

7-2018

The Budgeting Process of Kosovo: A critical analysis

Arber Maxhuni
axm9590@rit.edu

Follow this and additional works at: <http://scholarworks.rit.edu/theses>

Recommended Citation

Maxhuni, Arber, "The Budgeting Process of Kosovo: A critical analysis" (2018). Thesis. Rochester Institute of Technology. Accessed from

This Senior Project is brought to you for free and open access by the Thesis/Dissertation Collections at RIT Scholar Works. It has been accepted for inclusion in Theses by an authorized administrator of RIT Scholar Works. For more information, please contact ritscholarworks@rit.edu.

The Budgeting Process of Kosovo: A critical analysis

Arbër Maxhuni

RIT Kosovo
2018

A Honors Society Project Presented to the Academic Faculty

By: **Arbër Maxhuni**

In Partial Fulfillments of the Requirements for Membership in the Honors Society of RIT
Kosovo

July, 2018

Advisor

Venera Demukaj, Ph.D.

Acknowledgments

For Xhesina...

Abstract

The budgeting process is one of the most important macroeconomic tools of the Government. Throughout the budget cycle, strategic allocations of public money to budget organizations are conducted in aspiration of financial stability and economic prosperity. This study attempts to provide a comprehensive overview of Kosovo's contemporary budgetary practices and underpin some of its weaknesses. It discusses both legislative and executive viewpoints of the process and proposes recommendations which would improve the budgeting process in terms of quality, transparency, and efficiency.

List of Acronyms

- BFC-** Budget and Finance Committee
- BO-** Budget Organization
- COPF-** Committee on Oversight of Public Finances
- ERP-** Economic Reform Program
- EU-** European Union
- GDP-** Gross Domestic Product
- GIZ-** *Deutsche Gesellschaft für Internationale Zusammenarbeit*
- LLGF-** Law on Local Governmental Finance
- LPFMA-** Law on Public Financial Management and Accountability
- MoF-** Ministry of Finance
- MP-** Member of Parliament
- MTEF-** Medium Term Expenditure Framework
- NAK-** National Assembly of Kosovo
- NAO-** National Audit Office
- NDS-** National Development Strategy
- PAK-** Privatization Agency of Kosovo
- TAK-** Tax Administration of Kosovo
- UN-** United Nations

Table of Figures

Figure 1: The interaction cycle.....	13
Figure 2: The budget process in Kosovo deconstructed into two levels.....	15
Figure 3: The complete budget process of Kosovo.....	17
Figure 4: Detailed view of the Legislative level of the budget process in Kosovo.....	29
Figure 5: Recommendations	34

Table of Contents

I.	Acknowledgments	<u>4</u>
II.	Abstract	<u>5</u>
III.	List of Acronyms	<u>6</u>
IV.	Table of Figures	<u>7</u>

1.	Introduction and Problem Statement	<u>9</u>
2.	Methodology	<u>11</u>
3.	Legal Framework and Stakeholders involved in the Budget Process	<u>13</u>
4.	The Budget Process in Kosovo	<u>15</u>
5.	The role of the Ministry of Finance	<u>20</u>
6.	Medium Term Expenditure Framework (MTEF)	<u>23</u>
7.	The Budget Circulars	<u>24</u>
8.	The Assembly of Kosovo	<u>25</u>
9.	The Auditor General and the Committee on Oversight of Public Finances	<u>26</u>
10.	The Role of the Budget and Finance Committee	<u>28</u>
11.	The Budget Process: Germany	<u>31</u>
12.	Critique of the Budget Process	<u>34</u>
13.	Conclusion and Recommendations	<u>36</u>
14.	References	<u>39</u>

Appendices

Appendix 1	<u>41</u>
------------	-----------

1. Introduction and Problem Statement

Almost two decades after the war, despite receiving a tremendous amount of support from the international community and implementing a plethora of structural, political, and economic reforms, Kosovo still remains one of the poorest countries in the Western Balkans. Continuous political instability, high levels of corruption and unemployment rates that almost exceed the 30 percent mark, have been significant factors that have halted Kosovo's economic prosperity (Kosovo Agency of Statistics 98). Although a significant economic development throughout the years is evident, Kosovo's GDP still remains the lowest in the region. It is estimated that the economic growth rate in 2018 will be close to the 4 percent mark (Medium Term 26). However, in order to realize Kosovo's EU integration aspiration, a growth rate of at least 8 percent must be attained in the coming 3 decades (National Development 8). Further, Kosovo's poverty level despite improving in the last years still remains high at 17.6 percent (Kosovo Agency of Statistics 111). High unemployment rates prevail especially among the youth with rates exceeding the 50 percent mark (Kosovo Agency of Statistics Tab. 9.11).

At the same time, Kosovo's governmental institutions, although showing significant improvement in areas of policy development and implementation in the past years, still

remain weak. Informality in the private sector, the trade deficit, limited tax revenue collection capacities by the Tax Administration of Kosovo and ultimately a general lack of accountability have been significant constraining factors to the growth of Kosovo's budget. The budgeting process is still facing a lot of challenges that need to be overcome in order to ensure an efficient and transparent outflow of financial resources. The state budget is one of the most important financial instruments of a country and as such, it enables Governments to descriptively underpin their development priorities. Further, process transparency and non-politicized decision making are crucial determinants that ensure the effective allocation of these funds to relevant public sectors. The Government based on previous experiences and future projections has the ability to determine resource allocation towards certain economic sectors and hence, significantly impact the development and prosperity of these specific sectors.

The draft budget law of 2018 foresees revenues that are expected to reach over 1.8 billion EUR. This portrays a 6 percent increase compared to the collected revenues in 2017. Expenditures are expected to reach 2.82 EUR, which is 15 percent higher than the previous year. The discrepancy between revenues and expenditures will be covered by borrowing and the usage of the accumulated funds from the Privatization Agency of Kosovo (Projekt-Buxheti 1). Kosovo's biggest GDP contributors still remain consumption and imports which emphasize the structural weakness of its economy.

According to the draft budget document, capital investments will be the main focus of the Government, which will comprise 33% of the total budget, followed by wages and salaries and subsidy and transfers (Projekt-Buxheti 1). On the revenue side, a notable increase in tax

collection is estimated, especially on the side of indirect taxes which are estimated to be 6.8 percent higher than those of the year 2017 (Projekt-Buxheti 1).

We can understand from the latter that governments utilize the state budget as a financial tool to fuel economic development and accomplish relevant sector priorities. It goes without saying that transparency throughout the whole process is crucial for it to be economically efficient. Unfortunately, process transparency during the budgeting process in Kosovo has been challenging.

Since the focal point of most of this economic degradation in Kosovo could be followed back to the poor compilation and expenditure practices of the state budget, a revision and reformation of the whole budgeting process has become inevitable. It was specifically for these reasons, that I was motivated to undertake a critical analysis of the whole budgetary process in Kosovo and ultimately upon completion, recommend relevant alternatives that could improve this compilation process in terms of comprehensiveness, effectiveness, and quality.

2. Methodology

In order to not compromise on the comprehensiveness of this study, and given the institutional character and framework of the topic under analysis, a qualitative approach is predominately utilized throughout this paper based on secondary data. Since the topic has an excessive legal foundation which deliberately describes the consecutive procedures of the Budget Process of Kosovo, I have firstly invested time in the assessment and analysis of

the pertaining legal framework before beginning with an in-depth review of the relevant literature.

To conduct this study I capitalized on my experience working for the Reform of the Public Finance Systems in Kosovo project of the '*Deutsche Gesellschaft für Internationale Zusammenarbeit*' (GIZ). My involvement in the project has allowed me to get valuable insights and explore the institutional culture of the Government and Parliament of Kosovo. Further, the ability to utilize the expertise and knowledge of colleagues which have accumulated decade-long experiences within the Public Finance sector of Kosovo has deeply influenced the trajectory of this paper. All information used throughout this presentation stemming out from the aforementioned project is utilized with the consent of GIZ (See Annex 1).

The paper is structured as follows: first, the legal framework of the Budget Process, respectively the Law on Public Financial Management and Accountability and the Law on Local Government Finance are discussed. The aforementioned laws only cover the Budgetary Process from the executive stage. Once the Draft Budget is sent to the legislative body, represented by the National Assembly of Kosovo, the rules of procedure of the Assembly regulate the process.

Second, after the budgetary process in both executive and legislative stages is explained, I provide a concise critique of the process focusing more on the legislative stage of the Budget Process. Within the critique, the importance of the Auditor General and the Committee on Oversight of Public Finances are stressed.

Third, in the conclusion, I analyze the legal framework and budget process in Germany as a best practice example and attempt to draw parallels to Kosovo.

It is worth implying, that the research possibilities on the topic were limited given the institutional restrictions and confidentiality of the information of interest. Therefore, the aforementioned should be taken into consideration prior to examination of the paper.

3. Legal Framework and Stakeholders involved in the Budget Process

This section discusses the legal framework of the budgeting process, which portrays the foundation of the whole process and then proceed by analyzing the various stakeholders involved in order to acquire a more comprehensive overview.

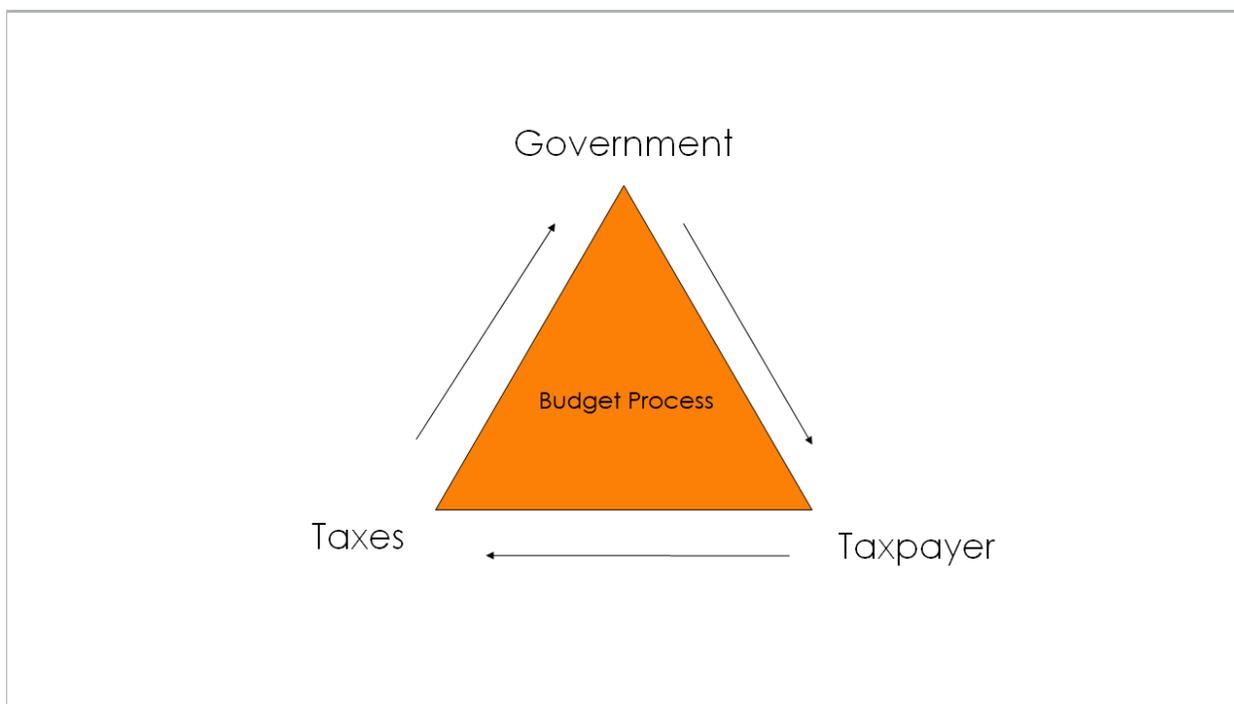


Figure 1: The interaction cycle

Kosovo's budgeting process is structured based on two laws: The Law on Public Financial Management and Accountability (LPFMA), and the Law on Local Government Finance (LLGF). The LPFMA, clearly describes the budgeting process and determines which institutions and stakeholders are included and which responsibilities are assigned to each and every one of them. The law on Local Government Finance regulates the budgeting process at the Municipal level since Municipalities are decentralized from the government.

Other stakeholders which are included in the budgeting process and have legal responsibilities are called budget organizations (BO). A budget organization, as defined in the Law on Public Financial Management and Accountability, resembles, "any public authority or public undertaking that directly receives under an Appropriations Law an appropriation that is not a component of a larger aggregate appropriation provided to another public authority or public undertaking" (Article 1). In other words, a budget organization is a public entity which is a recipient of financial benefits from the state budget of Kosovo. Budget organizations include a variety of actors ranging from central level Institutions to Municipal level, all the way to Independent Agencies. Budget organizations of the central level include all Ministries of the Republic of Kosovo. Budget organizations at the Municipal level include all Municipalities. Independent Agencies, which are also part of the budget organizations, include more than thirty entities that operate independently from the Government. The most important of them being constitutional independent agencies such as the: Ombudsperson, National Audit Office (NAO), and the Central Election Commission to mention a few. The independence of

constitutional agencies from the central government is a crucial determinant of transparent and efficient governance for a state.

4. The Budget Process in Kosovo

The first time Kosovo had the major competencies to actually draft and approve a budgeting process of its own budget, was the year 2001 when Kosovo had established its temporary governing institutions. Nevertheless, until Kosovo's independence in February 2008, the special representative of the Secretary-General of the United Nations reserved the right of fundamental changes of the budget of Kosovo and he had the authority of the final approval of the state budget. After Kosovo's independence, its institutions had complete authority over the whole process.

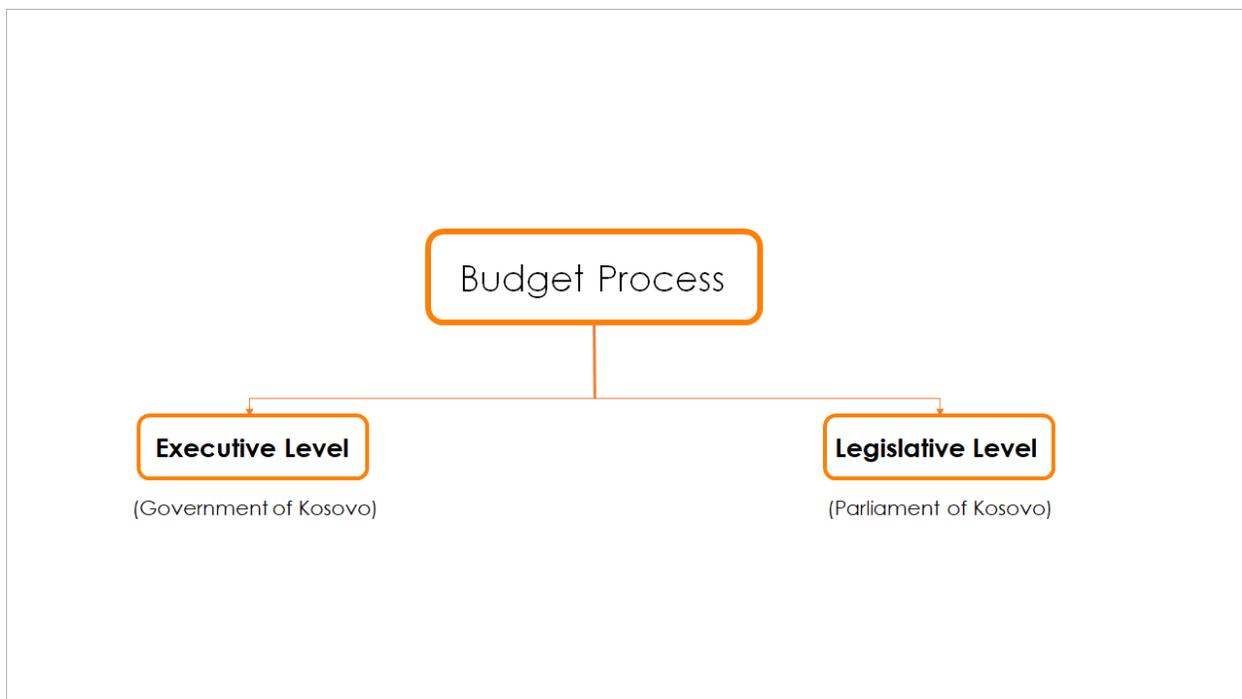


Figure 2: The budget process in Kosovo deconstructed into two levels

As mentioned above, the foundation of the budgeting process in Kosovo is the Law on Public Financial Management and Accountability. The compilation of the state budget is a periodic process which is initiated annually. This annual period usually in most countries coincides with the Georgian definition of a year, meaning the year starting in January and ending in December. This also applies to Kosovo. According to the LPFMA of Kosovo, the budgeting year or also known as the fiscal year starts on the 1st of January and ends on the 31st of December of the same year (Article 1).

One of the most important actors throughout the budgeting process of Kosovo, especially during the early phases, is the Ministry of Finance (MoF). The Ministry of Finance serves as a mediator among the Government and the Parliament. The Ministry of Finance is comprised of many departments which are responsible for various tasks throughout the process. Out of these departments: the Budget, Treasury and the Economic, Public Policy and Financial Cooperation departments are the most important in the Budgeting Process. The role of the Ministry of Finance and of each department will be analyzed more thoroughly in section 5.

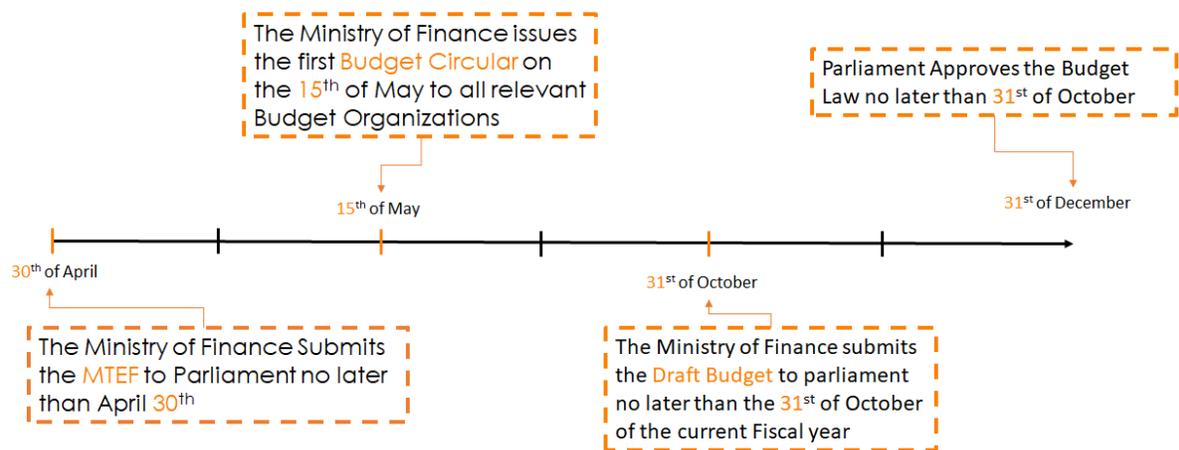


Figure 3: The complete budget process in Kosovo

The Ministry of Finance in cooperation with the Prime Minister’s office prior to initiating the Budgeting Process, must prepare a Medium Term Expenditure Framework (MTEF). Upon preparation and completion of the MTEF, the Ministry of Finance has a legal obligation to send the finished document no later than the 30th of April to the Assembly of Kosovo (LPFMA Article 19). The MTEF broadly defined, is a policy based expenditure framework which serves as a supplementary document to the Assembly during the budgeting process. It is divided into three major parts: Policy Priority Statement, Macro-Fiscal projections, and Sector Priorities with broad ceilings. The MTEF will also be analyzed more thoroughly in section 6.

The formal beginning of the budgeting process of Kosovo begins on the 15th May, when the first Budget Circulars are issued by the Ministry of Finance to the corresponding central

Budget Organizations. The budget Circulars are instructive documents which cover important questions that concern Budget Organizations such as Expenditure Ceilings (total and per category), Ceilings on Employment and specific information on the correct format of submission of the document to the Ministry of Finance. The deadlines for issuing the budget circulars to Municipalities and independent agencies differ from the above-mentioned date. Further information concerning the budget circulars issue dates and procedures will be discussed in more detail in section 7.

Upon receipt of the budget circulars, all relevant budget organizations are required to submit to the Ministry of Finance their budget requests. All budget requests must be in accordance with the requirements stated in the budget circular regarding budget ceilings, format, and necessary information. After the Ministry of Finance receives the budget circulars, a reviewing process begins. This process is called budget hearings, in which the Ministry of Finance invites Budget Organizations to further discuss their budgetary propositions. During this process, the Ministry of Finance mainly analyzes the budgetary demands of the budget organizations and it tries to discuss, in cases where the budgetary requests of a budget organization exceed the present budget ceiling, if the requests are justifiable and feasible. After the first round of budget hearings, the MoF issues the second budget circular to the budget organizations, which reflects the discussions of the previous budget hearing. In parallel to these processes, the mid-year budget review is conducted which serves the purpose of reviewing the current year's budget appropriations and implementing the necessary budget refinements for budget organizations. After getting the final approval from the relevant budget organizations, the budget department consolidates

all budgetary requests and the Ministry of Finance proposes a consolidated budget of Kosovo together with a proposed Appropriations law to the Government. The proposed budget contains total expenditures, total revenues but also a debt financing part among others. Upon approval by the Government, the Minister of Finance is required to send a proposed consolidated budget, a proposed Appropriation Law, and an updated MTEF, to the Assembly of Kosovo no later than the 31st of October (LPFMA Article 22).

After all preparations regarding the budgeting process are taken by the government, which functions as the executive body of the State, the process continues with the Assembly of Kosovo which functions as the legislative body. After the first reading, the plenary sends the draft budget and the proposed appropriations law to the Budget and Finance Committee (BFC), for review. After the Budget and Finance Committee has reviewed and analyzed the proposed documents, it draws its conclusions and provides its recommendations concerning the draft Budget and the Draft Appropriations Law in a report, and presents it to the Assembly during a plenary session. A more in-depth analysis of the role of the Assembly and relevant committees will be provided in section 8. The Assembly continues with its consecutive readings regarding the Draft Budget law until they set the final budget proposal to the vote for the members of the Parliament. Finally, the draft budget Law is approved with a simple majority of votes in the parliament (61 votes). The legal deadline for approval of the final Budget law is the 31st of December of the current fiscal year which also marks the end of the budgeting process. Should the Assembly fail to approve the budget within the aforementioned time frame, According to the LPFMA, 1/12 of the budget law of the previous fiscal year is applied per month (Article 35). After

the budget law is approved by the Treasury Department within the Ministry of Finance, begins with the execution of the budget to all relevant budget organizations.

5. The role of the Ministry of Finance

After having gone through the structure of the budgeting process in Kosovo, in this section I discuss the role of the Ministry of Finance throughout the process and provide additional details concerning municipal budgeting.

The Ministry of Finance is the only institution which is actively engaged in the budgeting process from beginning to its completion. Its role is unquestionably crucial, since it initially coordinates the preparatory process activities with budget organizations, and after completion sends the draft budget to the Parliament for approval. In other words, the Ministry of Finance acts as an institutional bridge between Budget Organizations and Parliament throughout the Budgeting Process. Only if the government and Parliament coordinate their activities effectively, the Budgeting Process, as well as the finished budget, can fulfill the standards of comprehensiveness, transparency, and efficiency.

During the budgeting process, the Ministry of Finance interacts with the budget organizations in two main ways; the first way is a bottom-up approach in which the budget organizations have the freedom of drafting their expenditure projections and budget requests according to their priorities. The second way is a top-down approach in which the Ministry of Finance calculates the budget amount of each Budget Organization based on the expenditures of the previous year rather than focusing on BO priorities.

Kosovo uses a mixed approach when it comes to its budgeting process. Budget Organization prepare and propose their annual budgetary needs to the Ministry of Finance (Bottom-up), however, they are constrained by a budget ceiling set forth by the Ministry of Finance in the budget circulars (Top-Bottom).

The departmental structure of the Ministry of Finance is also a crucial factor which contributes to the efficiency of the budgeting process. The Law on Public Financial Management and Accountability, among others, requires the establishment of the three major departments: Treasury, Budget, and Economic Policy Departments (Chapter 1).

The main responsibility of the Treasury Department is the execution of the final budget law. However, this department is also responsible for the management of bank accounts, spending funds, establishment and maintenance of accounting records. (Article 4).

The Budget Department is one of the most important departments within the Ministry of Finance during the budgeting process. It serves as the foundation for other departments within the MoF when matters of assessment of Governmental policy and legislation and their financial impact on the State arise. The budget department is responsible to prepare the Medium Term Expenditure Framework and throughout the whole budgeting process, prepares relevant documents linked to the Budget Process.

The Economic Policy Department plays a significant role as well in the budgeting process. This department, among others, deals with the macroeconomic analysis side of the process; “It compiles macroeconomic and fiscal forecasts for the mid-term period in order to determine the overall macroeconomic framework and overall budget parameters”

(Ministry of Finance web). In other words, it compiles the macro-fiscal projections that are part of the Medium Term Expenditure Framework which serves as a reference point for policy compilation.

The supportive role of the Ministry of Finance does not end with the preparation and submission of relevant budgeting documents such as the MTEF and the Budget Circulars.

The Ministry of Finance and especially the Minister of Finance supports the Assembly and the relevant Committees for any clarification or recommendation purposes until the Budget Law is approved.

It is further important to mention that Municipalities enjoy more autonomy when it comes to their budget. According to the Law on Local Government Finance, “Kosovo municipalities shall be entitled, within national economic policy and having due regard for the municipalities and the central government fiscal sustainability, to adequate financial resources of their own that they may dispose of freely in the discharge of their municipal competencies in accordance with the applicable laws of Kosovo” (Article 2). This means that Municipalities have the right to discharge monetary resources independently from the central body. This is important because it enables Municipalities to allocate funds to their specific priorities more efficiently.

Municipalities receive funding from five main sources: Own source revenues, Central Grant, Healthcare Grant, Education Grant and Municipal Borrowing. Own-source revenues and Municipal borrowing are revenues generated from the Municipality, whereas, the Central, Health and Education grants come from the central Government (LLGF Article 7). Own-

source Revenues as stated on the LLGF include all, “municipal taxes, fees, user charges, other payments for public services provided by the Municipality, and regulatory charges and fines authorized by the present law” (Article 8). The three central grants are each calculated by the Ministry of Finance based on specific formulas which include specific indicators such as the population size of the Municipality as well as other territorial and demographic indicators to calculate the appropriate amount of funding for each Municipality.

According to the Law on Public Financial Management and Accountability, municipalities of Kosovo are required to submit their budget proposals and appropriation requests no later than the 30th of September of the current fiscal year to the Ministry of Finance (Article 20).

6. Medium Term Expenditure Framework (MTEF)

This section focuses on the content and role of the Medium Term Expenditure Framework in the Budget Process. The MTEF is a guiding economic policy document which enlists crucial information regarding the macroeconomic environment of the state. It presents one of the founding documents on which the budget of Kosovo is drafted upon. In addition, it includes economic reform priorities for the medium-term which derive from the National Development Strategy and Economic Reform Program (MTEF 1.3). The NDS and the ERP, identify key sector issues and development opportunities which are crucial for Kosovo’s development and EU membership aspirations. The MTEF, “summarizes these key government priorities in the Declaration of Medium Term Priorities and then in the relevant chapters, covering all budget sectors, describes the approach how funds will be

provided for the implementation of the Budget of Kosovo and financial assistance or loans from development partners” (MTEF introduction). The MTEF is prepared by the Ministry of Finance on an annual basis and sent to the Parliament no later than April 30 of the current fiscal year (LPFMA Article 19).

The Medium Term Expenditure Framework is structured into four separate sections: the Statement of Medium Term Priorities, Macro-Fiscal Projections, and Central and Municipal fiscal projections (MTEF introduction). Each part includes important information which guides the Members of Parliament on their decision making processes ranging from sector and policy analysis data to multiyear Macro-Fiscal projections of the country.

7. The Budget Circulars

As mentioned in previous sections, the Budget Circular is an instructive document issued by the Ministry of Finance to all Budget Organizations. Since the MTEF lays out the budgetary framework on which the budget of Kosovo will be drafted upon, Budget Organizations through the Budget Circulars prepare their budgetary requests which should be in line with the medium-term priorities and macro-fiscal framework stated in the MTEF. It is implied in the Budget Circular that, “The Government is committed to support requests from Budget Organizations, while maintaining fiscal stability” (Budget Circular 2). In other words, the Government will be supportive towards the budgetary requests of the Budget Organizations, as long as they will not excessively surpass the budgetary ceilings set in place by the Ministry of Finance.

The Budget Circular provides a clear list of consecutive processes which describe the budgeting process from beginning to completion for the central and municipal level. It further instructs Budget Organizations on areas such as Employment, Wages and Salaries, Goods and Services, Utilities, Subsidies and Transfers, and Capital Expenditures. For each of the aforementioned, the Budget Circular implies specific constraints and ceilings in order to ensure that the allocated funds are being utilized in most efficient ways.

Finally it is important to highlight that based on Kosovo's Law on Gender Equality, no.05/L-020 (2015), all Kosovo institutions are responsible for "involving gender budgeting in all areas, as a necessary tool securing that the principle of gender equality is followed in collection, distribution and allocation of resources" (Article 5.1.5.). This resembles a significant step for Kosovo towards establishing equal opportunities for every Kosovar national regardless of gender. The implementation of, "Gender-responsive budget analysis, along with legislation, and other practical policy measures can address gender bias and discrimination" (UN Woman par.1).

8. The Assembly of Kosovo

The role of the Assembly in the Budgeting Process of Kosovo is fundamental. The Assembly apart from its legislative function is also responsible for Governmental Oversight and Accountability. It is its foremost duty and responsibility to represent the interests of the citizens in Parliament and monitor the performance of the executive body. The primary reason for Governmental Oversight is ensuring citizens that through their elected representatives, the Government is being held accountable for its action or inaction

regarding significant processes. Whereas, the secondary reason is that it enables members of Parliament to verify the applicability and efficiency of the approved policies and laws in the relevant sectors.

Once the Ministry of Finance sends the proposed budget to the Assembly on the 31st of October, the budgetary path paved by the law on Public Financial Management and Accountability concludes. The process is continued based on the rules of procedure of the Assembly of Kosovo, including Members of Parliament and relevant functional Committees.

The Assembly of Kosovo mainly operates in form of committees, which constitute working groups that consist of members of Parliament. The main responsibilities of these committees are to cover a wide range of policies and the amendment of draft laws pertaining to the area of their activity. Other responsibilities include the oversight of the implementation of laws, the oversight of the executive body and independent institutions, and the review and approval of strategic documents (Doracaku per Mbikqyrje 10).

9. The Auditor General and the Committee on Oversight of Public Finances

Kosovo has four permanent committees in the Assembly: The Committee on Rights and Interests of Communities and Return; Committee on Legislation and Judiciary; Committee on European Integrations, and the most important in the budgetary context, the Committee on Budget and Finance; (Rules of Procedure Article 57).

The Assembly has also a list of functional committees whose role is more supportive. The most important functional committee when it comes to the budgetary process is the Committee on Oversight of Public Finances. It is important to mention at this point that it is common practice in the Assembly of Kosovo that the Budget and Finance committee's chairperson is usually from the position party, whereas the chairperson of the Committee on Oversight of Public Finances is usually from the opposition.

The importance of the Committee on Oversight of Public Finances lies in the scope of work it conducts. One of its main tasks is to prepare recommendations for the Budget and Finance Committee based on the annual report from the Office of the Auditor General of Kosovo. The Auditor General is an independent constitutional institution which audits the economic and financial performance of the government and public finances in general (Constitution Article 136). Its main competencies include: "auditing the economic activity of public institutions and other state legal persons; The use and safeguarding of public funds by central and local authorities; The economic activity of public enterprises and other legal persons in which the State has shares or the loans, credits and liabilities of which are guaranteed by the State" (Constitution Article 137). In other words, the Auditor General, through its reports, holds the Government and Assembly accountable for their expenditure of public money. The importance of this institution can only be surpassed by the even greater amount of responsibility which is assigned to it. The reports of the Auditor General are crucial when it comes to improving processes and efficiency in the public sector.

The rules of procedure of the Assembly of Kosovo describe the responsibilities of the Committee on Oversight of Public Finances, among others as, “Overseeing the legality of public expenditures according to the reports and annual and periodic audit reports as well as audit reports of the Office of the Auditor General; Overseeing all reports of the Office of the Auditor General of budgetary organizations and public enterprise; - Reviewing the needs of the Office of the Auditor General in order to fulfill duties as foreseen in the law and prepare recommendations for the Committee on Budget and Finances”(Rules of Procedure Annex 2). Hence, the Committee on Oversight of Public Finances, through its recommendations in parliament, presents a direct link between the Budget and Finance Committee and the report of the Auditor General. This link is crucial to address one of the main critiques of the budgetary process in the Assembly.

10. The Role of the Budget and Finance Committee

The budgetary process after moving up from the executive level to the legislative level in the Assembly begins to undergo the necessary processes set forth by the rules of procedure of the Assembly, in order to be ratified by the Members of Parliament (MP) as the Budget Law. As described in previous sections, the law on Public Financial Management and Accountability pinpointed the Ministry of Finance as the most important institution in the budgetary process at the executive level. However, at the legislative level, the Budget and Finance Committee takes a central role. The budget and Finance Committee is usually

comprised of 8 Members of Parliament with the chairperson usually being from the position party.

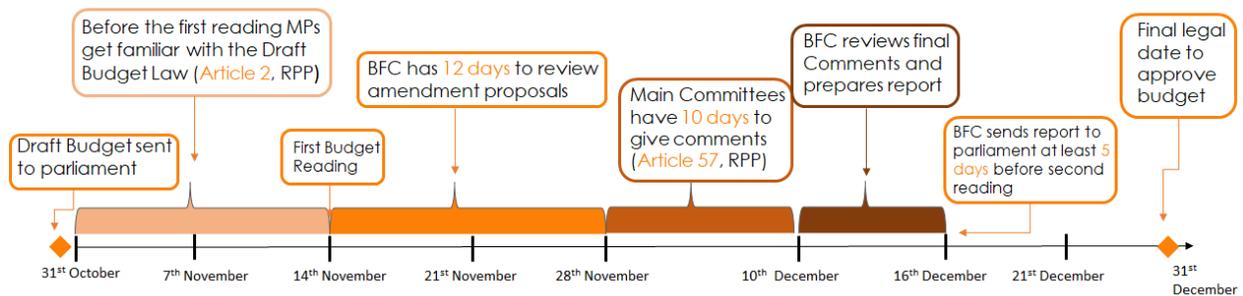


Figure 4: Detailed view of the Legislative level of the Budget Process in Kosovo

Figure 4, portrays a timeline of consecutive processes which conclude with the final approval of the budget in the Assembly. After the consolidated budget is finished by the Ministry of Finance and sent to Assembly on the 31st of October, the Budget and Finance Committee and Members of Parliament as well, according to article 56. of the rules of procedure of the Assembly have not less than 2 working weeks but no more than 4 working weeks before sending the draft budget law to the first plenary reading session in Parliament (Rules of Procedure). This time is used by the Budget and Finance Committee

and Members of Parliament to analyze and assess the draft budget. If the Budget and Finance Committee doesn't have any preliminary objections, it sends the draft budget for the first plenary reading session in Assembly. The first reading serves the purpose of assessing and voting the budget law in principle. In other words, the first reading serves the purpose of ensuring that the draft budget law is not in violation of any laws or international standards which are in the oversight by the other 3 permanent committees.

Once the first plenary session is finished the budget and Finance Committee has 12 working days to analyze the draft budget law more thoroughly. Additionally, during this time the Budget and Finance Committee reviews the recommendations and requests for amendments set forth by the Members of Parliament, Independent Agencies or Parliamentary groups. Throughout these 12 days, the Budget and Finance Committee predominately is occupied with assessing and reviewing requests coming from Independent Agencies which only constitute a small fraction of the annual Budget. This is the case because since independent agencies are granted constitutional independence, issues or changes concerning the budget are not addressed by the Ministry of Finance but they are sent to be voted in Assembly. Further, in instances where budgetary requests for independent agencies are not considered in the budget review process conducted by the Ministry of Finance, these agencies submit a vast amount of amendment request to the Budget and Finance Committee throughout the 12 days.

After the Budget and Finance Committee assesses all requests and recommendations, it prepares a comprehensive report which is then reviewed by all four permanent committees within 10 working days (Rules of Procedure Article 57). Within the above

mentioned period, the main permanent committees analyze the draft budget law and provide its comments.

Pursuant to the remarks of the main committees, the Budget and Finance Committee has 4-5 working days to assess and incorporate the comments into the draft budget law. In order to ensure that all Members of Parliament have sufficient time to analyze the new changes made to the draft budget law and inform them regarding the draft law they will be voting on, the Budget and Finance Committee presents the budget law to members of the Parliament 5 days before the second reading (Rules of Procedure Article 57).

The final date that the Assembly has to approve any changes or appropriations to the draft budget law is the 21st of December. The approval from the Assembly of the Budget law officially marks the end of the almost 8-month budget process. Once the Budget law is approved the budget is executed by the Treasury Department of the Ministry of Finance.

11. The Budget Process: Germany

Germany is a Federal Parliamentary Republic which legal basis, encompassing fundamental laws and institutions, is built upon the Basic Law (*Grundgesetz*). This law sets forth certain central requirements of the Budget Process in Germany, and also describes the relationship among the federal level of government and the almost autonomous state regions (*Bundesländer*).

The Budget process is specified in more detail in the Budgetary Principles Act, which resembles an act on the Principles of Federation and *Länder* Budgetary Law (*Haushaltsgrundsatzgesetz*) and the Federal Budget code (Federal Budget Code).

The Federal Ministry of Finance is the main actor during the budgetary process in Germany. “Under the federal budget code, the Federal Ministry of Finance is responsible for organizing the annual budget preparations. It frames the overall budgetary aggregates, proposes allocations for each line ministry (on the basis of continuity with the indicative allocations from the previous cycle), receives ‘bids’ from each ministry, and has the right to amend and adjust these bids (after consultation with the ministries concerned) to ensure consistency with the overall budgetary constraint” (Budget Review: Germany 6).

The German Fiscal year starts on 1st January and ends on the 31st of October, likewise to Kosovo (Federal Budget Code section 4).

The budget Process in Germany involves a considerable amount of complex procedures which are undertaken within the aforementioned time interval. In order to better understand the budgeting process, I’m going to condense the main steps in order to get a more comprehensive overview for further analysis.

The budgetary Process begins in January-February, when the official economic forecasts and federal revenue forecasts are finalized by the Ministry of Finance. During March, Benchmark Figures that reflect aggregate and sectorial expenditure limits together with revenue figures that are consistent with relevant fiscal constraints are concluded. In April, a stability program which reflects the medium-term development of public finances is

published. During May-June, detailed discussions among line Ministries and the Federal Ministry of Finance regarding the budget are held. In August the draft federal budget is sent to the *Bundestag* and *Bundesrat* respectively. In September, the first reading session of the draft budget is conducted in the *Bundestag* and *Bundesrat*. September- October, the draft budget is discussed among the Budget Committee of the *Bundestag*. Further, the budget committee discusses with relevant Ministries regarding their budget requests. During this time also amendment request or further specifications are considered. November-December, the second reading is held. A final session of the Budget Committee is held to resolve all issues before sending the draft budget into the final reading. Finally, the Budget Act is signed by the Federal President (Budget Review: Germany 8).

It can be noted that the Budget Committee's role throughout the budget process in Germany is fundamental as well. The Budget Committee is regarded as the most powerful and prestigious committee of the *Bundestag* which traditionally is the largest of the permanent committees (Budget Review: Germany 55). The prominence enjoyed by this particular committee is further enriched by its two constituting sub-committees: on Audit and European Union Questions. It is of a crucial importance to note that in contrary to the Budget and Finance Committee of Kosovo, the Budget Committee of the *Bundestag* has the audit component ingrained within itself. This structure necessitates the cooperation among these two independent institutions, ultimately resulting in a highly efficient and transparent budget process which predominately justifies budgetary appropriations on the annual audit reports which assess the financial performance of the budget organizations.

12. Critique of the Budget Process

The budget process constitutes one of the most important and complex processes conducted by Government. As such, high levels of institutional professionalism and process transparency are crucial constituents of an effective state budget, which ensures incremental economic growth and stability.

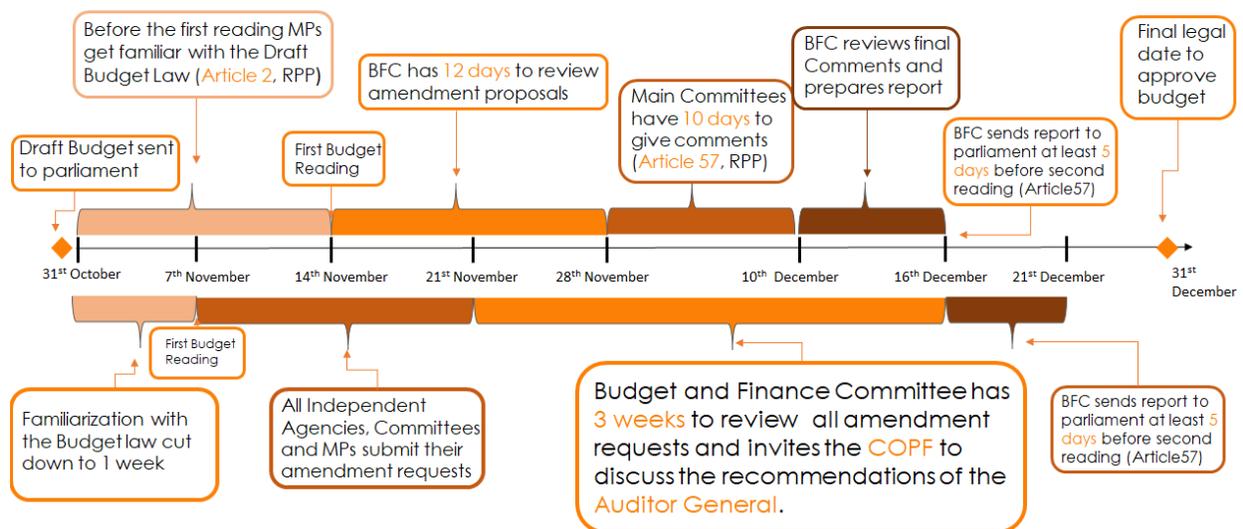


Figure 5: Recommendations

As could be observed in the previous section, the budget process, especially once it gets into the Assembly, has a limited timeframe which it must follow towards its path to completion. Therefore, time efficiency without compromising on the quality of the decision making is highly required by all Members of Parliament. It was briefly mentioned in the previous section that the Budget and Finance Committee has only 12 days to review all the

amendment requests set forth by the Independent agencies, Parliamentary committees, and members of Parliament. It is important to mention that since amendment requests from independent agencies predominate the aforementioned time interval, the Budget and Finance Committee is required by law to assess these requests which limit the time available for analysis of other macroeconomic indicators. In other words, the Budget and Finance Committee is using up most of its initial 12 review days with requests coming from Independent Agencies which constitute not more than 2 percent of the total budget. This is mainly due to political influences from certain interest groups which are aspiring to push specific agendas forward.

Further, the efficiency gap is exemplified by the phase in which the main parliamentary committees have 10 working days to review and comment the draft budget law. It is inefficient and nearly illogical to appoint almost two weeks to three committees to review if the draft budget law is in line with the legislation which the committees oversee when in parallel the Budget and Finance Committee has 12 days to deal with a far greater workload.

Another, if not the biggest, critique of the budget process is that the Budget and Finance Committee disregards the importance of the Committee on Oversight of Public Finances and the Auditor General completely. It was clearly described before that the role of the Auditor General is crucial. Its report provides fundamental financial insights on the expenditure of public money by all the Budget Organizations. Further, the report critically assesses the performance of public institutions and based on their thorough analysis provides an annual report which is intended to be used to inform decision-makers on the financial condition of each individual budget organizations. However, it is common practice

that budget organizations through relevant committees or members of Parliament request higher budget appropriations in Assembly which usually are approved without considering their budgetary performance in the previous year. This institutional behavior resembles a rather dangerous practice which inevitably has become standard in the Assembly of Kosovo. Hence, the Auditor General is the only independent institution which provides the necessary feedback to the Assembly which can be utilized to incentivize Budget Organizations to improve their budgetary performance.

However, the Auditor General has no direct link to the Budget and Finance Committee. As discussed in previous sections, the Committee on Oversight of Public Finances resembles the institutional bridge between these two institutions. Therefore, the consideration and analysis of the recommendations set forth by the Committee on Oversight of Public Finances and the Auditor General are fundamental before a decision on budget appropriations are made in Parliament.

13. Conclusion and Recommendations

The budget process of Kosovo, despite almost marking 10 years of conduct by its politically independent institutions, still lacks the necessary professionalism and remains heavily politicized. The systematic alienation of the Auditor General and the Committee on Oversight of Public Finances from the process has inevitably contributed to the continuous deterioration of the quality of the budget law and its corresponding financial derivatives. Further, the incremental discrepancies among the executive and legislative bodies constitute a distressing issue which needs to be addressed. In order to improve the Budget

Process of Kosovo, the role of the Auditor General needs to be fortified and its presence throughout the budgetary process has to become legally stipulated in the rules of procedure of the National Assembly. In addition, the Budget and Finance Committee is challenged with a vast amount of amendment requests from independent institutions which require a worrying amount of time to be reviewed. On the one hand, these amendment requests consume most of the legal time frame reserved for reviewing purposes by the Budget and Finance Committee. On the other hand, the budgetary allocations to these independent agencies only amount to around 2% of the total budget. This constitutes a serious time efficiency problem. The Budget and Finance Committee completely ignores the yearly audit reports from the Auditor General and the recommendations from the Committee on Oversight of Public Finances. This negligence constitutes an additional serious issue since budgets are being allocated to Budget Organizations regardless of satisfactory or poor financial performance in previous fiscal years. Considering the aforementioned I propose the following recommendations to improve the Budget Process in Kosovo:

1. The legal time frame of 10 days in which the Budget and Finance Committee initially reviews all amendment requests from Independent Agencies and other relevant Budget Organizations needs to be extended to 1 month, in order to ensure sufficient time for the review of these requests.

2. The legal framework needs to be amended in a way in which the recommendations stemming out from the annual report of the Auditor General are considered and implemented in the decision making throughout the Budget Process

3. Cooperation among the Budget and Finance Committee and the Committee on Oversight of Public Finances needs to be legally facilitated in order to ensure that informed decision-making is made.

14. References

Budget Circular. Ministry of Finance, Government of Kosovo. 2017, <https://mf.rks-gov.net/desk/inc/media/77E4293A-2201-42D0-AE0B-BDA04A62993E.pdf>

Budget Law 2018. Kosovo Parliament. 2018, <https://mf.rks-gov.net/desk/inc/media/ED82668F-DF99-42A3-A3ED-DE85125C56BC.pdf>

Budget Review: Germany. OECD Journal on Budgeting, Volume 2014, Issue 2. 2014, https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Fiscal_policy/Articles/2014-12-05-budget-system-scores-well-in-oecd-review-pdf.pdf?__blob=publicationFile&v=3

Citizen's Budget 2017. Ministry of Finance of Kosovo, Budget Department. Supported and illustrated by GIZ Kosovo. 2017, <https://mf.rks-gov.net/desk/inc/media/16656B6A-0F48-482F-91CE-136409F12D52.pdf>

Constitution of the Republic of Kosovo. Kosovo Parliament. 2008, <http://www.kryeministri-ks.net/repository/docs/ConstitutionIKosovo.pdf>

'Doracak për mbikqyrjen e buxhetit për komisionet e Kuvendit të Kosovës'. Organization for Security and Co-operation in Europe (OSCE). Mission in Kosovo. 2014, <https://www.osce.org/sq/kosovo/118104?download=true>

European Commission. "2016 Communication on EU Enlargement Policy". Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Brussels, 9.11.2016, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20161109_strategy_paper_en.pdf

Federal Budget Code of 19 August 1969 (Federal Law Gazette I, p. 1284), as last amended by Article 11 of the Act of 14 August 2017 (Federal Law Gazette I, p. 3122). Parliament of Germany. 1969, http://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Ministry/Laws/1969-08-19-federal-budget-code.pdf?__blob=publicationFile&v=4

'Funksioni Mbikëqyrës i Komisioneve Parlamentare'. Assembly of Kosovo. 2012, [https://www.kuvendikosoves.org/common/docs/SOM_Funksioni%20mbikqyres%20i%20komisioneve%20parlamentare-Alb%20\(2\).pdf](https://www.kuvendikosoves.org/common/docs/SOM_Funksioni%20mbikqyres%20i%20komisioneve%20parlamentare-Alb%20(2).pdf)

Instituti GAP. “*Buxheti i Kosovës- transparenca dhe format e raportimit buxhetor*”. Analizë Politikash. Financed by the British Embassy in Pristina. March 2013,

[http://www.institutigap.org/documents/42354_AnalizaperbuxhetinSHQIPfinal%20\(1\).pdf](http://www.institutigap.org/documents/42354_AnalizaperbuxhetinSHQIPfinal%20(1).pdf)

Instituti GAP. “*Projekt-Buxheti 2018: Përparësitë dhe Sfidat*”. GAP MEMO. 2017,

http://www.institutigap.org/documents/97632_Projektbuxheti_2018.pdf

Kosovo Agency of Statistics. “*Statistical Yearbook of the Republic of Kosovo for 2017*”. Office of the Prime Minister of Kosovo. 2017, <http://ask.rks-gov.net/en/kosovo-agency-of-statistics/add-news/statistical-yearbook-of-the-republic-of-kosovo-for-2017>

KOSOVO ECONOMIC REFORM PROGRAMME (ERP) 2017. Government, Republic of Kosovo. 2017, <https://mf.rks-gov.net/desk/inc/media/57179C7A-9531-4E3D-AEDE-ECC703B75D55.pdf>

LAW NO. 03/L- 049 ON LOCAL GOVERNMENT FINANCE. Assembly of the Republic of Kosovo. 2008.

LAW NO. 03/L-048 ON PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTABILITY. Assembly of the Republic of Kosovo. 2008.

Medium Term Expenditures Framework 2018-2020. Ministry of Finance, Government of Kosovo. 2017, <https://mf.rks-gov.net/desk/inc/media/87783928-03C2-4896-9385-F2B558FB5ED6.pdf>

Ministry of Finance. Department for Economic, Public Policies and Financial Cooperation. (Web). 2018, <https://mf.rks-gov.net/page.aspx?id=2,71>

NATIONAL DEVELOPMENT STRATEGY 2016 – 2021 (NDS). Office of the Prime Minister, Government of Kosovo. 2016, http://www.kryeministriks.net/repository/docs/National_Development_Strategy_2016-2021_ENG.pdf

RULES OF PROCEDURE OF THE ASSEMBLY OF THE REPUBLIC OF KOSOVO. Assembly of Kosovo. 2010, https://www.kuvendikosoves.org/common/docs/Rr_K_RK_29_04_2010_2.pdf

The Budget Committee. Deutscher Bundestag. 2018, <https://www.bundestag.de/en/parliament/function/legislation/18budgcomm/245886>

UN Woman. “*Gender Responsive Budgeting*”. National Committee Australia. 2018, <https://unwomen.org.au/our-work/focus-areas/what-is-gender-responsive-budgeting/>

Appendices

Appendix 1

