and expenditures. Annual procurement plans are prepared, but not always aligned with cash flow plans. As a result of weak capacities, BOs do often not prepare upfront forecasts for own revenues and respective expenditure commitments, which are only allocated when received and identified in TSA. These deficiencies pose challenges to the allocation management and update of cash flow forecasts and consequently contribute to unpredictable allocations, yearend expenditure pressure and to payment arrears.

The persistent occurrence of payment arrears for capital expenditure has become a serious concern. The payment arrears reported amount to 4.2%[7] of capital expenditure by the end of 2017 compared to 3.5% in 2016, while by the end of 2015 arrears measured 1.1% of capital spending. Weak planning capacity coupled with deficiencies in commitment controls, and inadequate commitment data available, as a result, are listed as contributing factors.

Since 2016, the government has so far undertaken several steps to address the weak expenditure management by:

(i) supplementing and aligning primary and secondary legislation related to budgeting process, procurement and spending. However, there is still significant scope for improvements. A new PFIC law is awaiting approval, and Ministry of Finance will draft related sublegal acts and revise financial rule on reporting payment arrears.

(ii) KFMIS's commitment controls functionality is being enhanced to allow for recording of multi-year commitments and payment schedule, and attachment of scanned evidence for financial transactions.

(iii) In addition, training of financial officers across central and local government on risk management and prevention of payment arrears has continued in 2017 and 2018.

The proposed capacity strengthening, modernization and streamlining of cash planning and allocation management hand in hand with ongoing actions taken by the government to address deficiencies in commitment control would eventually improve the predictability of allocations, ensuring timely availability of resources and reduced arrears occurrence.

The Government has ambitious plans to strengthen and integrate its PFM ICT systems and some preparatory work has been done. Kosovo currently operates multiple information systems for PFM which are poorly linked with each other and developed over the years on different software platforms with support of different donor funded projects. The core systems operated by the MoF include: Kosovo Financial Management Information System (KFMIS) based on Freebalance software and operated by the Treasury Department and two separate custom-built systems for budget preparation and public investment management operated by the MoF Budget Department. The treasury system, by itself, does not include all necessary functions. As referred above, the cash flow planning is supported though a separate simple Cash Plan database package. The fragmentation of the systems affects the quality and timeliness of information available for decision making as there is a lack of uniform, credible and timely reporting and analysis. In addition, it creates excessive staff workload and risks of data errors.

[1] The Treasury Department within the Ministry of Finance is responsible for the payment of expenditures, budget execution monitoring and cash management. It monitors revenues and expenditures, makes cash forecasts, manages debt, and ensures the availability of funds for the execution of the approved budget.

[2] PEFA 2015 PI-16 and PI 17 scored A.

[3] PEFA 2015 PI-4 and PI-20 scored C+.

[4] within 30 days of the adoption of the Law on Budget.

[5] acquired in 2011

[6] MOF's Regulation (Administrative Directive) issued at the beginning of the new financial year on the allocation of funds - NR. 03/2014 - defines the process for allocation of funds to BOs according to Articles 34, 35 and 36 of LPFMA and the annual budget laws.

[7] PFM strategy monitoring report 2017

Relationship to CPF

The Kosovo Government's commitment to Public Finance Management reform is documented in the PFM Strategy 2016-20 that stresses the importance of efficient and effective public finance management as a key enabling factor for delivery of public services to citizens. The Strategy document dated June 2016 was developed with assistance from the Organization for Economic Co-operation and Development's (OECD) Support for Improvement in Governance and Management (SIGMA) program as a part of Kosovo's cooperation with the European Union (EU). The Strategy implementation plan for 2016-2018 is in place and is monitored by the EU in the framework of its budget support programs.

Improving sustainability of public finances and PSM in Kosovo is one of the objectives[1] under the on-going Kosovo Country Partnership Framework 2017 -2021(CPF). Further, PFM is recognized as an enabling factor to preserve fiscal discipline and promote efficiency and prioritization of public spending. Within this objective, the proposed activity supports the Kosovo Government in strengthening capacity and streamlining the process of cash planning and allocations management, and as a result to improve the transparency of allocations and predictability and control in budget execution.

The project activities align with Pillar II of the SAFE framework.

[1] Objective 6, Focus area 2 on Strengthening Public Service Delivery and Macro-Fiscal Management

C. Project Development Objective(s)

Proposed Development Objective(s)

The PDO is to improve treasury management and expenditure control through modernization of the cash planning and allocations management.

Key Results

The project key result would be a streamlined the cash management function. This would be accomplished through:

1. implementing a modern IT solution for cash planning and budget allocations, to reduce system fragmentation and streamline the process;
2. strengthening the legal and regulatory framework for cash planning and management by developing new regulations on budget allocation and integrated cash management based on the best practices in the region;
3. developing technical capacities of public finance officers in MoF and 120 budgetary institutions capacities to ensure proper implementation of cash and allocation management by target trainings and a training of trainers (ToT) approach.

Over the medium term, the project is expected to improve the predictability and control in budget execution budget reliability and transparency of transfers, and related PEFA indicators (PI-2, PI-3, PI-7, PI-21, PI-22 inter alia[1]). These areas have received mixed scores in the 2015 PEFA assessment, using the 2011 version of PEFA framework, with stock and monitoring of expenditure payment arrears rated poorly, and they may be further challenged in future assessments by the improved PEFA methodology. A PEFA assessment using the 2016 methodology will be conducted in 2018-2019 with the aim of providing an up-to-date diagnostic of the national-level public financial management (PFM) performance and changes that have taken place over the 3 years. The assessment will provide input to the mid-term review of the PFM Reform strategy, and action plan 2019-2020, as well as serve as new baseline of the PFM system performance in the country.

These improvements over the longer term should impact the quality and efficiency of public spending.

[1] 2016 PEFA Framework

D. Preliminary Description

Activities/Components

The project aims to support cash management reform actions presented in the Government’s PFM Reform Program 2016-2020. The proposed project is focused on the following areas: (i) strengthening of the legal and regulatory framework for cash planning and management; (ii) implementation of an effective and efficient ICT integrated module for cash planning in the treasury system and linking it with two existing modules for budget appropriations and budget allocations; and (iii) capacity building of finance officers (in MoF and other Budgetary Institutions). Some foundation for this activity was laid by IMF advice and GIZ TA aimed at linking multiyear budgeting with multiyear commitments and budget execution in the treasury system.

The project will be implemented through two components as follows.

Component 1: Strengthening of legal and regulatory framework for cash planning and management. This project component consists of targeted technical assistance and capacity building activities as follows:

1. An initial assessment of current practice applied in Kosovo for cash and allocations management including a review of current legal framework and IT infrastructure used;
2. identification of countries that have similar budget cycle and infrastructure and proven records of sound practices in cash and allocation management;
3. development of new legal and regulatory framework and technical specification for the IT solution to be used; and
4. delivery of several trainings from consultants and trainers from Treasury to all 120 budget organizations on the new regulatory framework.

This component will be delivered through a combination of study visits, engaging consultants, training and other knowledge sharing events. The training activity will be combined with training on the use of the new proposed integrated module in the following component, and may be based on a ToT approach.

Component 2: Implement an integrated module within KFMIS for cash planning and budget allocations. This Project component will support the development and implementation a specific module within KFMIS and interlink it with two existing modules for budget appropriations and budget allocations. Such module will be used by all users (around 2000) responsible for cash flow planning and will enable the Treasury to generate consolidated cash flow forecasts and at the same time increase control of budget allocations within KFMIS. The module will be developed according to technical specifications that will be prepared as an outcome of Component 1. It is envisaged that this activity will be procured directly (single source) from KFMIS's service provider. The activity envisages both the technical roll out of the module and focused training activities provided to budget organizations on the use of the module.

Project Cost and Financing. The activity will be financed by SAFE Trust Fund. In addition, the recipient organization shall provide co-financing for the investment under component 2, as well as in-kind contributions for workshops, training, seminars as well as staff time spent on this project. The estimated project cost and financing is as follows:

Project Components	Project cost	Grant Financing	% Financing

Component 1: Strengthening of legal and regulatory framework for cash planning and management BETF (RETF)	0.10	0.10	100%
Component 2: Implement an integrated module within KFMIS for cash planning and budget allocations. (RETF)	0.25	0.10	Up to 50%
Project supervision (BETF)	0.02	0.02	
Total Project Costs	0.37	0.22	
Recipient[1]	0.15	0.00	
Total Financing Required	0.22	0.22	
BETF	0.20	0.20	
RETF	0.02	0.02	

[1] in kind, such as office space to the consultants, time of beneficiaries staff, etc

SAFEGUARDS

E. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	

Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

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