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# **Public financial management responses to coronavirus (COVID-19) in the Western Balkans: budget execution, internal control and external audit**

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\* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo’s declaration of independence.

## **Executive Summary**

### **Budget Execution**

The Western Balkan governments responded to the crisis in the same way that their counterparts in the EU and around the globe responded. They made it a priority to ensure the delivery of emergency health services and implementing new fiscal measures on both the revenue and expenditure sides of the budget to assist businesses and employees that were experiencing difficulties. Although these measures will result in larger budget deficits at a time when economic activity is shrinking, it is clear that the governments took the appropriate course of action.

The International Monetary Fund (IMF) has warned about the fiscal risks associated with the pandemic. It has stated that these risks could arise from revenue inflow disruptions as businesses and households face financial stress, and that such disruptions could lead to an unanticipated increase in public debt or the emergence of expenditure arrears. It has also warned that the unanticipated or unknown costs of fiscal measures may present a significant fiscal risk to government finances and that unplanned expenditures may lead to the emergence of expenditure arrears.

In taking actions to mitigate the impact of the pandemic, it is important therefore that Western Balkan governments should respect a number of key points, including that

- the measures were in compliance with budgetary legislation
- the risks associated with these response policies were assessed and managed
- the costs were transparent and frequently monitored
- the public financial management (PFM) systems were maintained as fully operational even with the challenges of working from home or key staff being absent due to illness.

While the outcomes of the policy response has been to increase budget deficits and public debt to GDP ratios, it appears that in all cases in the region the policy responses were fully in accordance with budgetary legislation (although amendments had to be approved by parliaments) and were fully transparent. While certain *individual* measures may have been criticised by analysts as unnecessary, inefficient or subject to fraud, similar observations and debates are taking place in many EU countries and the fact that these debates are taking place suggests that there is a certain amount of transparency surrounding these measures.

### **Public Internal Financial Control**

There was limited public information about changes implemented in public internal financial control as a result of the coronavirus (COVID-19). Based on the information available, there was little change across the region to the internal control arrangements. Generally, no specific measures have been taken regarding the delegation of authority or to reduce internal controls. However, the declaration of a state of emergency, and the increased use of emergency procurement procedures have been identified as potentially diminishing controls.

The situation around internal control does not appear to diverge significantly from the information available related to the EU, where internal controls seem to continue to operate as before the crisis, especially where electronic systems are in place.

There are likely to be increased risks related to the timely disbursement of funds related to the crisis, as the balance between controls and efficiency may require some calculated risks to be taken to ensure efficient disbursement. The biggest challenge is likely to be beneficiary authentication and fraud prevention, as well higher error rates in applications for and disbursement of funds. Wherever *ex-ante* controls are reduced, these need to be replaced with clear, explicit, and credible expectations of *ex-post* controls.

With respect to internal audit there were generally no specific changes identified in its role or no public information available across the region. In a situation such as the COVID-19 crisis, internal audit can provide significant value, compensating for any *ex-ante* control modifications or use of emergency procedures by temporarily reducing its systems reviews etc. and conducting *ex-post* control of transactions with little delay.

In the absence of a comprehensive assessment, it is not possible to ascertain how the functioning of internal control mechanisms has been affected.

### **External Audit**

The Supreme Audit Institutions (SAIs) in the region are considering the audit of COVID-19 and the impact on their work, but so far this has generally not resulted in any major changes in their work. In most cases they have continued to deliver their approved work plans for 2020 and have indicated that they will consider COVID-19 specific audits in their planning for 2021.

Across the EU, SAIs have been taking various approaches but it is clear that a number have already been proactive in monitoring the costs of COVID-19 and also undertaking specific audits on COVID-19 related expenditures to ensure that their work is relevant, timely and has impact.

The risk for the SAIs in the Enlargement region of taking a prescriptive approach to fulfilling their 2020 work programmes is that their work will be seen as not being particularly relevant in the current environment, and that by the time COVID-19 related audits are undertaken in 2021 they will be not be as relevant, and any recommendations to protect public funds will be too late to have any significant impact.

## **Albania**

### **Introduction/Summary**

The fiscal measures introduced in Albania were a mixture of on-budget and off-budget measures. The direct measures come to about 0.9% of GDP and are focused on support to businesses and to employees who have been laid off due to the pandemic, as well as boosting funding for the health sector. The off-budget measures are generally in the form of loan guarantees and loans for working capital, the value of which is estimated to be 1.4% of GDP. While the latter has no immediate impact on the budget, it has the potential to make an impact as guarantees are called in and so these measures should be closely monitored. There is no evidence to demonstrate that internal control procedures have been systematically strengthened.

The SAI included procedures to audit expenditures related to COVID-19 in their audits carried out in 2020, in particular in the ministries which incurred significant COVID-19 expenditure. Their main challenge was to complete the relevant work in difficult circumstances before the statutory reporting deadline.

### **Budget Execution**

#### **In budget revisions, were the national laws complied with and were amended budget proposals and finally adopted amendments published?**

The budget law was amended, and amendments were published. In March 2020, the Government publicly announced the budgetary plan in response to the COVID-19 pandemic impact. This plan entered into force in April with the Act No. 6, dated 21.03.2020 "On some amendments and additions to Law No. 88/2019, On the Budget of 2020", and the Act No. 15, dated, 15.04.2020, "On some amendments to Law No. 88/2019, On the Budget of 2020".

These amendments are available at:

- <https://financa.gov.al/wp-content/uploads/2020/03/Akti-Normativ.pdf>

- <https://qbz.gov.al/eli/akt-normativ/2020/04/15/15>

There is no information available on whether the amendment proposals were published beforehand.

#### **Is all crisis-related expenditure on-budget?**

The government has adopted two support packages for people and businesses affected by COVID-19 and these packages have been enacted with the budget amendments mentioned above.

The main objective of the first support package was to mitigate income losses for all those affected by the COVID-19 crisis and preserve the majority of jobs.

The second package extended support to all workers in companies that were directly affected by business closure, recently unemployed, workers in the tourism sector, and all workers in companies with an annual turnover of less than ALL 14 million facing reduced economic activity due to the COVID-19 crisis.

#### **Is the revised budget realistic?**

Based on the Ministry's forecasts and estimates that led to the budget review, there will be a drop in public revenue of ALL 20 billion. The annual real economic growth rate in the country will be at 2%, compared to the original optimistic estimate of 4.1%. The budget deficit will amount to ALL 68.7 billion, i.e., it will almost double, at 3.9% of GDP compared to the originally planned 2.2%.

It is not possible to ascertain if these revenue shortfalls will lead to an impact on arrears. While the risk probably has increased, the Albanian authorities have stated that they are committed to eliminating arrears. This commitment should be maintained, as allowing arrears to accumulate in an economic recession will further damage businesses and also reduce trust in government.

Neither is it possible to estimate the impact of tax relief for small business. While the immediate cost in tax foregone may be significant, the longer term costs in the form of failed businesses may be greater. There may be a risk that maintaining this relief beyond the duration of the pandemic will have a negative impact on public finances, although this is not certain. Any cost to the Treasury may be more than offset by the boost that these measures provide to small business. It would be prudent, however, to review the impact of these measures regularly in order to determine if the desired impact is reflected in reality and if the measures are still necessary and effective.

**What is the impact of the revenue shortfalls on the implementation of the capital budget, and fiscal obligations to PPPs? How is re-prioritisation of the project pipeline managed?**

There is no clear information on capital budget and public-private partnerships (PPPs).

However, media outlets report on a controversial PPP initiative for building a new National Theatre in Tirana. Recently, the Government abruptly announced its intention to go on with the project and to demolish the existing theatre. Among the questions raised was whether this should be a priority in the midst of the COVID-19 crisis.

Based on the PMO's website, infrastructure projects that are part of Albania's post-disaster/earthquake reconstruction programme are still ongoing. Although it cannot be determined for certain in the absence of a detailed assessment, it is likely that the costs of these projects are reflected in the medium term budget framework.

**Is monitoring of fiscal risks strengthened to ensure that liquidity is maintained?**

The Ministry of Finance and Economy (MOFE) has been working to strengthen its fiscal monitoring capacities with the support of the IMF, even before the pandemic. They are particularly focusing on credit guarantees to state owned enterprises (SOEs). However, credit guarantees are not limited to SOEs; they are also available to privately owned businesses. As in many EU countries, anecdotal evidence has been provided to suggest that much of this support was not necessary<sup>1</sup>. Only a detailed examination of the transactions can prove this one way or the other but it seems reasonable for the Albanian authorities to ensure that any such review should be conducted by the Albanian Supreme Audit Institution.

**Internal Control**

**Were/are internal controls reduced or authority delegated to speed-up decision-making/disbursement processes?**

During the COVID-19 pandemic, there were no specific measures taken regarding the delegation of authority. However, measures have been taken to ensure the normal functioning of internal control systems, even though most of the public administration staff has been working from home. Several instructions have been provided to public units in order to maintain control over public expenditures. As such, the Principal Authorising Officer (the Secretary General of the MoFE) has instructed Authorising Officers to report weekly on priority expenditures in order to maintain normal functioning of institutions and the continuity of public services.

**If yes to the preceding question, was the role of internal audit strengthened?**

The role of internal audit has not changed. Neither has it been reduced, although the requirement to work from home and the impact of illness will have affected internal audit as much as any other area of the administration.

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<sup>1</sup> <https://balkaninsight.com/2020/07/15/albanias-moneyed-men-reap-covid-relief-despite-government-vow/>.

## External Audit

### **Is the SAI anticipating and preparing for any special audits on emergency spending as a result of the COVID-19 crisis, or have they actually started some work?**

The SAI planned to undertake audits in ministries where significant expenditures related to COVID-19 have occurred, including the Ministry of Health, the Ministry of Internal Affairs and the Ministry of Defence. Audit procedures have been approved by the SAI Chairman to examine the expenditures incurred as a result of the COVID-19 situation. The fieldwork was planned to be completed for these audits in the middle to end of July 2020. At present nothing seems to be publicly available on the outcome of these audits. In all other audits that are planned to be conducted during 2020, the teams have also been directed to audit COVID-19 expenditures.

### **Does the SAI have the necessary capacity and resources to undertake such audits? If, not what are the key challenges they face?**

The audit capacity and resources were determined during the normal planning process as the work related to COVID-19 is being undertaken as part of the audits that were already part of the annual audit plan. However, the relevant audit teams have been strengthened, with more experienced auditors focused on auditing this specific topic. External experts are also to be involved where required.

The main challenge may be time, given the constitutional obligation that the SAI has to prepare and report the Budget Execution Report to the Parliament in October 2020. Due to the SAI mainly working on-line and employees in the ministries also working partly on-line, there are challenges in conducting meetings and interviews for audits, creating risks to the completion of the audits in line with the timelines.

## Sources

Albanian Supreme Audit Institution

Local NGO

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## ***Bosnia and Herzegovina***

### **Introduction/Summary**

The fiscal measures introduced in Bosnia and Herzegovina (BiH) were a mixture of on-budget and off-budget measures. The direct measures come to about 3.4% of GDP and are focused on the purchase of medical equipment and payments to front line medical professionals (2.0% of GDP) and support to business and to employees who have been laid off due to the pandemic (1.4% of GDP). The off-budget measures mainly include the establishment of two guarantee funds to maintain and improve the liquidity of companies. The contingent liability cost of these is estimated to be 2.3% of GDP. While the latter has no immediate impact on the budget, it has the potential to make an impact as guarantees are called in and so these measures should be closely monitored.

There is no evidence to demonstrate that internal control procedures have been systematically changed or strengthened.

The Audit Offices have continued to deliver their approved work plans for 2020 and so far have not undertaken any specific, COVID-19 related audits. They have indicated that COVID-19 will be specifically addressed in the audit planning for 2021. However, issues with respect to their capacity have been highlighted, particularly due to the level of mandatory audits they conduct.

### **Budget Execution**

**In budget revisions, were the national laws complied with and were amended budget proposals and finally adopted amendments published?**

According to the data available, budget amendments were made at the entity level only. At the state level, the law on financing institutions of BiH has not been adopted for 2020 and the financing is done through decisions on temporary financing, for the period January - March, and April - June, available at: <https://bit.ly/3gsvMBv>. This does not mean that the State Institutions failed to take any fiscal response as a result of the crisis. It merely means that without an approved budget there can be no amended budget, since there was none to amend. Furthermore, the State Ministry of Finance and Treasury opened a special account for donations to be made against COVID-19. However, documentation suggests that the response was at the Entity level<sup>2</sup>. This is to be expected because if one looks at the responsibilities of the State Council of Ministers we will see that Health, Social Affairs and Education are all at Entity level.

#### ***The Federation of Bosnia and Herzegovina (FBiH):***

The Government of the FBiH adopted, in an urgent procedure, the proposal of the Decision on 2020 FBiH Budget Amendments, and the Parliament passed the Law on Amendments on FBiH 2020 Budget Execution, due to the pandemic outbreak. There has been a planned increase in expenditure of around EUR 250 million as part of the Stabilisation Fund, to suppress the negative impact of the pandemic. The adopted amendments, as well as the proposals of these acts, were published on the Parliament website.

The decision (both the proposal and the final) is published at:

<https://parlamentfbih.gov.ba/v2/bs/propis.php?id=517>

The Law on Amendments (both the proposal and the final) is published at:

<https://parlamentfbih.gov.ba/v2/bs/propis.php?id=516>

#### ***The Republika Srpska (RS):***

Budget amendments were made through an urgent procedure. This meant that amendments were introduced by a Government regulation for which the legal power had been confirmed by the Parliament in May 2020, together with a set of other regulations on COVID-19. The Law on Budget Execution for 2020 was also amended in an urgent procedure. The budget was boosted by an additional EUR 94 million, as a

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<sup>2</sup> <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#B>.



way to counter the negative impacts of the pandemic. However, documents showing proposed and adopted budgetary amendments are not publicly available at the moment.

### **Is all crisis-related expenditure on-budget?**

As stated above, off-budget measures have been initiated but to date there is no information as whether there has been an impact on the budget.

For the state level, the Ministry of Finance and Treasury of BiH has opened special accounts as part of the single treasury account, for financial assistance in fighting COVID-19 consequences, and has published information on paid donations. The Ministry of Treasury and Finance does not specify in its announcement for what purpose these donations are collected, generally stating “financial assistance in the fight against the COVID-19”. It does state, however, that this dedicated sub-account, within the BiH Treasury Single Account, was opened at the request of the Ministry of Security<sup>3</sup>. That Ministry provides details on received donations, including the amount, date, donor and currency, here:

<http://donacije.msb.gov.ba/index.php?r=donations%2Findex>

#### ***FBIH:***

According to the Economic Stabilisation Programme, it appears that all measures related to the economic recovery were covered by the budget.

#### ***Republika Srpska:***

Numerous measures were imposed in order to support the domestic economy, as well as the daily life of the citizens. These measures were enforced through several bylaws that were later confirmed by the National Assembly. These expenditures are not part of the Budget as they came from the Solidarity Fund for the Reconstruction of Serbia established in 2014 under a Board of Management. They would probably be considered as part of the Budget under European System of Accounts (ESA) conventions as the Fund seems to be controlled by government and is non-market.

On 26 March 2020, the Government of RS announced that:

- Funds raised for the Solidarity Fund from voluntary payments of public sector employees should be used solely to assist employees in the real sectors affected by extraordinary measures to contain COVID-19;
- The Government would pay taxes and social security contributions to employees of entities directly affected by these decisions (e.g. catering, retail, small entrepreneurs) under the condition that their employers pay net salary;
- It would actively work on establishing a Fund for economic aid, which became operational in May; this was the Compensation Fund, which was established by the decree published in the Official Gazette 46/20, 2020.

### **Is the revised budget realistic?**

#### ***FBIH:***

Budget revisions under different scenarios were examined to estimate their potential outcomes. It is planned each measure will be supported by additional amendments concerning taxes and incomes. It remains unclear whether measures related to international loans, and particularly to strengthening the health sector, are realistic.

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<sup>3</sup> [https://www.mft.gov.ba/bos/index.php?option=com\\_content&view=article&id=1021:otvoren-namjenski-podracun-za-pomoc-u-borbi-protiv-virusa-covid-192&catid=34:vijesti&Itemid=162](https://www.mft.gov.ba/bos/index.php?option=com_content&view=article&id=1021:otvoren-namjenski-podracun-za-pomoc-u-borbi-protiv-virusa-covid-192&catid=34:vijesti&Itemid=162).

**Republika Srpska:**

Prescribed measures for supporting the domestic economy are not clear enough, in particular concerning the additional funds required to finance them. It appears that there is an intention to take up loans from the World Bank and the International Bank for Reconstruction and Development.

**What is the impact of the revenue shortfalls on the implementation of the capital budget, and fiscal obligations to PPPs? How is re-prioritisation of the project pipeline managed?**

**FBIH:**

Attention was given to continuing the project aimed to explore the potential of extracting oil and gas in Bosnia and Herzegovina, as well as to the infrastructure project dealing with the railroad system.

**Republika Srpska:**

No information was available on challenges to the capital budget implementation, or any particular capital project. However, numerous measures aimed at making the fiscal system flexible were adopted through a series of bylaws. A series of bylaws (decrees) were introduced to alleviate the problems faced by businesses and their employees. It would appear these do not include anything concerning capital investment.

**Is monitoring of fiscal risks strengthened to ensure that liquidity is maintained?**

No additional monitoring mechanism was introduced or strengthened, based on the information available.

**Internal Control**

**Were/are internal controls reduced or authority delegated to speed-up decision-making/disbursement processes?**

At the level of the State Institutions, there were no changes to the internal control system in terms of shortened procedures or delegation of authority as a direct response to COVID-19 crisis. There were no special public procurement procedures or other activities related to the functioning of health and social protection, private sector support, etc. as these are at the Entity level. We understand that the BiH Institutions internal control system will continue in accordance with the document entitled *BiH Institutions Internal Financial Control System Development Strategy 2020-2025* adopted by the Council of Ministers of BiH on 18 June 2020.

**FBIH:**

There is no information to suggest that there will be a reduction in internal controls. The Audit Office of FBIH, however, issued a statement in light of the COVID-19 pandemic and the state of emergency, highlighting the importance of internal control systems to prevent risks of corruption.

**Republika Srpska:**

There have been no new procedures introduced and all the processes of internal controls have been going on as usual.

**If yes to the preceding question, was the role of internal audit strengthened?**

**FBIH:**

There is no information available. This is probably because the role of internal audit is unchanged. Had a change been introduced, it would have been publicised.

**Republika Srpska:**

The role of internal audit in this period has been unchanged.

## **External Audit**

**Is the SAI anticipating and preparing for any special audits on emergency spending as a result of the COVID-19 crisis, or have they actually started some work?**

**Does the SAI have the necessary capacity and resources to undertake such audits? If, not what are the key challenges they face?**

### ***BIH:***

The SAI has been fully engaged in the implementation of its 2020 audit plan during the year. However, the regular annual financial audits of auditees' operations in 2020 commenced in October 2020, and due attention will be paid in these to the activities and measures implemented as a result of the COVID-19 pandemic, especially from the aspect of public procurement procedures conducted. In addition, they plan to address the COVID-19 measures through the audit of the consolidated 2020 budget execution by looking at the expenditures incurred and related to the pandemic, regulations and procedures adopted during the pandemic, as well their application in practice.

In 2016 they published a performance audit report on crisis management at the level of BiH institutions, so follow-up on that audit and implementation of the recommendations from this report will be considered a priority in the next performance audit cycle. Any other COVID-19 related work will be considered during the development of the 2021 audit plan, which is ongoing.

However, due to crisis management being operationally carried out mainly by lower levels of government whose operations are subject to audit by sub-national audit offices, it is challenging for the State SAI in conducting a potential performance audit to address the COVID-19 related interventions. A potentially more optimal solution would be parallel or joint audits to be conducted by all the audit offices in BiH, for which an agreement must be reached at the level of the Co-ordination Board.

The SAI's capacities have been fully allocated to the implementation of legally mandatory audits and its 2020 audit plan, and work on COVID-19 would have required adjustment or amendment of the adopted work plan or engagement of additional resources. The key challenge is certainly the number of mandatory annual financial audits of all BiH institutions and lack of possibility to conduct real-time audits, although, in the SAI's opinion, conducting such audits can be sensitive, both in terms of their adequacy and also in terms of the independence of public sector audit.

### ***FBIH:***

The SAI has continued to complete the audits in accordance with its 2020 annual audit plan. They are currently in the process of finalising the audit plan for 2021, and as part of this process, are looking at sectors and auditees in the Federation that have received significant COVID-19 related assistance and were involved in related public procurements.

Due to the lack of transparency in available data regarding the spending of COVID-19 related funds, they have decided to conduct a performance audit on this topic, and are currently in the pre-study phase gathering information.

As for necessary capacity, they have indicated they have sufficient capacity to cover COVID-19 as part of their financial/compliance audits, as well as performance audit.

### ***Republika Srpska:***

The SAI have continued to complete the audits in accordance with its 2020 annual audit plan. They are currently starting the process of preparing the audit plan for 2021. They have indicated that they will consider COVID-19 in their planning but that they have resource constraints given the level of mandatory audits they have. They have indicated that they think they will include some specific COVID-19 related work in their audit of the annual financial audit of the Ministry of Health at least.

## Sources

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## **Kosovo**

### **Introduction/Summary**

The fiscal measures introduced in Kosovo were a mixture of on-budget and off-budget measures. The direct measures come to about 2.2% of GDP and are focused on support to business and to employees who have been laid off due to the pandemic, as well as boosting funding for the health sector. The off-budget measures are generally in the form of interest free lending to SOEs until the end of 2020 and a new credit guarantee fund for micro-enterprises and the self employed. This is estimated at 0.5% of GDP. While the latter has no immediate impact on the budget, it has the potential to make an impact as guarantees are called in and so these measures should be closely monitored.

There is no evidence to demonstrate that internal control procedures have been systematically strengthened. It must also be noted that it appears that over EUR 2 million has been embezzled from the national budget by an unknown official from the MoF. The full facts have yet to emerge but the embezzlement was announced by the Minister of Finance on 22 October.

The SAI plans to audit emergency spending as part of the regular financial audits in 2021. They also plan to conduct a performance audit to assess the management of measures taken by the Government against COVID-19. However they may require additional capacity to conduct this work.

### **Budget Execution**

**In budget revisions, were the national laws complied with and were amended budget proposals and finally adopted amendments published?**

The Kosovo Assembly passed the Law on Kosovo Budget for 2020 in mid-March, which stipulates 4.2% growth, based on the estimates prior to the COVID-19 outbreak. Draft proposal and adopted budget available at: <https://mf.rks-gov.net/page.aspx?id=2,16>

Subsequently, Kosovo's Government approved the emergency fiscal package on 30 March, aiming to assist companies, ensure minimum salaries and continued operation of businesses, as well as to provide additional financial assistance to the poorest. On 18 May, the government allocated an additional fund to facilitate the implementation of the emergency support package. The decision on the emergency fiscal package, is available at: <https://mf.rks-gov.net/Page.aspx?id=2,166>

The budget revision process is still ongoing. In June, the new Government approved and sent a revised budget draft to the Parliament, but the latter has not started the reviewing process yet. The amended budget proposal is available here: <http://www.kuvendikosoves.org/eng/projektligjet-dhe-ligjet/draftlawopen/?draftlaw=197>

**Is all crisis-related expenditure on-budget?**

The initial measures that have been implemented so far as part of the fiscal emergency package were all on-budget, i.e. the government rearranged the budget appropriations of budgetary users which were underspending, due to the COVID-19 pandemic. The contingency provisions may eventually impact on the Budget but this has not happened so far.

According to the PMO's press statement, budget amendments for 2020 address all the challenges posed by the pandemic, taking into account the necessity to implement the governmental program.

**Is the revised budget realistic?**

The first Law on Budget 2020 stipulates revenues to the amount of EUR 2.2 billion, expenditures to the amount of EUR 2.37 billion and projected a deficit 2.0% of GDP.

Under the draft budget approved by the government in June, Kosovo is expecting revenues of EUR 1.79 billion, compared with EUR 2.2 billion planned initially, and expenditures are projected at EUR 2.6 billion, compared with EUR 2.37 billion. Growth for 2020 is projected to be minus 3%, and the budget deficit is expected to be 6.5%.

Kosovo entered the COVID-19 crisis with a very low debt to GDP ratio, less than 20%; and the authorities consider that the increased debt will not negatively affect fiscal stability.

As for the measures that the Government plans to take as part of the economic recovery plan based on the draft law amendments, there will be a significant increase in financing from loans through external and internal sources. This should create room for its implementation.

**What is the impact of the revenue shortfalls on the implementation of the capital budget, and fiscal obligations to PPPs? How is re-prioritisation of the project pipeline managed?**

According to the PMO press release on draft budget amendments, no *existing* capital project has been affected by the budget revision. Although the revised budget aims to keep the capital expenditures high, it does not specify which capital projects will be financed but states that the size of the economic recovery plan will be EUR 385 million, and the majority will be spent on subsidies and transfers, and capital expenditures (EUR 100 million). Nevertheless, a lower realisation for capital projects can be expected, since during normal years there could be approximately 100 million for the capital investments category, which might not be realised fully.

Initially, the Government decided to suspend all the *new* central government level capital projects for 2020 in order to create room to support the sectors and citizens that were worst hit by the COVID-19, but the implementation of capital projects from local level was impacted too. In the period January-May 2020, the value of capital projects realised at both central and local level were EUR 34 million lower than in the same period of 2019. Given the fact that there is under spend on capital projects in a normal year, one can expect to see a similar outcome in 2020, although projects already underway are expected to continue.

**Is monitoring of fiscal risks strengthened to ensure that liquidity is maintained?**

There is no information readily available, although the IMF's Fiscal Affairs Department has been assisting the Kosovo Ministry of Finance to strengthen its fiscal risk capacities in recent years.

**Internal Control**

**Were/are internal controls reduced or authority delegated to speed-up decision-making/disbursement processes?**

The draft budget revision includes an article, which foresees that more than EUR 300 million from the economic recovery package will not be subject to limits in terms of transfers between programs and other budgetary categories. This normally is not the case as not more than 25% of an appropriation can be transferred to another one.

Apart from that, there have been no other decisions to reduce the usual internal controls. However, based on statements by the Treasury Department Director during a TV interview, the Treasury is responding to requests from budget users within a working day so that no delays in projects or disbursements are made.

**If yes to the preceding question, was the role of internal audit strengthened?**

There is no information available. This is probably because the role of internal audit is unchanged. Had a change been introduced, it would have been publicised.

**External Audit**

**Is the SAI anticipating and preparing for any special audits on emergency spending as a result of the COVID-19 crisis, or have they actually started some work?**

The Kosovo National Audit Office (KNAO) has continued to deliver its 2020 audit plan, and plans to audit emergency spending as part of the regular financial audits of all budget organisations in 2021. It also plans to conduct a performance audit to assess the management of measures taken by the Government against COVID-19.

**Does the SAI have the necessary capacity and resources to undertake such audits? If, not what are the key challenges they face?**

A key challenge for the KNAO has been to deliver its mandatory audits on time and to quality. The priorities for the 2021 are now being assessed and audit plan prepared, but it is likely that additional resources would be needed for the performance audit, including professional expertise in managing epidemiological situations. In this regard, the KNAO are planning to cooperate with academia and donors to look for possible support.

**Sources**

Kosovo National Audit Office

Local NGO

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SEE News

- <https://seenews.com/news/kosovo-govt-allocates-109-mln-euro-to-coronavirus-emergency-fiscal-relief-package-699174>

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## **North Macedonia**

### **Introduction/Summary**

The fiscal measures introduced in North Macedonia were a mixture of on-budget and off-budget measures. The direct measures come to about 1.9% of GDP and are mainly focused on support to business and to employees who have been laid off due to the pandemic (1.8% of GDP), as well as abolishing import duty on medical supplies (0.1% of GDP). Apart from the abolition of import duties, there was no specific measure introduced to increase health expenditure. The off-budget measures are generally in the form of credit lines and loans from the MKD Development Bank (estimated at 0.5% of GDP) and a credit guarantee scheme to be introduced in the second part of 2020. While the latter has no immediate impact on the budget, it has the potential to make an impact as guarantees are called in and so these measures should be closely monitored.

There is no evidence to demonstrate that internal control procedures have been systematically strengthened.

While the SAI initially indicated that it would include COVID-19 related work in their 2021 annual audit plan, they commenced two related audits in October 2020, with these due to be completed by the end of December.

### **Budget Execution**

#### **In budget revisions, were the national laws complied with and were amended budget proposals and finally adopted amendments published?**

On 15 May, the Government adopted a Decree with the legal force to rebalance the Budget for 2020, aimed at financing measures to overcome the consequences of the COVID-19 crisis and accelerate the recovery process of the economy. A detailed explanation of the projections on the revenue and expenditure sides was presented at a press conference.

The adopted Decree, with general information on total revenues and expenditures and deficit, compared against the initial 2020 Budget, is available here: <https://vlada.mk/node/21411>

According to the Law on Government, Article 10, during a state of emergency the Government can adopt decrees with legal force on issues that are normally within the competence of the Assembly, if there is no opportunity to convene the Assembly. Based on statements in news media, the speaker of the Assembly stated that there were no such conditions for convening the Assembly, hence budget amendments were not discussed in the parliament.

#### **Is all crisis-related expenditure on-budget?**

As stated above, there are some off-budget measures which will only impact on the budget in the event of loans souring or guarantees being called in by lenders.

According to the Ministry of Finance, all the budgetary funds allocated to help the economy are provided from the budget amendments.

According to the documents published on the Government website, a total of 25 economic measures were adopted as the governmental response to the negative impact caused by the pandemic.

#### **Is the revised budget realistic?**

The budget amendments were made with reference to three scenarios on the revenue side of the budget. The Government has decided to adopt its policy response in line with the most optimistic scenario.

With these amendments, the revenue side of the budget decreases by 11.5% and it amounts to MKD 196.8 billion, while the expenditure side increases by 1.4% and it amounts to MKD 242.9 billion. The expenditures side increase is supposed to help different sectors (economy, social protection, education, health). On the other hand, all budget expenditures that are not essential and directly related to COVID-19 were minimised



(e.g. on goods and services). The budget deficit is projected at 6.8% and according to the Ministry is in line with the European Commission's projection. Economic growth expectations are minus 3.4%.

**What is the impact of the revenue shortfalls on the implementation of the capital budget, and fiscal obligations to PPPs? How is re-prioritization of the project pipeline managed?**

Capital expenditures are planned at MKD 19.5 billion, MKD 4.2 billion lower than the initial budget plan for 2020. The Government has stated that with the decision on the redistribution, around MKD 3.5 billion were redistributed from the capital projects to implement measures that relate mostly to equipment, vehicles etc. not directly related to dealing with the crisis. An additional MKD 700 million were relocated for other purposes, bringing the capital expenditures to the level of MKD 19.5 billion, which is still said to be the highest allocation for the past 10 years.

**Is monitoring of fiscal risks strengthened to ensure that liquidity is maintained?**

No additional monitoring mechanism was introduced or strengthened, based on information available. However, the Ministry of Finance has been working to strengthen its fiscal monitoring capacities with the support of the IMF, even before the pandemic. They are particularly focusing on credit guarantees SOEs.

**Internal Control**

**Were/are internal controls reduced or authority delegated to speed-up decision-making/disbursement processes?**

There were no changes in order to speed up decision-making. With the announcement of a state of emergency on 18 March 2020, officials were expected to work on a rotation basis in the office and/or work from home "on line". The effect of this was to reduce internal controls. However, this is no different to the pressures faced in other countries or indeed in any other part of the administration where working from home and illness affected outputs and outcomes.

**If yes to the preceding question, was the role of internal audit strengthened?**

The role of internal audit was not strengthened. In the absence of a detailed assessment to examine the changes to work practices, it is not possible to quantify the impact of the changed work practices on the effectiveness of internal audit units.

**External Audit**

**Is the SAI anticipating and preparing for any special audits on emergency spending as a result of the COVID-19 crisis, or have they actually started some work?**

The SAI has continued to implement its approved 2020 audit plan and initially indicated that they were not planning any special audits in 2020 on emergency spending as result of the COVID-19 crisis. However, they are now undertaking two audits related to the measures taken during the crisis. These are:

- The awarding of public procurement contracts by public sector institutions for the purpose of prevention and protection against the COVID-19 pandemic. The audit covers 19 auditees and 80% of the funds spent on these specific procurements.
- Receiving non-financial assistance, distribution and usage by public sector institutions for the purpose of prevention and protection against the COVID-19 pandemic. This audit is covering over 5 auditees.

These audits are being conducted over the period October to December 2020 and it is expected that they will be finalised in 2021.

The SAI have also indicated that their 2021 annual work plan would also consider the measures taken to deal with the COVID-19 pandemic.

**Does the SAI have the necessary capacity and resources to undertake such audits? If, not what are the key challenges they face?**

The audits are being undertaken within current resources.

## Sources

Government of the Republic of North Macedonia, 2020 Budget Revisions Adopted: Funds Secured for the Economy Revitalization Measures - <https://bit.ly/2CT3UrF>

Economic Measures of the Government for the COVID-19 Crisis Relief, Government of the Republic of North Macedonia, <https://bit.ly/2YJm0EW>

State Audit Office

360MK - <https://360stepeni.mk/i-rebalansot-na-budhetot-namesto-vo-sobranie-ke-se-nosi-so-vladina-uredba/>

## **Montenegro**

### **Introduction/Summary**

The fiscal measures introduced in Montenegro were a mixture of on-budget and off-budget measures. The direct measures are mainly focused on support to the most vulnerable members of society, to business and to employees who have been laid off due to the pandemic. In addition, healthcare workers received a one-off monthly bonus of up to 15%. The off-budget measures are generally in the form of the creation of a new Investment Development Fund (IRF) credit line of EUR 120 million to improve the liquidity of entrepreneurs and relief on electricity and other bills by SOEs for companies that are not operating due to the pandemic.

There is no evidence to demonstrate that internal control procedures have been systematically strengthened.

The SAI has continued to deliver their approved work plan for 2020 and not undertaken any specific COVID-19 related audits. They have commenced their planning for 2021 and have indicated that there is consideration being given to undertaking audits specifically addressing COVID-19.

### **Budget Execution**

**In budget revisions, were the national laws complied with and were amended budget proposals and finally adopted amendments published?**

Amendments to the budget (Governmental bill) were approved by the parliament on 23 June in an urgent procedure.

The proposal of 2020 budget amendments is available here:

<http://zakoni.skupstina.me/zakoni/web/app.php/akt/2298>

The adopted budget law amendments were adopted in the Parliament at the end of June and are now publicly available - both on the website of the Government and in the Official Gazette: <http://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/998/2298-13627-33-20-3-8.pdf>

**Is all crisis-related expenditure on-budget?**

Donations that were received since the outbreak of the pandemic are not part of the central budget, which was only recently amended. They are transparent in the sense that the Government adopted a regulation on weekly reporting of spending of these donation funds. There is no single place for publishing of reports on how the donations were spent, these reports were published as part of the press releases from the weekly meetings of the National Co-ordination Body (in charge of fighting COVID-19), that are published online regularly.

The spending report is published in the form of a chart that contains info on how much money was paid, to whom, when and for what purpose. The contracts and invoices themselves are not published: <https://api.coronainfocg.me/media/files/1594926025-odlivi-sredstava-sa-racuna-193-1672020.pdf>

According to the amendments to the budget and available sources, it appears that there are no major extraordinary expenditures as a response to the pandemic. Emergency procurements were also used.

The budget amendments proposed also reflect the need for international loans (International Bank for Reconstruction and Development). In addition to this, specific amendments were adopted through the Regulation on Borrowing for 2020.

**Is the revised budget realistic?**

It will depend on the revenue side and the ability of the state to attain favourable loans and lines of credit. Tourism was 22.4% of GDP in 2019 but it is estimated that there will be a 40% annual decline in 2020. Around EUR 650 million in tourism revenues will be generated in 2020, which is around EUR 450 million less compared to the revenues of the previous year. This has repercussions for other types of revenues and overall economic activity in the country, and therefore on the budget, but is difficult to predict in this

rapidly changing situation. The proposed rebalance of the budget is considered to be the best projection at the moment. The MoF is also developing guidelines for the next fiscal year, which is said to present a special challenge.

Total state revenues would drop by 17% based on the budget amendments. Nevertheless, the Government expressed its determination to keep all expenditures within the scope previously planned.

It should also be noted that the Government postponed all non-mandatory expenditures by spending units and companies controlled by the state in order to ensure the liquidity of the Budget in a period where a significant decline in economic activity, and consequently for tax revenues, was anticipated.

**What is the impact of the revenue shortfalls on the implementation of the capital budget, and fiscal obligations to PPPs? How is re-prioritisation of the project pipeline managed?**

It is reported that the capital budget will be implemented as planned. However, the project Highway Bar-Boljari, which is said to be the key capital project, is facing significant delays due to COVID-19. In particular, the fact that the main contractor is from China poses difficulties in transportation of workers and materials. The Ministry of Finance is not aware of any impact on PPPs.

For the projects financed by the Instrument for Pre-Accession, there will be cuts of up to EUR 12 million in the government's co-financing part.

**Is monitoring of fiscal risks strengthened to ensure that liquidity is maintained?**

The monitoring of fiscal risks is regulated by the Law on Budget and Fiscal Accountability. According to the information available, it is applied as usual, regardless of the present circumstances.

**Internal Control**

**Were/are internal controls reduced or authority delegated to speed-up decision-making/disbursement processes?**

The disbursement procedure is regulated by the Law and the Treasury Rulebook, and it has remained unchanged. There is no information that would confirm any instances of such delegation due to the pandemic. The only thing that was different is that they have increased the number of emergency public procurements processes for the health sector, which is to be expected due to fact that these purchases could not be anticipated at the time when the procurement plan was made.

**If yes to the preceding question, was the role of internal audit strengthened?**

The authorities' view is that the internal audit function is continuously strengthened and developed. A consolidated report was published recently and it records progress in this area. There is no change, however, in the role of internal audit due to the crisis. The CHU conducted a survey of internal audit workers trying to get an idea of how the crisis was affecting the work. About one third continued to work in the office; one third worked from home and about one third worked from home but also had to look after children under the age of 11. In many cases, audits were "virtual audits", which means that documentation was examined electronically rather than in hard copy.

**External Audit**

**Is the SAI anticipating and preparing for any special audits on emergency spending as a result of the COVID-19 crisis, or have they actually started some work?**

SAI Montenegro continued to deliver its audits according to its 2020 Audit Programme, adopted at the end of December 2019, and initially indicated that they were planning to cover the public spending related to COVID-19 in the financial and compliance audit of the Proposal of the Law on the final state budget account of Montenegro for 2020.

In October 2020 the Senate of the SAI adopted the Instruction for preparation of the Annual audit plan for 2021. Within the Instruction the SAI indicates that it plans to perform two audits of the spending of the COVID-19 funds. These are the audit of the healthcare related expenses to fight the coronavirus pandemic

within the annual audit of the 2020 final state budget account of Montenegro and a performance audit related to the efficiency and effectiveness of the spending of COVID-19 donated funds.

**Does the SAI have the necessary capacity and resources to undertake such audits? If, not what are the key challenges they face?**

The SAI indicated they have the necessary capacity and resources to audit the public spending related to COVID-19 in the Audit of the Proposal of the Law on the final state budget account of Montenegro for 2020. As part of the SAI's draft budget proposal for 2021 the SAI has a specific sub-programme for the "Audit of COVID-19 spending funds" within the programme budget for "Performing audits".

**Sources**

MoF - off the record answers by an official

State Audit Office

Budget revisions and estimates - <http://www.mif.gov.me/vijesti/226037/Crna-Gora-prilagodila-budzet-novim-okolnostima.html>

Parliament - <http://www.skupstina.me/index.php/me/radna-tijela/odbor-za-ekonomiju-finansije-i-budzet/item/4436-odrzana-117-sjednica-odbora-za-ekonomiju-finansije-i-budzet>

Transparency of donations - <https://www.coronainfocg.me/me/donacije>

propisinet.me - <https://bit.ly/31rirF7>

Bankar.me - <https://www.bankar.me/2020/06/24/skupstina-usvojila-rebalans-budzeta-prihodi-manji-za-17-odsto/>

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Capital project Highway Bar-Boljare - <https://www.vijesti.me/vijesti/ekonomija/431898/auto-putem-mozda-do-ljeta-2021-s4k5ixpv>

## **Serbia**

### **Introduction/Summary**

The fiscal measures introduced in Serbia were a mixture of on-budget and off-budget measures. The direct measures come to about 5.5% of GDP and are mainly focused on support to business and to employees who have been laid off due to the pandemic, as well as support to vulnerable members of society and increased healthcare spending. The off-budget measures are in the form of a state guarantee scheme for bank loans to SMEs, which is estimated at 1.0% of GDP. While the latter has no immediate impact on the budget, it has the potential to make an impact as guarantees are called in and so these measures should be closely monitored.

There is no evidence to demonstrate that internal control procedures have been systematically strengthened.

The SAI has continued to deliver its approved work plan for 2020 and so far has not undertaken any specific COVID-19 related audits. They have indicated that COVID-19 will be specifically addressed in the audit planning for 2021.

### **Budget Execution**

#### **In budget revisions, were the national laws complied with and were amended budget proposals and finally adopted amendments published?**

Amendments to the budget were made in April 2020. On April 24 2020, the Government passed the *Decree on Amendments to General Revenues and Receipts and Expenditures of the Budget of the Republic of Serbia for 2020*. This was done in the form of government regulations and not in line with the standard parliamentary procedure. Other related acts were also adopted.

These measures were later (29 April and 6 May 2020) verified in the National Assembly by adopting a specific law (Law on Confirming Regulations adopted by the Government and President during the State of Emergency). Adopted amendments were published on the web page of the Government dedicated to the ongoing pandemic.

Laws on the approval of adopted regulations, and their duration, available here:

<http://www.parlament.gov.rs/upload/archive/files/cir/pdf/zakoni/2020/531-20.pdf>

<http://www.parlament.gov.rs/upload/archive/files/cir/pdf/zakoni/2020/556-20.pdf>

All measures, including the above-mentioned laws, are available here: <https://www.pravno-informacioni-sistem.rs/fp/covid19>

#### **Is all crisis-related expenditure on-budget?**

According to the opinion of the Fiscal Council, an independent state institution in charge of securing credibility of fiscal policy, crisis-related expenditures are mostly prescribed within the budget revisions.

Some of the budget lines, such as one-time benefits to adult citizens in the amount of EUR 100, are evaluated as being a major mistake. RSD 60 billion have been allocated for this measure, and the Council had advised against it.

Also, the measures concerning loans from the international financial institutions are described as unnecessary, according to the Fiscal Council.

#### **Is the revised budget realistic?**

According to the Fiscal Council, the adopted budget revisions were necessary and were based on the best possible projections at this time, although it was a temporary measure forced on the Government with the main goal being timely implementation of the crisis measures. However, it is unlikely that these projections of revenues and expenditures will be fully achieved, as it appears that the pandemic will last for far longer than anticipated and additional amendments can be expected.

The adjusted budget plans a deficit of RSD 381 billion (7% of GDP) but this estimate remains unreliable. The amendments envisage RSD 70 billion less revenue compared to the initial Budget Law and an increase in expenditures of more than RSD 290 billion.

It should be noted that the measures, which the Serbian authorities introduced, were broadly endorsed by the IMF in a post-mission (Virtual mission) statement on 3 July; see

<https://www.imf.org/en/News/Articles/2020/07/02/pr20253-serbia-imf-staff-completes-a-virtual-review-mission>

**What is the impact of the revenue shortfalls on the implementation of the capital budget, and fiscal obligations to PPPs? How is re-prioritisation of the project pipeline managed?**

The Fiscal Council estimates that reductions in capital expenditure were justified and generally well estimated. Extraordinary financing of the health system and other conditions determined these reductions. Expenditures are projected at RSD 154 billion, about RSD 45 billion less than originally planned. The largest decrease, of around RSD 20 billion, is recorded in the budget for the construction of traffic infrastructure (including expenditures for land expropriation). The impression is that the implementation of capital projects that were not deemed urgent or ones that in the existing, extraordinary circumstances could not be carried out on time (due to difficulties in imports, slower procurement, limited movement of workers, etc.) have been delayed. The adjusted budget envisages slower construction of road and railway infrastructure, which will extend the deadlines for the completion of works. Some projects already have been postponed to next year (e.g. construction of New Belgrade - Surcin highway), while a smaller scope of work is planned for other projects (e.g. Belgrade bypass, Belgrade-Budapest high-speed railway, Preljina-Požega highway).

**Is monitoring of fiscal risks strengthened to ensure that liquidity is maintained?**

According to the information available, no additional monitoring mechanism was established or strengthened. However, the Ministry of Finance has been working to strengthen its fiscal monitoring capacities with the support of the IMF, even before the pandemic. They are particularly focusing on credit guarantees to SOEs.

**Internal Control**

**Were/are internal controls reduced or authority delegated to speed-up decision-making/disbursement processes?**

The executed adjusted Budget defines new priorities for budget execution during the state of emergency and after the termination of the state of emergency. The Government and the competent ministries have adopted appropriate legal acts for the implementation of certain new activities and measures in accordance with the amended budget. Special acts have been adopted to move the deadlines for submitting annual financial reports of public funds beneficiaries and users of funds of organisations for compulsory social insurance.

Procedures for budget execution have not been changed (treasury execution system), nor procedures for public procurement due to COVID-19. The PPL in place at the time of COVID-19 had provisions covering cases of natural disasters or technical/technological accidents whose consequences imperil lives or health of people or the environment. It also provided a definition of natural disaster to include an epidemic of contagious diseases (Article 131a). However, at the beginning of July, a new PPL became effective with the aim of further improving this area by creating better transparency. This was not connected to COVID-19, however, as this law had been under preparation for some time.

The presence of employees in budget users is organised in a way that provides the necessary minimum for maintaining the work process, and part of the activities is redirected to "work from home". In case of need, when certain managers or employees are absent, decisions on replacement were made, which included authorisations to perform certain activities.

**If yes to the preceding question, was the role of internal audit strengthened?**

In accordance with the stated budget changes and the priorities of the work of budget users, the work plans of the internal audit units were changed (the business risks of the budget user were modified). This meant that the internal audit responded to the changing circumstances but does not mean that the role was strengthened. There is no evidence to suggest it was either strengthened or weakened.

**External Audit**

**Is the SAI anticipating and preparing for any special audits on emergency spending as a result of the COVID-19 crisis, or have they actually started some work?**

The SAI is currently executing its 2020 Audit Programme and has not been undertaking any specific COVID-19 related work. They plan to pay special attention to the topic of public spending related to COVID-19 through financial, compliance or performance audits when developing their 2021 Audit Programme.

**Does the SAI have the necessary capacity and resources to undertake such audits? If, not what are the key challenges they face?**

The SAI indicated it has the necessary capacity and resources. They would welcome events to discuss and exchange of experiences (short workshops or similar) in order to be better prepared for executing COVID-19 related audits.

**Sources**

State Audit Institution

SEE news:

- <https://seenews.com/news/serbia-may-again-revise-state-budget-in-2020-pm-699384>

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Economic Measures Programme Aimed at Reducing the Negative Effects Caused by the Coronavirus Pandemic, Ministry of Economy, Government of the Republic of Serbia, <https://bit.ly/2YldvKj>

Review of the Government's Regulation on Budget Revision, Fiscal Council, <https://bit.ly/3dlreoE>



## The SIGMA Programme

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