

Kosovo:

**Public Expenditure and Financial
Accountability (PEFA) Public Financial
Management Assessment**

March 2007

**Government of Kosovo (Provisional
Institution of Self Government) ¹**

¹ *This Assessment has been reviewed and agreed with the Kosovo authorities and participating international partners (DFID, IMF, European Commission DFID, and the World Bank. – TO BE CONFIRMED..*

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1 Introduction

Following the conflict between the Kosovar majority and the Milošević government, Kosovo has been administered by the UN Interim Administration in Kosovo (UNMIK). In 2001, a Constitutional Framework established the legal framework for the gradual transfer of responsibilities to the Provisional Institutions of Self-Government (PISG).

Today the responsibility for fiscal policy is split between the PISG and UNMIK. The PISG Ministry of Finance and the Economy (MFE) is responsible for the preparation of the Kosovo Consolidated Budget (KCB). But the KCB must accommodate appropriations for the Reserved Power Budget Organisations, i.e. those that answer to UNMIK, and it has to be approved by the Special Representative of the Secretary-General (SRSG) of the UN.

Responding to the high priority given to public financial management reform, a number of international development partners, including DFID, EAR, USAID, and the World Bank, have provided technical and financial support to build capacity and to improve PFM processes. While this assistance has been very valuable it is recognized by that there is an urgent need to develop a comprehensive strategy and a sequenced action plan on public financial management reform.

The purpose of this report is to provide the Kosovo authorities (PISG and UNMIK) with a structured assessment of Kosovo's PFM systems following the approach developed by the Public Expenditure & Financial Accountability (PEFA) consortium. It is the intention that the assessment will assist the MFE, Office of the Prime Minister, National Assembly and UNMIK Fiscal Affairs Office (FAO) in developing a PFM strategy, a strategy that will be an integral part of the Kosovo Development Strategy and Plan (KDSP) and Medium-Term Expenditure Framework (MTEF). The review is also intended to serve as an input to the preparation of joint donors program on public financial management and broader public sector reform and possible budget support as well as underpin the Government's dialogue with its development partners.

For the Assessment, the Government has established a task-force team in December 2006, headed by the Deputy Minister of Finance, and consisted of the Marco, Budget, Treasury, and Internal Audit departments of Ministry of Finance and Economy, Office of the Auditor General, Public Procurement Agency, and Tax and Customs Offices. The Assessment took place between December 2006 and February 2007. During this period, two field missions were undertaken with an intensive discussion with the task force team a field visit to the Prizeren Municipality. The Assessment also drew upon previous analytical works by the Government and international community.

The Assessment Team consisted of Junghun Cho, Allan Gustafsson (consultant) and Feridoun Sarraf (consultant), Belita Manka, Leonora Emini, and Albina Jupa of the World Bank. DFID made financial contribution for undertaking the assessment. PEFA Secretariat provided support on Assessment design and reviewed the final draft and provided useful comments. *Comments on subsequent drafts were provided the Kosovo Authorities, UNMIK, IMF, DFID, and the World Bank. The final report was reviewed and agreed with the Kosovo authorities and participating international development partners. (TO BE CONFIRMED IN THE FINAL REPORT)* .

2 Summary assessment

2.1 Integrated assessment of PFM performance

2.1.1 CREDIBILITY OF THE BUDGET

Appropriations in the KCB were through the 2004 budget expressed in commitment terms. Non-executed commitments in one year were automatically, and in full, carried over to the next year. In 2005, the budget was put on a cash basis and non-utilised commitments now lapse at year's end.

Because the Government, due to Kosovo's undefined status, has not been able to borrow either internationally or domestically, the Government faces a rock-hard budget constraint – it can not spend a cent more than it collects and receives from the donor community. Fortunately, revenue collection has increased very rapidly, particularly during the years 2000 – 2003. The rapid increase in revenue together with a relatively cautiously budgeted growth in expenditure led to a substantial cash buffer which the Government has been drawing down during the last three year.²

The Government's revenue forecasts in recent years have proven quite accurate given the volatile economic situation of Kosovo's while on the expenditure side there has been a systematic underestimation.

With commitment appropriations with automatic carry-overs, the Government has been required to budget with a substantial margin in order to be able to absorb swings in execution. Under the new regime, that margin can in principle be reduced because the Government is in better control of cash flows. Whether that will also happen in practice is too early to tell. The deviation for the total expenditure was -8.4 % in 2005. The outcome for 2006 is not yet available.

The difference between actual expenditure, and initially appropriated commitments or cash depending on the years, has been considerably greater when looking at the level of major expenditure headings rather than at total expenditure. One important explanation for that has been the practice of recording the appropriation for a substantial buffer fund under Ministry of Finance, a buffer which during the course of the year is then allocated to different ministries and institutions. The size of this buffer has, however, decreased over the years and transferred to a separate heading.

The deviations in 2005 still remained substantial, however. It is difficult to assess to what extent these deviations are driven by shifting priorities during the year and to what extent they are driven by uneven implementation capacity which forces the government to reallocate resources. The component deviations are greater for central government institutions than for the municipalities, probably reflecting a larger share of capital investment in central BO budgets. In future, assuming that external funds are channelled through the budget and the treasury system, the predictability of the budget will also depend on the stability and predictability of the donor support.

² Much of the buffer was wiped out at the end of 2004 ahead of the change in the appropriation regime as unutilised commitment appropriations were "cashed-in".

Because the government in recent years has not faced any liquidity constraints, and because all payments are processed through the Treasury Single Account, there are no recorded arrears. However, some de facto arrears may exist because invoices for vendors are, for various reasons, not passed to the Treasury by the time line ministries incur contractual obligation. The importance of such arrears is, however, impossible to assess as invoice issue and due dates are not systematically recorded in the treasury system.

2.1.2 COMPREHENSIVENESS AND TRANSPARENCY

The budget is nominally classified in three dimensions: administrative, programmatic and economic. In practice the administrative and the programmatic dimension are mixed together into a three-level hierarchical structure. The institutions are grouped into PISG central government institutions and municipalities and reserved power, i.e. UNMIK lead institutions. Third-level institutional/programmatic budgets are broken down into six economic categories; *capital outlays* is one of them. A detailed project list breaks down the capital outlays category. Budgets are also broken down by source of finance. There is no functional break-down or any clear programmatic or detailed sector breakdown that could have served as a proxy for analysis.

The budget, in a strict sense, is the Regulation passed by the SRSG, a bare-bone legal text with attached appropriation schedules. As from the budget for 2002, the MFE also produces a popularised budget document with more narrative and an extended set of explanatory tables. The 2006 Budget Book which was published a few months into the fiscal year is a vast improvement over the legal document, but there is a lot of scope for improvement in all areas: the description of the macro-fiscal framework, fiscal risks, government overall policies, initiatives and priorities, the descriptive analysis of the composition of revenue and expenditure, sector policies etc.

The budget and the accounts are comprehensive and in line with the GFS definition of *general government*. Central government and the municipalities are presented together. However, there are two exceptions to the comprehensiveness: some of the costs for expatriate personnel and some recurrent and capital costs mostly in reserved power institutions, and direct donor funding to individual public institutions. The responsibility for the latter situation rests more with international institutions than with the PISG.

The total volume of the budgetary transfer to the municipalities is set at 22.5% of total government revenue minus the BOs own direct revenue. The allocation of the transfer to municipalities is determined by three different formulae: for general administration, health and education, respectively. The formulae are simple and transparent but they have a structural weakness of making central government resource residual, moving opposite direction from revenue flow – detailed explanation is provided in page 24 - , and do rest on a weak statistical base, in particular when it comes to the population in the different municipalities.

In the past, the actual allocations to municipalities have apparently deviated from the calculated ones because of political pressures being exerted on the MFE.³ Actual spending has also deviated from appropriated levels but less so than for central BOs. During the last three years, the grants appropriated to the municipalities have become

³ See PEIR, WB, 2006

increasingly close to what is postulated by the formulas.

The Kosovo Government faces a number of potentially very serious fiscal risks, albeit most of them different from those which are the focus of the PEFA methodology. Many of them are related to the question of status. Operations now financed by UNMIK will have to be taken over. A post-status Kosovo will have to assume a part of the SFRY public debt presently serviced by Serbia. The net result of the privatisation of Socially Owned Enterprises and potentially of Publicly Owned Enterprises is an unknown, as is the time frame and the modalities, and thus the cost of, restructuring KEK.

A substantial fiscal risk of the Government's own making is the recent passing of a War Martyrs Law. As the law is presently written – allowing a very wide range of individuals to seek compensation – the fiscal impact could be very serious. Another fiscal risk is the possible implementation of a collective bargaining agreement signed by the unions and the Economic Chamber of Kosovo, an agreement which would provide a number of benefits for public sector employees as well.

What is important from general public financial management perspective is how well prepared the Kosovo public authorities are to deal with these potential threats to fiscal stability. That is extremely difficult to assess but the passing of the War Martyrs Law does not serve as good examples of fiscal discipline.

Finally, public access to fiscal information is relatively good in Kosovo. A lot of material, such as policy documents, circulars, the budget, fiscal report, and audit reports can be found on the web sites of MFE and the Office of the Auditor General respectively.

2.1.3 POLICY-BASED BUDGETING

The *Law on Public Financial Management and Accountability No. 2003/2* provides a quite modern and disciplining framework for the budget process. The law, among other things, stipulates that three-year revenue estimates be prepared and that three-year overall and BO expenditure ceilings be established. The law is not yet fully implemented but the direction is clear. The process for preparing and deliberating on the yearly budget proposal is stipulated in the law and updated in yearly budget circulars. Except for the 2005 budget, the budget has since the creation of the PISG been approved by the Assembly and by the SRSG before the beginning of the fiscal year.

Albeit mandated in the LPMFA, the multi-year perspective for planning and budgeting is still in its infancy. A first attempt at an MTEF was presented in December 2005 and revised in 2006. A Public Investment Programme (PIP) has lived its own life for a couple of year. While contribution from PIP to have established basic project preparation and selection procedures and capacity needs to be recognized, efforts should be made, after global and sectoral strategies have been elaborated in a Kosovo Development Strategy Programme now in the making, to integrate the PIP into an MTEF-like framework.

2.1.4 PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

The tax legislation is clear and comprehensive, as are the discretionary powers of the tax-collecting agencies. Information on the tax laws and the accompanying regulations is available on the web-sites of Customs and the Tax Administration Department (TAD) which, however, limits access to those companies connected to the Internet. Customs

and TAD have created parallel tax payer data bases which can be questioned from an efficiency perspective. Customs is clearly the more efficient agency in collecting assessed taxes but its task is also easier as no imported goods are released before taxes are paid. Arrears are common on domestic taxes. The problem is most acute for individual income and company tax. All tax as well as non-tax revenue transit to the Treasury Single Account (TSA) operated by Treasury.

The consolidation of cash resources in the TSA creates the conditions for good cash management. Not having the recourse to borrowing, the Government is forced to maintain a buffer in the TSA to meet short-term cash-flow fluctuations. So far the buffer has been sufficient and it has not been necessary to resort to cash rationing. To limit the fluctuations, the annual appropriations have been complemented by monthly or quarterly payment ceilings depending on the nature of the expenditure.

Cash management does not seem to have gone beyond the use of the TSA, however, and the substantial cash buffer built up from 2000 to 2003 has not been managed very actively. Rather the surplus has been sitting in BPK receiving only a nominal 2 percent interest.

Once the budget is promulgated, BOs know what their allocations will be, and because of the good liquidity situation, predictability in the availability of funds for committing expenditures by budget organizations has not been a problem. Clear rules exist as to the authority to vire between and within budget heads.

Controlling the payroll, on the other hand, has been problematic from the outset. There is a basic information system for managing civil service payroll in the Ministry of Public Services but the routines to check data have proven inadequate to weed out incorrect information. In early 2006, the Independent Oversight Board of the Ministry of Public Service carried out two hundred on-sight inspections but the problems continue which poses expenditure control, ethical, and even political problems.

The Public Procurement Law (PPL) defines open tendering as the preferred method for public procurement but there is no unambiguous data on what procurement methods have actually been used. It is thus not possible to accurately evaluate the system⁴. There are indications of an increased use of negotiated procedure with or without prior publication, and the annual reports of PPA reports that about 80 percent of requests submitted to PPA for permissions to use a negotiated procedure were approved. A complaints procedure exists, but the period for filing a complaint in regard to a procurement decision is only eight days.

Just about all payments are executed through the treasury system⁵. All requests for payment are screened first by the local treasury offices and finally by the central treasury office before a payment is made. Each step requires a number of signatures. The checks

⁴ The Assessment team was informed from the Public Procurement Agency of its recent establishment and publishing direct procurement information. However, the Team believes that the quality and reliability of the report has not reached the acceptable level yet. Once the database becomes fully functional, it would serve as a very useful information to assess public procurement system in the future.

⁵ The Government in addition holds a bank account in the Commerzbank A.G. in Frankfurt which is used as a transit account for some external assistance and for some direct payments to overseas suppliers.

seem to be mostly in regard to formal requirements, however. It is unclear to what extent any substantive value-for-money verifications and/or checks for procurement irregularities are made. Once approved, payments are made very promptly, but because invoice and due dates are often not recorded in the treasury system, it is impossible to assess the celerity and the propriety of the whole invoicing /payment chain.

Issues such as store management, asset safeguarding, work procedures, and any sector-specific internal issues are covered by non-standardized internal BO regulations and it is clear from internal and external audit reports that many problems remain in these areas.

In 2000, an Internal Audit Department (IAD) was created in the MEF. Its task is to catalyse internal audit in the BOs. Most BOs have established capacity to perform their own internal audits for compliance checks; the remaining BOs use the services of the IAD in the MFE. All BOs have annual audit plans, but none of them are communicated to the MFE and only some of them, upon request, to the Office of Auditor General (OAG). Nonetheless, internal audit reports seem to be used more extensively by the OAG than by the BOs' own management.

2.1.5 ACCOUNTING, RECORDING AND REPORTING

The centralisation of most of Government cash in a Treasury Single Account, albeit with a number of sub-accounts, as well as the presence of a centralized accounting system in the Treasury greatly facilitate reconciliation of government accounting and banking functions. This is further supported by a reasonably well-functioning revenue accounting and banking functions. The transit accounts of Customs are reconciled daily while the Tax Administration Department does monthly reconciliation of its transit account. In both cases the balances of these transit accounts are deposited into the Treasury Single Account on a daily basis. Proceeds from the privatization of State Owned Enterprises are not transferred to the TSA but held in a separate bank account operated by the Kosovo Trust Agency (KTA).

Thanks to the centralised accounting system, detailed quarterly as well as yearly reports are published on a timely basis and give a good overview of the finances of the Government. All reports are based on cash-based International Public Sector Accounting Standards (IPSAS), presented in a number of dimensions and are considerably more informative than the budget document. Some ministries and municipalities have their own supplementary and to some extent parallel accounting systems.

2.1.6 EXTERNAL SCRUTINY AND AUDIT

The Office of the Auditor-General (OAG) was established in 2000 with universal and standard powers and responsibilities. The Office which is an UNMIK reserved power is primarily responsible for auditing those government operations that are included in the consolidated budget (both central and local governments), as well as publicly owned enterprises. Audits are carried out based on an audit plan, but for lack of sufficiently trained staff only about 50 percent of the government's operations are audited annually. Upon requests from the SRSG and the Assembly, the OAG may audit specific government agencies or public enterprises where special problems are known to exist.

The Assembly deliberates extensively on the budget proposal and reviews reports by the

OAG. But it is clear that its interest is greater in the budget than in the audit reports, an indication of which is that the Assembly rarely issues any recommendations to the executive branch on the findings of the OAG.

2.2 Strength and weaknesses of the Kosovo PFM system

2.2.1 STRENGTHS

The greatest strength of the Kosovo PFM is its treasury system; not because of its sophistication in terms of functionality or its classification system, but simply because it is comprehensive and is able to produce timely and reasonable analytical reports. The centralised budget execution, accounting and payments system linked to the treasury single account furthermore substantially reduces the risk of funds being misappropriated. It is not a guarantee against fraudulent behaviour in connection with procurement, but the single and comprehensive set of ledger accounts facilitates reporting, control and audit. Even though the treasury system still has a number of weaknesses as identified in the report from the OAG⁶, strength seems clearly outweighs weakness.

The Treasury Single Account is a prerequisite for good cash management and Treasury has, unlike in several other countries, been able to close most non-TSA bank accounts. This said, there is still more to be done to improve cash management, including when political status is resolved, developing a better policy for and a capacity to manage short-term liquidity and medium-and longer-term public debt, when the Kosovar government will have the authority to borrow. Another area that functions well in Kosovo is the the Customs Department. Given the heavy reliance on taxes collected at the border this is very important for the Kosovo public finances.

Good fiscal reports are produced based on the information extracted from the treasury system and the reports from the Auditor General are available on the Internet. The 2006 budget document in a more accessible and richer format is considered a good start, but there is a lot of room for improvement. And it should be published in a draft when the budget bill is submitted to the Assembly and finalised after approval, not three months into the year.

2.2.2 WEAKNESSES

A fundamental weakness of the Kosovo public financial management system is its lack of long-term direction. While the LPFMA speaks of a three-year budget perspective, the fiscal perspective has de facto been annual.

With status resolution in sight it behoves the government a longer-term strategy to guide a rolling multi-year budget process. A number of initiatives have been taken to develop such a longer-term framework but these initiatives have still to come together. A Medium Term Budget Framework for the 2006-2008 period aimed largely at the donor community has been developed Preceding these two documents was a Public

⁶ Concerns raised by the OAG Reports from 2004 and 2005 include; a) "MFE IT system does not allow any overspends, by vote and economic classification, and the apparent lack of reporting by functional classification"; b) "... un-reconciled difference recorded in the statement of cash receipts and disbursements." While they are valid concerns and Government should make serious efforts to address them, the PEFA Assessment team is in a position to argue that these inefficiency is rather immaterial given the nature and size of discrepancies.

Investment programme encompassing some 1,600 mostly small investment projects.

Hopefully the Kosovo Development Strategy Programme (KDSP) and Medium Term Expenditure Framework (MTEF) now in the making will constitute a fresh start that eventually will lead to a cohesive set of planning and budgeting instruments. In this process, the PIP approach should be reviewed so as to avoid going down the road of classic, inefficient, projectised external support.⁷ It is important that the KDSP and MTEF also very explicitly and courageously address the fiscal risks that have been identified in this and other reports.

A second area of weaknesses is internal controls and audit and external audit. While internal audit departments have been established in most BOs and while EU Public Internal Financial Control (PIFC)-compliant regulation is in place, line ministries' capacity remains still very weak. Furthermore, its impact on the operations of internal audit appears to be limited which points in the direction of poor accountability mechanisms. Managers are not adequately held accountable for irregularities or inefficiencies. The same seems to be true in relation to external audit. The main weakness again is the limited impact that the audits seem to have. An important explanation of this is, probably, the lack of interest displayed by the Assembly in relation to the reports. The lack of involvement of the legislative is not compensated by any one body within the executive following up on the audit findings.

Other areas of weakness are procurement and payroll management. In regard to procurement, the most pressing challenge is to bring the legal provisions into practice. The legal framework for public procurement is well developed, but for lack of capacity and because of political interference, the way the law is practiced is far from satisfactory. As far as payroll management is concerned, there is not a single, comprehensive civil service registrar and neither MFE nor MPS know exactly how many civil servants exist. Treasury has introduced mechanisms to control total wage bill spending by BOs but there is much to be done to achieve efficient and transparent payroll management. The weaknesses in both areas should be viewed in the context of overall weak governance rather than as purely technical features of the financial management system.

2.2.3 KOSOVO PFM FROM A FIDUCIARY PERSPECTIVE

Weighing the relative strengths and weaknesses of the Kosovo public financial management system the conclusion must be that the strengths of the Treasury outweigh the weaknesses in the other areas, and that the level of a fiduciary risk is low enough for external partners to consider budget support to Kosovo.

⁷ Preparing a cohesive policy framework does not necessarily mean changing policy. The focus may very well remain on ensuring well functioning core public functions and to pave the way for EU membership.

3 Country background information

3.1 Description of country economic situation

As part of the Socialist Federal Republic of Yugoslavia, Kosovo developed from a predominantly agricultural economy into one based on mining and an emerging industry. As the conflict between the Albanian majority in Kosovo and the Milošević regime accelerated, neglect of the industrial base led to a return to a largely agrarian economy. Income per head fell by an annual average of 13 percent during the first part of the nineties as the industrial sector and employment contracted - to reach less than US\$400 per head in 1995. The massive international response following the armed conflict in 1999 aided by a steady flow of remittances from abroad as well as domestic growth has now raised the average per capita income to somewhere in the range of \$ 1,400 per annum.⁸

The Kosovo economy is still very dependent on and thus very vulnerable to changes in the size of the international presence. Demand generated by the reconstruction efforts and the consumption of the international organisations and their staff have fuelled domestic demand and created a vibrant service sector. The contribution of the international donors to economic growth has fallen in recent years as donor-funded programs have been reduced significantly. To some extent the slow down of this engine of growth has been counterbalanced by growing local private sector activity with new investment occurring in industry and construction as well as by increased government spending.

As long as the status of Kosovo is not resolved the prospects for growth are, however, rather bleak. The sizeable diasporas (in relative terms) will be able to inject both capital and know-how, but for non-diasporas investment to take place on any larger scale, a resolution of status is a *sine qua non*. Kosovo is a resource-rich country (lignite-coal, nickel and other metals) but its profitable long-term exploitation requires that ownership issues are resolved in order for the necessary investment to come forth.

Despite the rapid recovery in per capita BNI, large formal unemployment and poverty are serious problems. The official unemployment estimates hover around 50 percent. The informal sector provides a safety net for many, but this notwithstanding, in 2002 37 percent of the population were counted as poor, defined as living on less than Euro 1.42 per adult equivalent.⁹ Poverty is relatively shallow, however, with most poor households living just below the poverty line.

3.2 Description of budgetary outcomes

The tables below summarise the development of the Kosovo public finances since 2000.

⁸ Statistics in the country are very weak and the intended census is yet to be carried out. Thus the economic statistics presented in this and in the reports on which the section is based are mere guesstimates. The weakness of the statistical base has resulted in a number and substantial revisions of per capita GNP and GNI figures during the last few years.

⁹ World Bank (2005): Poverty Assessment – promoting opportunity, security and participation for all.

3.2.1 REVENUE

*Government revenue 2003 – 2005**Million Euro*

	2003	2004	2005
Total revenue	593,4	610,6	639,4
Tax revenue	520,2	533,1	553,3
Income tax	64,6	69,4	82,7
<i>Profit tax</i>	28,4	31,0	12,7
<i>Corporations tax</i>			22,4
<i>Presumptive tax</i>	19,7	13,1	6,7
<i>Personal income tax</i>	16,5	20,2	36,2
<i>Unspecified tax revenue</i>		5,0	4,7
Taxes on consumption	43,0	44,8	46,4
<i>VAT domestic</i>	37,7	44,8	46,4
<i>Discrepancy</i>	5,3		
Border taxes	428,3	436,0	434,4
<i>Customs duties</i>	72,3	70,6	71,9
<i>Excise (border and domestic)</i>	171,4	176,0	164,3
<i>VAT imports</i>	180,6	186,4	195,2
<i>Other taxes & revenues</i>	2,6	2,9	2,9
<i>Discrepancy</i>	1,4		
Tax refunds	-15,7	-17,0	-10,1
Non-tax revenue	68,9	77,5	74,9
Interest income, fees & others	45,3	53,8	46,3
Municipal own source revenue	23,6	23,7	28,6
Grants (through Treasury)	4,3	0,0	11,2

(Source: PEIR, WB & Financial Accounts 2005, PISG)

Distribution of Kosovo Public Revenue 2003 – 2005 (within-category percentages)

	2003	2004	2005
Total revenue	100%	100%	100%
Tax revenue	88%	87%	87%
Income tax	12%	13%	15%
<i>Profit tax</i>	44%	45%	15%
<i>Corporations tax</i>	0%	0%	27%
<i>Presumptive tax</i>	30%	19%	8%
<i>Personal income tax</i>	26%	29%	44%
<i>Unspecified tax revenue</i>	0%	7%	6%
Taxes on consumption	8%	8%	8%
<i>VAT domestic</i>	88%	100%	100%
<i>Discrepancy</i>	12%	0%	0%
Border taxes	82%	82%	79%
<i>Customs duties</i>	17%	16%	17%
<i>Excise (border and domestic)</i>	40%	40%	38%
<i>VAT imports</i>	42%	43%	45%
<i>Other taxes & revenues</i>	1%	1%	1%
<i>Discrepancy</i>	0%	0%	0%
Tax refunds	-3%	-3%	-2%
Non-tax revenue	12%	13%	12%
Interest income, fees & others	66%	69%	62%
Municipal own source revenue	34%	31%	38%
Grants (through Treasury)	1%	0%	2%

(Source: PEIR, WB & Financial Accounts 2005, PISG)

The very rapid growth in revenue of the early years of the first post-conflict years slowed down to 2.9 percent in 2004 and 4.7 percent in 2005. As can be seen from the second table, Kosovo is very dependent on border taxes. Albeit slowly coming down, almost 80

percent of total revenue emanates from VAT and other taxes levied on imports.¹⁰

Income taxes only make up 15 percent of total tax revenue. In 2005, a corporation tax was introduced largely replacing profit tax. Personal income tax has increased dramatically in the last three years, in 2005 making up 44 percent of total income tax, albeit still only 6.5 percent of total tax revenue. Non-tax revenue makes up 12 percent of total revenue, 38 percent of which Municipal own source revenue. Efforts are being made to boost the municipal revenue but growth has been slow.

As regards external assistance only that which passes through the treasury is reflected in the tables. In 2005 it is estimated that an additional 91.1 million Euros was made available directly to budget organisations at central and municipal level. Nor do the tables reflect UNMIK expenditure.¹¹

3.2.2 EXPENDITURE

<i>Kosovo Consolidated Public Expenditure 2000 – 2005</i>	<i>million Euro</i>					
	2000	2001	2002	2003	2004	2005
Current expenditure	234,9	282,7	367,2	460,9	578,1	529,3
- wages and salaries	92,3	117,0	131,4	145,7	184,2	194,6
- goods and services	73,6	103,7	148,2	185,8	203,7	142,8
- subsidies and transfers	68,1	61,6	87,6	127,0	186,2	191,8
- reserves	1,0	0,4	0,0	2,4	3,9	0,0
Capital outlays (treasury exec.)	0,0	6,6	62,1	97,8	191,8	144,9
Total Treasury Executed Expenditure	234,9	289,3	429,2	558,7	769,8	674,1
Extra-treasury external assistance (est.)	576,3	561,3	371,7	248,4	140,7	91,1
Total Public Expenditure (estimate)	811,1	850,6	800,9	807,1	910,6	765,2

(Source: PEIR, WB & Financial Accounts 2005, PISG)

In the year immediately following the conflict and the setting up of UNMIK, the bulk of public expenditure, 71 percent, was executed by UNMIK. Following the establishment of the Provisional Institutions of Self-Government (PISG), and the reduction of foreign assistance, an increasing share of public spending has been executed by Kosovar institutions. In 2005 the share was approximately 88 percent. A corollary of this shift is an increasing share of treasury executed expenditure going to capital outlays – from zero percent in 2000 to 21 percent in 2005.

¹⁰ In the financial accounts for 2005, no distinction is made between excise levied on imports and domestically goods respectively. Thus the table, which had to be pieced together from different sources, is somewhat inconsistent.

¹¹ Local staff and part of recurrent expenditure in Reserved Power Institutions are reflected in the tables while expenditure of expatriate staff and some recurrent and capital expenditure are not.

Current expenditure increased very rapidly during the first post-conflict years, peaking in 2004 as BOs sought to “cash in” on outstanding commitments ahead of the change from a commitment- to a cash-based budget. In 2005, treasury expenditure came down considerably but was still 21 percent higher than in 2003.

The wage bill doubled from 2000 to 2005 but has actually decreased somewhat as a portion of total recurrent expenditure. Subsidies and transfers, on the other hand, have increased as a portion of total expenditure.

Distribution of Kosovo Public Expenditure 2000 – 2005

	2000	2001	2002	2003	2004	2005
Current expenditure	100%	98%	86%	82%	75%	79%
- wages and salaries (of current exp.)	39%	41%	36%	32%	32%	37%
- goods and services (of c.e.)	31%	37%	40%	40%	35%	27%
- subsidies and transfers (of c.e.)	29%	22%	24%	28%	32%	36%
- reserves (of c.e.)	0%	0%	0%	1%	1%	0%
Capital outlays (treasury executed)	0%	2%	14%	18%	25%	21%
Total Treasury Executed Expenditure	100%	100%	100%	100%	100%	100%
Treasury Executed Expenditure	29%	34%	54%	69%	85%	88%
Extra-treasury external assistance	71%	66%	46%	31%	15%	12%
Total Public Expenditure (estimate)	100%	100%	100%	100%	100%	100%

(Source: PEIR, WB & Financial Accounts 2005, PISG)

3.3 Description of the legal and institutional framework for PFM

The responsibility for public financial management in Kosovo is shared between the PISG and UNMIK. The relative importance of the two parties in this power-sharing arrangement has gradually and systematically shifted towards the PISG. The SRSG still has the final authority to set the financial and policy parameters and to approve the Kosovo Consolidated Budget acting on the advice of the Economic and Fiscal Council. In practice the SRSG intervention in this process is nowadays quite limited. For the 2006 budget the SRSG imposed his will on a couple of issues, the rest was effectively determined by the MFE and the National Assembly.

The Municipalities are constitutionally separate from the central government but depend heavily on the central government for financing. Their budgets are executed through the same treasury system as that which is used for central government budget organisations.

The legal framework for public financial management is provided by Law No. 2003/2, the *Law on Public Financial Management and Accountability*. The law stipulates among other things that aggregate expenditure ceilings shall be set for the Kosovo Consolidated Budget three fiscal years, and that these ceilings shall be broken down into sector-specific expenditure ceilings. However, practice has not expanded beyond immediate outer year.

Assessment of the PFM systems, processes and institutions

3.4 Budget credibility

3.4.1 PI-1 AGGREGATE EXPENDITURE OUT-TURN

PRESENT SITUATION

Appropriations in KCB were through the 2004 budget expressed in commitment terms. Non-executed commitments in one year were automatically, and in full carried over to the next year. In 2005, the budget was put on a cash basis.

For this reason the table below presents deviations between actual expenditure and new/initial appropriations as well as deviations between actual expenditure and new/initial appropriations plus non-utilised appropriations carried over from the preceding year.

It is important to note that due to the change from a commitment-based to a cash-based budget, the appropriations for 2003 and 2004 are different from those for 2005 and should not really be compared. Prior to 2005, appropriations referred to non-lapsing commitments. As from 2005, appropriations set a ceiling for cash outlays during the year. Non-utilised appropriations lapse at the end of the year and have to re-appropriated if they are to be “carried over” from one year to another.

Table 3.1 Appropriation – expenditure deviations

Deviations		2003	2004	2005
Actual - Initial appropriation	Total deviation	-14,1%	-3,4%	-8,4%
	Component deviation	43,3%	41,6%	12,1%
	Component - total deviation ¹²	57,4%	44,9%	20,5%
Actual - Initial appropriation + carry-over	Total deviation	-33,4%	-20,5%	-6,7%
	Component deviation	32,4%	27,8%	13,6%
	Component - total deviation	65,8%	48,3%	20,3%

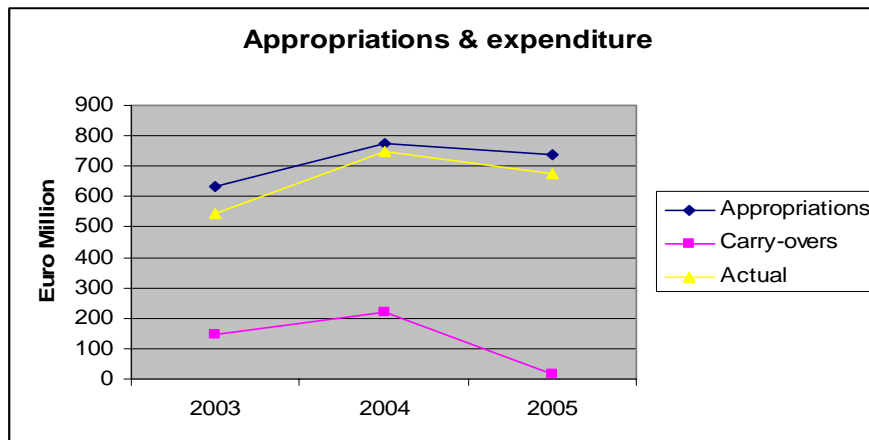
One reason for the shift from a commitment- to a cash-based budget was the difficulty managing aggregate public spending under a commitment regime. As can be seen from the diagram below, there were, during the period 2003-2005 some quite substantial swings in appropriation level as well as in actual expenditure. Actual spending increased by 38 percent in 2004 and then fell back 10 percent in 2005 after the shift to cash-based

¹² The component deviation is defined as the sum of the absolute deviations between the original appropriation and actual expenditure as a percentage of total primary expenditure. The deviation is calculated on the basis of the nineteen major budget heads and the appropriations for the remaining budget heads summarised to one “other budget heads” category. This component deviation is then deducted from the deviation for aggregate expenditure. The percentage thus calculated indicates to what extent the deviations for the components of the budget exceed that of the aggregate.

budget. The swings partly reflect changes in the yearly appropriation but these swings were accentuated by changes in carry-over volumes. While carry-overs were, in principle, eliminated with the change in budgeting principles, there were actually some carry-overs even in the 2005 budget. Complete expenditure tables are appended.

It is noteworthy that the deviation in all years has taken the form of under-spending. The reason is mostly delays in the execution of capital projects. The IMF has also enjoined PISG to exercise caution in the planning of expenditure for fear that the revenue projections prove over-optimistic..

Figure 2.1 Evolution of appropriation, carry-overs and expenditure



ASSESSMENT AND SCORE

Because of the change in budget principles scoring this indicator according to standard PEFA criteria is not really appropriate. Nonetheless, for only as an indicative purpose, a score is offered for this indicator, a score based solely on the deviation in 2005. To indicate this departure from the PEFA methodology the score is set in parenthesis. Deviations under the two sets of principle are shown for reference in table 3.1 above. The table shows deviations calculated with and without carry-overs.

What is important is that the change to cash-based budgeting does seem to promise much greater predictability and stability in aggregate expenditure. The deviation in 2005 of 8.4 percent is still substantial. But the necessary mechanisms – albeit still untested – are in place in order to control aggregate spending at least when it comes to the spending that passes through the Treasury system. The challenge for the government and for the donor community will be to make future externally funded expenditure as stable and predictable.

Indicator	Explanation	Score
The difference between actual primary expenditure and the original budgeted primary expenditure (i.e. excluding debt service charge but also excluding externally financed project expenditure)	In 2005, actual expenditure deviated from initial cash appropriations by 8.4 percent. In 2003 and 2004 the difference between actual expenditure and appropriated commitment authorisations was 14.1 percent and 3.4 percent respectively.	(B)

3.4.2 PI-2 COMPOSITION OF EXPENDITURE OUT-TURN

PRESENT SITUATION

As can be seen from the tables in the appendix, appropriated commitment authorisations in 2003 and 2004 and initially appropriated cash in 2005 have differed substantially from actual expenditure when looked at the level of major headings.¹³

One important explanation for that has been the practice of recording the appropriation for a substantial buffer appropriation under Ministry of Finance, a buffer which during the course of the year is then allocated to different ministries and institutions. The size of this buffer has decreased over the years. In 2003 it was in the order of 113 m€, in 2004, some 84 m€. In 2005 this type of budget was reduced substantially and also recorded under separate heading. The change to cash based budget and the reduction of the buffer in the budget has reduced considerably the variations between what was originally budget and what was eventually executed. The absolute deviations – albeit not strictly comparable because of the change in budgeting principles – have gone from 57.4 percent in 2003 to 20.5 percent in 2005 when excluding carry-overs and from 65.8 percent to 20.3 percent when including them.

Again, because of the change in budget principles scoring this indicator is not really appropriate if the PEFA methodology is to be strictly adhered to. A score based merely on the deviations in 2005 is nonetheless offered within parenthesis.

ASSESSMENT AND SCORE

Indicator	Explanation	Score
Extent to which variance in primary expenditure composition exceed overall deviation in primary expenditure	Variance in expenditure composition exceeded overall deviation by 57.4, in 2003 44.9 percent in 2004 and 20.5 percent in 2005, excluding carry-overs. Including the latter, the deviations were 65.8, 48.3, and 20.3 respectively.	(D)

3.4.3 PI-3 AGGREGATE REVENUE OUT-TURN

PRESENT SITUATION

Domestic revenue collection increased almost five-fold between 2000 and 2004. The increase was the strongest during the first three years and started to level off in 2003 and has since then followed a relatively stable growth path. Despite this very dynamic and less than stable path, revenue forecasts have been quite accurate – at least as far as the aggregate is concerned – as can be seen in the table below.

Revenue	Actuals			Actuals as % of estimated		
	2003	2004	2005	2003	2004	2005

¹³ The deviations are calculated following the PEFA manual: budget and expenditure is shown as per the major headings. Twenty headings are shown, the twentieth heading being an amalgamation of twenty or so of the smallest budget heads.

Costums	413,45	419,04	434,38	100,1%	99,7%	100,2%
Tax on Income	108,85	114,16	118,92	109,9%	101,3%	107,1%
Nontax Revenue	41,59	45,9	46,33	93,7%	88,1%	82,4%
Municipalities	22,95	23,17	28,58	82,6%	68,1%	82,1%
TOTAL	586,84	602,27	628,21	100,4%	97,3%	97,9%

The projections show a stable pattern. The projections for customs revenue collection have been quite accurate while the collection of tax on income has been systematically underestimated albeit not by that much. The collection of non-tax revenue and the revenue collection by municipalities, on the other hand, are systematically and substantially over-estimated. But since the volume of the latter two types of revenue is limited, the effect of this over-estimation on the total is also limited.

REFORMS UNDERWAY

In order to stimulate revenue collection at municipal level, the Government is implementing a matching grant scheme for the General Public Service Grant.

ASSESSMENT AND SCORE

The projections for revenue collection have been quite accurate considering the very special nature of the Kosovar economy.

Indicator	Explanation	Score
Actual domestic revenue collection compared to domestic revenue estimates in the original approved budget	Actual collection as compared to estimated collection was 100.4, 97.3 and 97.9 percent in 2003, 2004, 2005 respectively	A

3.4.4 PI-4 PAYMENT ARREARS

PRESENT SITUATION

All payments are handled through the treasury system. Invoices are submitted by budget organization to a local treasury office which records the invoice and, if the supporting documentation is complete, registers the invoice for payment. The request for payment is picked up by the central treasury office for final approval and executed.

In the FreeBalance system is recorded: a) the date when the invoice is submitted, to the treasury office, b) when it is expected by the treasury office to be paid, and c) when it is actually paid. The system allows the recording of the date of the invoice but it is not obligatory and often ignored even if the Treasury encourages the local Treasury offices to enter the information. There is no entering of due dates as this is normally regulated in the contract. The default delay, when no date is specified in the contract, is thirty days after delivery of goods.

Once an invoice is recorded in the system, it is generally paid within a couple of days. Because the government has, hitherto, not suffered from any cash flow problems, no cash rationing has taken place and thus there has not been any build-up of arrears.

On the other hand, there is some anecdotal evidence that invoices are not always immediately passed by the BOs to the Treasury for payment. There could be different reasons for that happening. The budget is specified by source of finance and there is generally no virement between sources of finance.¹⁴ World Bank funding for education can, for example, not be used for other purposes, not even temporarily as part of cash management – funds are locked in. The reverse of that is that when there are no money in the WB Education sub-account, invoices for projects earmarked for World Bank funding can not be paid.¹⁵

Another reason why invoices are not submitted for payment could be that a project is initiated before it has been approved for inclusion in the budget. And, if a project is not in the budget, no invoices pertaining to it can be paid.

Because, as mentioned above, the date of the issue of the invoice is often not recorded, it is for all practical purposes impossible to determine to what extent there are delays in the submission of invoices to the Treasury. It should be of concern to the authorities and measures should be taken to tap this possible source of arrears.

ASSESSMENT AND SCORE

Indicator	Explanation	Score	Combined
(i) Stock of expenditure payment arrears and any recent changes in the stock	In principle there are no arrears - at least none caused by lack of liquidity. If there are any off-the-record arrears, the volume can not be ascertained but it is probably low	A	D+ ¹⁶
(ii) Availability of data for monitoring the stock of expenditure arrears	Date of issue and due date of invoice are not recorded	D	

3.5 Comprehensiveness and transparency

3.5.1 PI-5 CLASSIFICATION OF THE BUDGET

PRESENT SITUATION

Budgets for central and municipal institutions are presented in the same budget document but in slightly different formats.

As for the central institutions, a distinction is made between PISG institutions and Reserved Power Authority institutions, i.e. those controlled by UNMIK. (The coverage of the budgets for the Reserved Power Institutions is further discussed under PI-7)

¹⁴ There is one exception, the central grant intended for administration can be used for other purposes like education or health – but not vice versa.

¹⁵ The mechanism used for the WB Education project is one of advance-replenishment, but despite that funds are apparently not always at hand when invoices are to be paid. There is an “open the budget” process without which no funds are available. If not performed in time, this procedure might lead to arrears as well

¹⁶ Two types of scoring methodology are established in the PEFA methodology the first one where the score is determined by the weakest score. If this, the weakest score is considerably below the other score(s) this is indicated by a +. The other scoring method is taking the average of the component scores. For further explanation of the scoring methodology see the PEFA manual at: <http://www.pefa.org>

The budget is nominally classified in three dimensions: administrative, programmatic and economic.

In practice the administrative and the programmatic dimension are mixed together into a three-level hierarchical structure. The highest level is normally an administrative unit, most often a ministry, but there are exceptions such as “negotiation for status”, “reconstruction fund”, and “advance to the Finance for Finance and Economy”. The second level are most often departments, offices or agencies but it may also be a programmatic or functional area such as “Economic development” or “Road infrastructure”, “pensions” etc. The third level may be an administrative unit, a program or a function.

The economic breakdown of the central budget is made into six categories: a) Wages and salaries, b) Goods and services, c) Utilities, d) Subsidies and services, e) Capital outlays, and f) Reserve.

The part of the budget referring to the municipalities is broken down by municipality and within each municipality into six standardized programs common to all municipalities: a) Administration, b) Education, c) Health, d) Fire-fighter unit, e) L.C.O. and f) L.C.R.

Expenditure is broken down into the same categories as for central government “programs”, minus the category “reserve”. Expenditure by type is furthermore broken down by source of financing. In the budget for 2006 there are seven sources of financing:

- Municipal administration grant
- Education grant
- Health grant
- Firefighter Unit grant
- L.C.O. grant
- L.C.R. grant

The result is a thirty-cell (5*6) appropriation matrix

The budget schedules for central as well as municipal institutions also contain information on the full-time equivalent positions of employment per lowest administrative or programmatic unit.

The budget book furthermore contains a complete list of investment projects at central as well as at municipal level. The list constitutes a breakdown of the expenditure category “capital outlays” in the budgets for the budget organizations. Many of the investment projects are very small referring to things like “Repair and light Zara Street” at Euro 4,000.

REFORMS UNDERWAY

As part of the MTEF process, the government solicited proposals for investment projects for domestic and/or external financing. A large number of proposals were submitted. Those classified as Category 1, which were to be financed by the Government's own sources, were included in the budget. While those under category 2 and 3 intended for donor financing. If and when such financing is forthcoming, the

intention – at least as per present plans – is to include information on such projects in sub-schedules to the column of “capital outlays” in budget schedules. Any external funding of such projects would be presented “below-the-line”. Concretely what form such “below-the-line” presentation would take is at this point in time not clear.

ASSESSMENT AND SCORE

Indicator	Explanation	Score
The classification system used for formulation, execution and reporting of the central government budget	The budget and the accounts are presented according to a mixed institutional/programmatic and a coarse-grained economic classification. The first dimension could relatively easily be mapped into a high-level functional classification.	D+

3.5.2 PI-6 COMPREHENSIVENESS OF INFORMATION INCLUDED IN BUDGET DOCUMENTATION

PRESENT SITUATION

The table below presents an overview of the information available in the Budget Book which presents the budget for 2006 of the Kosovo Government. The document was produced in April of 2006 for information and accountability purposes. Such documents have also been prepared in earlier years. The Budget Regulation for 2006 promulgated by the Special Representative of the Secretary General consists of seven-page law text supported by a set of schedules specifying the appropriation details.

	Information	Yes	Comments
1	Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.		Although these assumptions underlie the program effectively agreed with the IMF through the Memorandum of Economic and Financial Policies (MEFP) that seals that agreement and are readily available, this information is not presented in the Budget Book
2	Fiscal deficit, defined according to GFS or other internationally recognized standard.	✓	The fiscal deficit is shown in a table of the Kosovo Consolidated Budget. It is worth noting that the planned deficit of the budget is lower than the prior MEFP agreed with the IMF; m€ 43.8 vs. m€ 77. The budget is on a pure cash basis.
3	Deficit financing, describing anticipated composition.	✓	The budgeted financing is a draw-down of cash reserves plus a repayment of a loan to the Pristina Airport.
4	Debt stock, including details at least for the beginning of the current year.	N/A	Not being a recognised, independent state, the Kosovo government can not borrow.
5	Financial Assets, including details at least for the beginning of the current year.		Information on financial assets and liabilities are available in the Financial Statement of the Government's but it is not presented in the Budget Book.
6	Prior year's budget outturn, presented in the same format as the budget proposal.		In the budget document, each ministerial area is presented with a brief introductory text and a summary table broken down by department or area. These tables contain a comparison with the approved budget and actuals for 2005. There is no such consolidated table for the entire government

			nor do the detailed appropriation schedules contain such comparisons.
7	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.		See above
8	Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.		There is just one aggregated summary table for revenue, expenditure, and financing without any administrative, functional/sectoral breakdown and with no comparison with earlier years' budgets.
9	Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	N/A	The 2006 budget does not imply any major policy changes in relation to the 2005 budget.

ASSESSMENT AND SCORE

The paucity of information in the Budget Book is not reflection of a lack of underlying information. The macroeconomic and overall fiscal framework is agreed with the IMF and could easily have been presented in an ampler and more pedagogical way.

Nor would it be difficult to present in a number of summary tables the administrative and economic composition of the budget. The information is in the Budget Data Management System (BDMS) and FreeBalance and to extract, combine, sort, aggregate and present it is a basic database task. An acceptable functional breakdown of the budget (and the accounts) could also be produced by associating each budget entry at the lowest of the three level institutional-programmatic structures with a specific COFOG code.

Indicator	Explanation	Score
Share of the above listed information in the budget documentation most recently issued by the central government.	The 2006 budget document contains two of the seven relevant categories of information listed.	C

3.5.3 PI-7 UNREPORTED GOVERNMENT OPERATIONS

PRESENT SITUATION

Because of the undefined international status of Kosovo, its present governance structure and financial management set-up are unique. Authority and responsibility is shared between the Provisional Institutions of Self-Governance (PISG) and the United Nations Interim Administration Mission in Kosovo (UNMIK).

Concretely this means that some (the majority) of institutions and areas are under the control of PISG, while others like customs, the police, and justice are still controlled by UNMIK. All institutions are, however, included in the Kosovo consolidated budget (KCB). Expatriate staff is present in most institutions and at all levels but their numerical importance is greater in the institutions under UNMIK than in those under PISG – with the possible exception of MFE. The cost of expatriate staff and for the most part ancillary costs for vehicles, office equipment etc. is not recorded in the KCB.

It has not been possible to get any exact information on the number of expatriate staff

financed through UNMIK, nor on how they are financed. Some staff is seconded and paid by their respective home countries; others are financed by the UN. The larger numbers are to be found in the police force, the Justice Department, and the Prisons Services.

Neither has it been possible to obtain any information on the volume of recurrent expenditure financed directly through UNMIK, nor on the volume physical assets that, post-status, will have to be replaced by the Kosovar authorities.

Recently, seven sectoral multilateral working groups have been set up to prepare for the full transfer of power to the Kosovar authorities. So far, little attention seems to have been devoted to the budgetary implication of the transfer of authority but that may have changed at the time of the finalisation of this report.

According to statistics collected by MFE directly from the external partners, Kosovo in 2005 benefited from some 100 million¹⁷ Euros in support, 80 percent of which are in the form of technical assistance. 11.2 million Euros in support channelled through the treasury system are recorded in the Financial Statements for 2005.¹⁸

The coordinating of external assistance has been taken over by the Office of the Prime Minister, but it shares the responsibility for collecting information on the assistance with MFE.

The expenditure financed by own sources of revenue of Central Government is not always on budget but, in some cases dealt with off-budget through MOUs between MFE and concerned central BOs. Yet those revenues have been included in the budget revenue forecasts. The UNMIK Budget Regulation 2006/61 stipulates that in the event that municipal revenues collected by a municipality exceed the revenue amounts appropriated in Schedule 2, a parallel adjustment in the Budget for such municipality shall be made. The excess revenue may not be allocated or expended until such adjustment is made in the budget in accordance with the LPFMA.

Reforms underway

When the final status of Kosovo is determined, the responsibility for the institutions that today are run by UNMIK will presumably be fully taken over by Kosovar authorities. Posts financed by either contributing governments or the UN will be taken over to the extent that these functions are required. With the take-over, the comprehensiveness of the budget will increase.

To what extent donor funds in future will be reflected in the budget – and with what level of correctness will, to a large extent, depend on the modalities by which assistance is provided. Funds provided as budget support – targeted or non-targeted – are presently captured in the budget and in the accounts. It passes through treasury accounts and executed according to modalities that are identical or close to those used for normal

¹⁷ Information provided by Aid Co-ordination Office in the OPM.

¹⁸ The funds not passing through the treasury are quite correctly not included in the cash flow statements. But an estimate of these resource flows could, for comprehensiveness and informational purposes, have been presented “below-the-line”.

government funds. Direct support to Kosovar institutions is not.

ASSESSMENT AND SCORE

Indicator	Explanation		Score
The level of extra-budgetary expenditure (other than donor funded projects) which is unreported, i.e. not included in fiscal reports	There is no unreported extra-budgetary expenditure - other than donor-funded projects	A	C+
Income/expenditure information on donor-funded projects which is included in fiscal reports	Total support to Kosovo was estimated by MFE and OP to have reached some m€ 100 in 2005. 11.2 million of this was channelled through the treasury system and are reflected in the financial statements for 2005. There is no borrowing. Less than 50% of grants are reflected in the fiscal reports. ¹⁹	C	

3.5.4 PI-8 INTERGOVERNMENTAL FISCAL RELATIONS

PRESENT SITUATION

As from 2002, the total volume of transfers of central government funds to the municipalities is determined as a percentage of total estimated government revenues, minus estimated direct revenue collected by budget organizations. As of today, twenty two and half percent of this revenue base goes to the municipalities.

Determination of Intergovernmental Transfers

	2006	2006	2007	2008	2009
	Reg.	Proj.			Proj.
Total Central Government Revenues	622.7	599.2	590.0	593.0	597.8
minus Budget Organizations own revenues	10.4	10.4	10.2	10.3	10.4
Transfers Financing Base	622.7	588.8	579.8	582.6	587.4
% of Financing Base	22.5	22.5	22.5	22.5	22.5
Total Inter-governmental Transfers	140.1	132.5	130.5	131.1	132.2

(Source: MFE)

In 2006 the transfers to the municipalities were channelled through three grants, General administration, Education, and Health Grants and the same mechanism was applied for 2007 budget. For the 2007 budget, the total volumes for the Education grants and the Health grants will be fixed at 75 million and 18 million Euros respectively. The residual will be used for the General Administration grant. The General administration grant is distributed among the municipalities as follows:

- Each Municipality receives a 100,000 euro fixed

¹⁹ The PEFA manual does not foresee this situation. The score of C is thus deduced from the requirements for a score of B in this particular dimension.

- The remainder is divided between Municipalities based on their percentage share in the 2001 official population estimates

An amount earmarked for a Property Tax Incentive is withheld from the total General Grants amount and appropriated at the beginning of fiscal year subject to the Municipality achieving an annual target set for property tax collection.

The Health Grant is distributed solely on the percentage of population in the Municipality based on the official 2001 population estimates.

The education grant is based on a formula that includes components for teachers, supporting staff²⁰, goods and services, and capital outlays. The normative cost for teachers depends on the proportion of majority and minority students. Teacher density is normatively assumed to be higher for minority students (14.2 pupils/teacher) than for majority students (21.3 pupils/teacher). The different cost components are added up for all schools in a municipality and for all municipalities. From these sums are derived the proportions of the global education grant to be allocated to each municipality.

Central administration grants are expected to be supplemented by municipality own revenue collection. These collections are estimated and budgeted. For 2006 the total budgeted own revenue collection is 34 million Euro to be compared with 132.5 million in central grants.

If there is less own revenue collected than what was estimated, municipalities will have to cut back on expenditure. If more is collected, the extra funds can be used for additional expenditure as long as total government expenditure does not surpass the global expenditure ceiling.²¹ Principles for determining the central grants to the municipalities are set by a Grants Commission.

In 2006 the budgeting framework for 2007 – including the volumes of the respective grants to each municipality – were communicated to the municipalities through Budget Circular 2007/2 dated May 26.

REFORMS UNDERWAY

The questions around the structure, powers and financing of municipal authorities are very central to the discussions on the status of Kosovo. Decisions taken at this political level will inevitably influence the system of financing the municipalities.

There is a talk of redrawing the municipal boundaries and/or breaking up present municipalities into smaller (mono-ethnic) municipalities. At the beginning of 2007 three pilot municipal units – each with no more than 5 – 10,000 inhabitants were created. Partly in that context, there is also a talk of replacing the three grants with one single grant calculated on a more complex formula endeavouring to capture the different

²⁰ For some unknown reason, the cost for supporting seems to be based on actual cost rather than on a normatively fixed value which creates an incentive to inflate supporting staff.

²¹ As long as other municipalities under-collect there will be no problem. How this principle would be practically managed in a hypothetical situation in which total own revenue collection surpasses the budgeted amount is not clear.

drivers of municipal cost so as to achieve a globally reasonably equitably allocation of central funds.

One serious shortcoming of the present system is that central government revenue becomes a residual, as total aggregate expenditure and share of municipalities' revenue are determined as separate independent variables. In other words, total aggregate expenditure is tied to 0.5 real-term growth from the current expenditure level, which is independent from revenue estimate. If revenue increases, then, the share of local revenue increases, based on 22.5% formula, and the share of central government, which is calculated by deducting local revenue from total aggregate revenue, decreases.

Another serious shortcoming of the present system is the dearth of statistics. Population figures play a central role in the present allocation formulae notwithstanding that there is great uncertainty as to what are the actual numbers – an uncertainty which will not be eliminated until the planned census is carried out. A more sophisticated allocation mechanism would presumably put even greater demand on the quality of statistics.

ASSESSMENT AND SCORE

The system of municipal grants has been tightened up considerably in the last couple of years. The introduction of the allocation formula has been done with the purpose of reducing/eliminating the scope for the distorting negotiations between MFE and the municipalities as observed, for example, in the Medium Term Budget Framework / Municipal Budgets Strategy for 2006 – 2008, and in the PEIR. During the last three years, the grants appropriated to the municipalities have become increasingly close to what is postulated by the formulas.

Absolute deviations (appropriations – formula)

	2005	2006	2007
Administration grant	16,7%	6,0%	8,4%
Health grant	11.2%	3.2%	1.0%
Education grant	4.2%	4.6%	1.2%

The present system is not unreasonable given the circumstances. While there may be room for improvement of the formulae, the present system is at least transparent and gives the municipalities a good framework for planning and budgeting. MFE, along with representatives of municipalities, has established a task force team to review the current system and propose revision, also reflecting the status proposal.

Indicator	Explanation	Score	Combined
Transparency of objectivity in the horizontal allocation among sub-national governments	The allocation of all transfers from central government to the municipalities is determined by transparent and rules-based systems.	A-	A-
Timeliness of reliable information to SN governments on their allocations	Municipalities are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting budget process (cf. budget circulars)	A	
Extent of consolidation of	The execution of the municipality	A-	

fiscal data for general government according to sectoral categories	budgets is done through a general government-wide treasury system. Thus fiscal reports are common for the two levels of government. These reports are comprehensive but there is no sectoral/functional breakdown of expenditure. ²²		
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3.5.5 PI-9 FISCAL RISK

PRESENT SITUATION

Fiscal risk in Kosovo takes other forms than those presumed in the PEFA framework which is heavily predicated on the fiscal risks that potentially arise from the operations of autonomous government agencies, public and state enterprises and sub-national governments.

In the case of Kosovo, an important share of the risk of expenditure and revenue shocks is related to decision on its final status. While the lion share of the public institutions is run by the PISG, some core institutions, most importantly the component parts of the justice system plus defence, are under the control of UNMIK and KFOR respectively. The expenditure of Kosovar personnel in these institutions is included in the KCB but not that of expatriate staff and an unknown share of recurrent expenditure.

Rather belatedly a number of working groups have been set up to deal with all issues related to the eventual/probable hand-over of authority over the present reserved power institutions to a constitutionally fully empowered Kosovar government. At this point, it is not clear whether or how the Government will deal with the positions presently filled by expatriates; will they simply be added to the payroll, or will other, presumably mostly lower-ranking positions be eliminated to reduce the fiscal impact? The fiscal impact will also depend on to what extent the Government will be willing and able to exploit the fact that the draw-down of expatriate staff will reduce wage pressures in the economy.

A dismantlement of UNMIK and KFOR is also likely to have a substantial impact on Government revenue as 80% of it comes from VAT and other taxes levied on imports. A non-negligible part of those imports are related to the operations of the international bodies and the private spending of its expatriate personnel.

Another fiscal risk associated with a final resolution of the status of Kosovo is the Government having to assume a part of the SFRY debt presently serviced by Serbia. The one reference point that exists as to the size of this share is the amount attributed by the National Bank of Serbia to Kosovo, m€ 905. The cost of servicing a debt of this magnitude would be some m€ 40 a year. The debt that Kosovo will have to assume will only be decided in the negotiations. The government of an independent Kosovo may face obligation regarding unpaid pension obligations from Belgrade.

Another set of fiscal risks are hangovers from the old socialist regime. Privatisation of socially owned companies is proceeding at a relatively fast pace but all revenue from sales goes into a trust fund to meet any future claims against property that has been privatised.

²² This dimension is scored an A although there is no specific sectoral breakdown because there is no reference to such a breakdown in the PEFA scoring table.

At this point it is impossible to estimate what the net of proceeds and settled claims will be.

Subsidies to the public enterprise sector have in recent years amounted to around 15 percent of the consolidated budget, most of it to Korporata Energjike e Kosoves (KEK). Monumental inefficiencies in billing and collection²³ have undermined KEK's delivery capacity and constrained investment needed to meet a growing demand. To limit even further deterioration in electricity deliveries, the Government has felt forced to provide subsidies to KEK. How the difficulties in KEK will affect the budget in future depends on how quickly the status of Kosovo is resolved and with it the ownership of the publicly owned enterprises. Once the ownership issue is resolved, one obvious solution that would take off the burden on the budget and eliminate the fiscal risk would be to break up the vertically integrated company – lignite mining, energy production, and distribution – and sell off the pieces.²⁴ In the interim, the Government and the company is constrained in what it can do, including borrowing to shore up production and to make the company more palatable to potential investors.

The Government's insight into the operations of the public enterprises is generally poor. The enterprises are audited by external companies but, save for one, every single audit has concluded with an opinion disclaimer, i.e. a statement that the auditor was unable to form an opinion on the accuracy or no financial statements made available for audit. The reasons for the disclaimer include: absence of a proper general ledger, fixed assets registers, inventory ledgers; significant weaknesses in the systems of internal control; and significant risks of unrecorded income and expenditures. These weaknesses make it very difficult to assess the fiscal risk associated with the operations of these enterprises and constitute a fiscal risk in and by itself.

A substantial fiscal risk of the Government's own making is the passing of a War Martyrs Law. As the law is presently written – allowing a very wide range of individuals to seek compensation – the fiscal impact could be very serious. International development partners including IMF, EC, and the World Bank have warned about the possible fiscal calamity that could come from implementing this Law.

Another fiscal risk that has been identified is the possible implementation of a collective bargaining agreement signed by the unions and the Economic Chamber of Kosovo, an agreement which would provide a number of benefits for public sector employees as well.

ASSESSMENT AND SCORE

The fiscal risks faced by the PISG and eventually by a post-status government are substantial but of a nature that fits poorly into the PEFA scoring framework.

What is important from general public financial management perspective is how well prepared the Kosovo public authorities are to deal with these potential threats to fiscal stability. That is extremely difficult to assess but the passing of the War Martyrs Law does

²³ In 2004 only 37 percent of electricity sold was actually paid for.

²⁴ Whether it may be a good business proposition for the Government to make some initial investments in order to fetch a better price in the market is a question which is beyond the scope of this report.

not auger well.

Indicator	Explanation	Score	Combined
(i) Extent of central government monitoring of Autonomous Government Agencies and Public Enterprises.	The social and public enterprises are monitored by the KTA and their finances reported to Government. There is no explicit discussion of and reporting on fiscal risk associated with the POEs or on any other fiscal risk for that matter.	C	C+
(ii) Extent of central government monitoring of SN governments' fiscal position.	Central government has full control of the finances of the municipalities as they are executed through the treasury system	A	

3.5.6 PI-10 ACCESS TO FISCAL INFORMATION

PRESENT SITUATION

	Information	Available	Comments
1	A complete set of budget documents can be obtained by the public when it is submitted to the legislature		The Regulation regarding the 2006 budget promulgated by the SRSG was published on MFE's website in January 2006, i.e. after the deliberations in the Assembly. A budget book with more descriptive detail in the form of narrative as well as supplementary tables was published in three languages in paper form and on the web site of MFE in April 2006.
2	In-year budget execution reports are routinely made available to the public within one month of their completion	√	They are published on the web site of MFE. http://www.mfe-ks.org/English/index.html
3	Year-end financial statements are made available to the public within six months of completed audit	√	They are published on the web site of MFE
4	All external audit reports on central government consolidated operations are made available within six months of completed audit	√	They are published on the web site of the Office of the Auditor General http://www.oag-ks.org/reports.htm
5	Award of all contracts with a value above approximate USD equivalent are published quarterly	√	All contracts are available on the web site of Public Procurement Agency http://www.ks-gov.net/prokurimi
6	Information on resources available to primary service units is publicised at least annually, or are available upon request, for primary service units with national coverage in at least two sectors	√	Once the budget is promulgated, the budget organisations and central and local level know the resources available to them.

The Ministry of Finance and Economy website contains a great deal of information on the Kosovo public sector like:

- MTEF
- Budget
- Quarterly fiscal reports
- Yearly fiscal reports
- Budget circulars
- Tax calendars
- Policy documents, and
- Other ad hoc documents

Audit reports for a) the Kosovo Consolidated Budget, b) ministries, c) municipalities, and d) public enterprises can be found on the web site of the Office of the Auditor General. Reports for 2005 were, as of December 2006, available for ministries and public enterprises but not yet for the KCB and the municipalities. The Audit for the 2005 KCB was published and made available on the OAG website in January as were the reports on the municipalities.

ASSESSMENT AND SCORE

Indicator	Explanation	Score
The number of the above listed elements that is fulfilled	5 of the listed types of fiscal information is available	A

3.6 Policy-based budgeting

3.6.1 PI-11 ORDERLINESS AND PARTICIPATION IN BUDGET PROCESS

PRESENT SITUATION

The legal framework for public financial management – including the budget process – is provided by the Law No. 2003/2, the *Law on Public Financial Management and Accountability*.

The law provides a quite modern and disciplining framework for the budget process. Important features of the law are:

- three-year estimates and projections of GDP, price level changes, Government revenues from taxes, duties and other charges, prospective donor funding to the Kosovo Consolidated Fund, and other macroeconomic information and data.
- aggregate expenditure ceiling for the Kosovo Consolidated Budget for each of the next three fiscal years, divided into
 - Reserved Power Aggregate Expenditure Ceiling; and
 - an aggregate expenditure ceiling for all other budget organizations
- sector-specific expenditure ceilings.

The specifics of each year's budget process, including a definite budget preparation calendar, are spelled out in a series of budget circulars issued during the course of the year. The first budget circular directed to the central budget organisations for the preparation of the 2007 budget was issued on March 31, 2006. A first circular directed to the municipalities was issued the day before and was followed by another four circulars.

The circulars contain clear ceilings, albeit with a caveat that the initial ceilings may in fact be lowered as a result of negotiation with the IMF. Because of the undefined status of Kosovo the consolidated budget has to be approved by the Special Representative of the Secretary General.

ASSESSMENT AND SCORE

Indicator	Explanation	Score	Combined
(i) Existence of and adherence to a fixed budget schedule	A budget schedule is established in the Law on Public Financial Management and Accountability. It is reiterated and/or modified in budget circulars issued at the beginning and during the course of preparing the budget. For lack of information from MFE it has not been possible to ascertain with any exactitude the adherence to the schedules in the circulars	B	B+
(ii) Clarity/ comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)	The budget circulars reflect ceilings approved by Cabinet albeit with a caveat pertaining to possible changes in the macro-fiscal framework that may result from the IMF reassessing the economic and fiscal situation	A	
(iii) Timely budget approval by the legislature (within the last three years)	The budget for 2005 was promulgated by the SRSG in February 2005, while the budgets for 2006 and 2007 were promulgated in December of the respective preceding year	B	

3.6.2 PI-12 MULTI-YEAR PERSPECTIVE

PRESENT SITUATION

PIISG is in the process of developing a multi-year approach to budgeting. A first attempt at an MTEF was presented at a donor conference in December 2005 and was revised in March 2006. It is acknowledged by the Government as “work-in-progress”.

A parallel process of developing a Public Investment Programme has gone on for a couple of years. The PIP has been developed in somewhat of a policy vacuum, however. The approach has been to ask budget organisations to prepare investment projects to be financed by government own resources or alternatively by Kosovo’s external partners. The list now contains over 600 proposals from central government organisations and over a thousand for from the municipalities. Only rarely have the proposals been anchored in any thought-through sector strategy and has thus the character of cart-before-the-horse exercise. Work is presently going on, however, to put the order right through the development of a Kosovo Development Strategy Programme.(KDSP) and Medium Term Expenditure Framework, which will contain more elaborate sector strategies. Leading this process is the MFE.

Reforms underway

A Kosovo Development Strategy Programme and MTEF for 2008-10 are in the making.

ASSESSMENT AND SCORE

Indicator	Explanation	Score	Combined
(i) Multi-year forecasts and functional allocations	Forecasts of fiscal aggregates are made for three years. Efforts are underway to develop sector strategies to underpin preliminary multi-year ceilings but this work will require at least one more year	C	D+
(ii) Scope and frequency of debt sustainability	Because of its unresolved status of Kosovo, PISG can not borrow	N/A	
(iii) Existence of costed sector strategies	The multi-year perspective started from a PIP perspective and is only now evolving into a comprehensive sector perspective	D	
(iv) Linkages between investment budgets and forward expenditure budgets	Submissions of investment proposals to be included in the PIP shall contain estimates of recurrent cost implications of the proposed investment	C	

3.7 Predictability and control in budget execution

3.7.1 PI-13 TRANSPARENCY OF TAXPAYER OBLIGATIONS AND LIABILITIES

PRESENT SITUATION

About 70 percent of total taxes are collected by the Customs Department, the remaining 30 percent by the Tax Administration Department. The Customs Department collects import duties, excises, and value added tax (VAT) on imported goods. The responsibility of the Tax Administration Department is the collection of tax on small and large individual businesses, corporate income tax, and VAT on domestic sales of goods and services, as well as the collection of pension contributions to the Kosovo Pension Savings Trust.

In scoring indicators 13, 14, and 15 the operations of both tax-collecting agencies are taken into account. While the Customs Department deals with a relatively limited number of taxpayers, the Tax Administration Department is responsible for collecting several different taxes which, in the Kosovo setting, is quite problematic not only because of the larger number of subjects but also because there is – awaiting the census – no definite record of potential taxpayers in the country.

Present tax laws and implementation rules and regulations pertaining to them are comprehensive, up to date, and well disseminated. Both tax-collecting agencies have carried out tax education campaigns. Some of those carried out by the Tax Administration Department have targeted small taxpayers. Laws and regulations are posted on the websites of the two agencies but it should be recognised that a substantial number of taxpayers do not have easy access to internet. Also, complete and modern tax legislation does not imply, however, that its implementation is problem-free in an environment in which staffs are poorly paid and where there is a lack of fully established and workable checks and balances.

The discretionary powers of the tax collecting agencies are clear and limited. Tax

liabilities are also generally unambiguous. Appeals arrangements are clearly defined in the law and a taxpayer can appeal an assessment – provided that he can afford the costs associated with challenging the government. For tax assessments, the first level of appeal is the Tax Administration Department where the appeal process has effectively functioned in accordance with the law since year 2000. On the other hand, according to the Business and Environment and Enterprise Performance Survey (BEEPS)²⁵, customs and tax regulations and administration are seen as one of the major constraints for doing business in Kosovo.

REFORMS UNDERWAY FOR INDICATORS 13, 14, AND 15

The Customs and the Tax Administration departments have in recent years received extensive technical assistance from the IMF and other organisations. Customs and Fiscal Assistance Offices (CAFAO) of EU has provided technical assistance to the Customs Department and Tax Administration Department which also receives assistance from the USAID. This assistance has been instrumental in improving several aspects of tax policy design and tax administration in Kosovo. It is expected that this technical advice and cooperation will continue for the foreseeable future.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Clarity and comprehensiveness of tax liabilities	The tax legislation is clear and comprehensive and the discretionary powers of the tax-collecting agencies are limited but undisputable.	A	B+
(ii) Taxpayer access to information on tax liabilities and administrative procedures	The tax laws and administrative procedures are clearly stated and information is disseminated. However, posting of these laws, rules and procedures on the websites is not sufficient, as most tax payers do not have access to internet.	A	
(iii) Existence and functioning of a tax appeals mechanism	A tax appeals mechanism is established in the law, but it is early to assess its efficiency and fairness.	C	

3.7.2 PI-14 EFFECTIVENESS OF MEASURES FOR TAXPAYER REGISTRATION AND TAX ASSESSMENT

PRESENT SITUATION

Customs and the Tax Administration Department have each set up a database with unique but different taxpayer identification numbers – although the basic number used by both departments is the Business Registration Number. Tax Administration is also responsible for issuing a VAT registration number for business that are liable for VAT. Because of the limited number of taxpayers that the Customs Department has to deal with, the maintenance of its database is less problematic than of that of the Tax Administration. The Business Registry of the Ministry of Industry and Trade (MIT) is the source of taxpayer identification numbers for individual businesses and enterprises. However, one taxpayer may have several tax IDs as a new business registration number is issued every time someone is registering a business. There is a weekly exchange of data

²⁵ The Survey was conducted by EBRD and the World Bank during 2006.

on CD-ROM between the TAD and the Business Registration Unit of MIT. Customs and the TAD electronically exchange data on a daily basis.

It is very important to note that the current business registration system does not fulfil the requirements of a modern tax administration. To mention some of the weaknesses: there are no verification checks on the identity of registrants; data on registered businesses is not systematically updated; and registrants often do not report changes in their operations to the MIT. Moreover, no systematic efforts are made to detect taxpayers who operate in the informal sector. Reports listing non-filers exists, but are not really used partly because it is of uncertainty regarding who is required to file and who is not.

The general opinion is that while not unreasonably high, the penalties stipulated in the tax-law do serve as an effective deterrent to non-compliance. Some penalty rates may need to be revised, however, and more importantly their application; especially the officers at the border posts to be tightened. To do so, the Customs Department is planning to centralize some of the decisions on penalties to make them more effective.

Both tax-collecting agencies prepare risk-based tax audit plans, and their coverage is reasonable given the resources available to them. There is nonetheless substantial scope for improvement so as to better prevent tax evasion and fraud, and increase tax collections. The legal power accorded to the agencies to perform their audits conforms to standard international practice.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Controls in taxpayer registration system	Taxpayers are registered in database systems. In the case of business and corporate income tax the business registration authority is the source of the database. But if a taxpayer operates several businesses he may have several registration numbers which makes control more difficult.	C	C
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	There is an established system with penalties on non-compliance that has been harmonized across all taxes, but changes to their structure and levels of their administration are needed to give them a real impact on compliance rate.	C	
(iii) Planning and monitoring of tax audit and fraud investigation programs.	There are routine tax audits based on audit plans and ad-hoc cases where indicated. These audits contain some risk assessment criteria, and apply to Customs and where applicable to Tax Administration departments. Self-assessment is one feature of these audits. The quality and coverage of the tax audit can be substantially improved, however.	C	

3.7.3 PI-15 EFFECTIVENESS IN COLLECTION OF TAX PAYMENTS

PRESENT SITUATION

Because payments of customs duties and VAT on imported goods have to be made

before goods are released, arrears on taxes to be paid to Customs are limited. However, the same is not true for Tax Administration Department's collections where arrears reach 60 percent of total arrears. The source of these arrears is mainly slow collection of taxes from small and large individual businesses, and, at times, from large incorporated businesses. All tax revenue is deposited daily to the TSA. The Customs Department reconciles tax assessments, tax authorities' accounting, and banking data on a daily basis with limited, explainable data gaps. On the Tax Administration side, reconciliation between tax assessment, accounting, and banking is done on a weekly basis with some mismatches which require further investigation and data analysis. These mismatches normally involve the assessment and the accounts rather than accounts and bank statement.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	Tax arrears on customs duties, VAT on imported goods, and salary tax are limited, while they are high for individual business taxes, at times up to 60 percent.	C	B
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	All tax collections are transferred to the TSA on a daily basis.	A	
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	Reconciliation between tax assessment, accounting, banking, and treasury transfers in the case of Customs is done daily, with some gaps relating to individual non-salary and at time company taxes.	B	

3.7.4 PI-16 PREDICTABILITY IN THE AVAILABILITY OF FUNDS FOR COMMITMENT OF EXPENDITURES

PRESENT SITUATION

Due to substantial budget surpluses from 2000 through 2003 which led to the build-up of substantial cash reserves, the Government has in recent years been very liquid. As a consequence predictability in the availability of funds for committing expenditures by budget organizations (BOs) has not been a problem – with the exception for multi-year projects where the absence of a multi-year perspective combined with cash budgeting has been constraining. Moreover, as funds are appropriated for the full budget year, payments have been made when due, provided that the requests by the BOs have been complete and acceptable to the Treasury Department.

Rather than being constrained by cash, budget execution has been slow because of low absorption capacity, especially as regards capital investment. In this environment, cash flow forecasts have, hitherto, not been of much concern. Recently, however, the Treasury has recognized that there are other reasons for liquidity management -- maximizing interest income on government cash balances, as well as bringing order to the BOs spending plans within the year.

A new cash management unit has been created in the Treasury. The unit has started to produce cash inflow and outflow projections and the Treasury has begun to set quarterly ceilings for expenditure that is not subject to contractual procurements such as subsidies and other transfers, and utilities. Monthly ceilings are also used for controlling

expenditure on personnel. At present, these quarterly and monthly ceilings are prepared by the Treasury, but improving its quality will require technical improvements and better coordination with BOs and with the revenue collecting agencies.

In-year changes (virements) within approved budgets for BOs are allowed for up to 20 percent within expenditure categories with the approval of the Minister of Finance and Economy, and for up to 40 percent with the approval of the SRSG and the Assembly. Midyear, a revised budget is submitted to SRSG and the Assembly incorporating changes introduced in the first half of the year as well as additional changes that require legislature approval.

REFORMS UNDERWAY

The IMF has recently assisted the Ministry of Finance and Economy (MFE) in developing and improving the quality of cash flow forecasts.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Extent to which cash flows are forecast and monitored.	A cash flow forecast is prepared by the Treasury Department, but not updated on monthly basis. Moreover, it needs to be based on a full cooperation of revenue collecting agencies and all BOs.	B	B+
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	The original budget and the periodic in-year virements and revisions are sufficiently predictable and stable to enable BOs to make expenditure commitments.	A	
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	The LPFMA Section 27 stipulates that the MFE may authorize the transfer of an amount equal to 40% or more of the negatively affected appropriation, only after obtaining written approval of the Assembly and the SRSG.	B	

3.7.5 PI-17 RECORDING AND MANAGEMENT OF CASH BALANCES, DEBT AND GUARANTEES

PRESENT SITUATION

Due to the special status at present, the PISG cannot borrow, either internally or externally. However, because: (a) military expenditure is financed from external sources, (b) some positions in the government organisations are directly financed by UNMIK or other donors; (c) government revenues has been systematically under-estimated; and (d) expenditure absorption capacity especially in capital spending is low, borrowing has hitherto not been needed. Thus, two dimensions of this indicator; namely: *quality of debt data recording and reporting*, and *systems of contracting loans and issuance of guarantees* are not applicable to Kosovo at this time.

On the other hand, good cash management is as important in a surplus as it is deficit situation. All tax and non-tax revenue is deposited in the Treasury Single Account, and all expenditure is executed from the same account. Only a few advance and suspense

accounts in other banks carry limited balances for short periods, balances that are normally cleared every two to three weeks. Even local governments' own revenue (on average about 4 percent of the general government revenue) is transferred to the TSA on a monthly basis, and regional treasury offices approve requests for payments that are then paid by the central TSA.

Balances in the TSA receive a government-determined non-market interest of 2% annually. Treasury has another variable interest account in a commercial bank in Germany. This account is used mainly as a transit account for donor funds and to pay overseas contracts.

REFORMS UNDERWAY

It is recognised that budget surplus situation is a temporary phenomenon, and the MFE has indicated its interest in receiving technical assistance to prepare for the establishment of a debt management system, specifically to prepare a legal framework and to build technical capacity in the MFE.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Quality of debt recording and reporting	Not applicable	N/A.	A ²⁶
(ii) Extent of consolidation of the Government's cash balances	Almost all government cash balances are held in the TSA.	A	
(iii) Systems for contracting loans and issuance of guarantees	Not applicable	N/A.	

3.7.6 PI-18 EFFECTIVENESS OF PAYROLL CONTROLS

PRESENT SITUATION

Payroll control has been a problem area from the beginning and continues to be so. BOs have the authority to do their own recruiting and to transfer, promote their own civil servants and take initiatives that impact on the payroll. The Department of Public Service Management (DPSM) of the Ministry of Public Services (MPS) sets general human resources policies and monitors the compliance with these policies through an oversight body in the Ministry called Independent Oversight Board (IOB).

BOs are required to send all information on recruitments and changes to the personnel situation to DPSM to be entered into a Payroll Management Information System (PMIS). Unfortunately, the data in the BOs does not match with the reality on the ground because of poor management controls and because of incorrect information being fed to the system. To try to tackle the deficiencies in the current PMIS, MPS began to use another piece of software (HRMIS). Its deployment, however, proved to be beyond the capacity of MPS. But it also became clear that the issue was not of software,

²⁶ Based only on the scoring of the cash balance dimension

but of low data quality; nothing changed on the ground.²⁷

In early 2006, IOB carried out two hundred on-sight inspections to try to address the problem. A number of anomalies were found such as personnel files without a copy of the employee's contract or ID card. To complement IOB's initiative, the Treasury Department began releasing funds for salaries on a monthly instead of on a quarterly basis as it had noted unexplainable fluctuations in salary payments. This, however, created problems for some BOs where, in fact, there were good reasons for the fluctuations. The immediate problems created by the change were solved after a few months, but the problem with possible data manipulations and insufficient internal controls in the BOs persists, which poses expenditure control, ethical, and even political problems, some of which can be observed in the 2004 annual report of the Auditor-General.

REFORMS UNDERWAY

The MPS and MFE have initiated measures to improve efficiency and transparency of payroll management, including establishing a centralized civil service registry and possibly a transfer of payroll function from the MPS to the MFE.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Degree of integration and reconciliation between personnel records and payroll data	Lack of complete and reliable personnel records and personnel database, and lacking of reconciliation between these two significantly undermine integrity of the payroll.	D	D
(ii) Timeliness of changes to personnel records and the payroll	Inputting wrong and false personnel data in the payroll system such as unborn children or not inputting data on dead to continue to get his salary and several other personnel data.	D	
(iii) Internal controls of changes to personnel records and the payroll	Internal controls of changes to the records are clearly deficient and lead to payment errors.	D	
(iv) Existence of payroll audits to identify control weaknesses and /or ghost workers.	A partial payroll audit was conducted in 2006, but the work was, in most cases, hampered by lack of proper documentation.	C	

²⁷ There is a two year-old computerised payroll registry system for general government employees, which is centrally run by the MPS for all BO staff. The system is supported by standard payroll software which is maintained with the assistance of a local contractor. Each BO prepares monthly personnel and payroll data for its employees and brings it to the MPS where it is entered in the central data base by MPS staff. The MPS then sends – on line – monthly wage bill totals for each ministry to the Treasury Department of MFE. The Treasury compares the calculated amounts with the total appropriations for personnel expenditures of each BO, and passes each BO's payee list on to the commercial banks where its employees have their accounts.

3.7.7 I-19. COMPETITION, VALUE FOR MONEY AND CONTROLS ON PROCUREMENT

PRESENT SITUATION

The Public Procurement Law (PPL) defines open tendering as the preferred method for public procurement. The Public Procurement Agency (PPA) is mandated by PPL to keep procurement statistics. Currently there is no unambiguous data on what portion of public procurement contracts are procured through open and restricted tendering respectively and it is thus not possible to accurately evaluate the system.

There are indications of an increased use of negotiated procedure with or without prior publication (direct procurement). The law specifies the circumstances under which this method may be used. According to the annual reports of PPA (for the years 2005 and 2006), about 80 percent of requests submitted to PPA for permissions to use a negotiated procedure (direct procurement) with or without prior publication were approved, i.e. they were deemed justifiable and in accordance with the law.

The Public Procurement Regulatory Commission (PPRC) is the highest administrative body mandated to review procurement complaints. If the plaintiff is not satisfied with the decision given by PPRC, he can bring the case to whichever court has jurisdiction over the case. However, according to the law the filing of such an appeal has no further affect on the procurement in case, giving effectively the PPRC “supreme” powers in regard to the procurement complaints. In 2005, 185 complaints were filed with PPRC. Twenty two of them resulted in a re-evaluation of the process; sixty five were cancelled and seventeen complaints were rejected. One feature of the system is the short period for filing a complaint, only 8 days after the contract award.

REFORMS UNDERWAY

The revised public procurement law has been passed by the Assembly recently and is awaiting promulgation by SRSG of UNMIK. Also, the PPA has developed a database that monitor various procurement data from BOs, including the usage of direct procurement, however, the quality of the database needs further improvement to serve as an effective tool for statistics and management.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Insufficient data exists to assess the use of open tendering. .	There is no reliable data to establish what proportion of government contracts is procured through open tendering and which through restricted tendering.	D	D+
(ii) Justification for use of less competitive methods is weak and missing.	The share of direct procurement through negotiations with suppliers is relatively high, and almost 80 percent of the requests for such a procedure to apply were approved in 2005.	C	

(iii) Existing system on complaints review is poorly designed	There is a system of complaints in place, but the power of PPRC seem to be high in settling complaints before they are brought to a court. Moreover, no sufficient time is given for filing of complaints.	C	
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3.7.8 PI-20 EFFECTIVENESS OF INTERNAL CONTROLS FOR NON-SALARY EXPENDITURE

PRESENT SITUATION

Before executing any payment request received from BOs, the Treasury Department examines whether the submission meets the regulatory requirements (carries the required signatures, is submitted in the number of copies required, contains proof that procurement have been complied with, and contains all required information on contracts, etc.) The treasury also checks that the appropriation and cash release limits are respected and that the process has been pre-audited. To streamline the process, the Treasury has issued *Treasury Guidelines and Financial Rule-Expenditure of Public Money* that the BOs must follow when executing the budget

However, there is no guarantee that other informal and thus unrecorded commitments are not made by the BOs – commitments that the BOs expect to be able to honour through a revised budget or in the following year. While there is anecdotal evidence that these practices exist, its volume is limited, according to the opinion of interviewed officials. Moreover, at times local governments provide commitment and payment data to the Treasury at the same time rather than in a prior step.

The regulations, updated as necessary, the latest being of November 2006, define the internal control measures to be observed by the BOs. According to the Treasury Department officials, the contents of these budget execution guidelines are clear and well known to BOs. The regulations only cover the financial aspect of management, however. Issues such as store management, asset safeguarding, work procedures, and any sector-specific internal issues are covered by non-standardized internal BO regulations. Notwithstanding the latter, it is clear from internal and external audit reports that many problems remain in the areas of control that are the responsibility of the BOs themselves.

Partly thanks to the clear Treasury Regulations, the number of requests for payment of non-salary expenditures that are rejected by the Treasury is low. It should be emphasised, however, that the Treasury only looks at the correctness of the payment from a formal point of view; value for money and other control aspects are only subject to internal audit process within the BOs. This is, however, common practice in most countries. The Internal Audit Department (IAD) in the MFE is responsible for developing and disseminating standards and instructions for internal controls to be observed by the BOs (see indicator 21 below). These controls at BO level are, where applicable and when the capacity exists, supplemented by sector audits initiated by the ministry responsible for the sector.

Assessment and scoring

The Treasury Department's set of mainly financial internal controls is regularly updated.

This, however, cannot cover all operational internal control measures required for in the BOs with sector-specific features, and which need to be developed by each BO.

Indicator	Explanation	Score	Combined
(i) Effectiveness of expenditure commitment controls	Expenditure commitments for non-salary expenditures are recorded by the Treasury Department either in advance or just before payments are made. However, there is no guarantee that other informal and thus unrecorded commitments are not made by the BOs.	B	C+
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	Almost all financial and some regulatory measures covered by the Treasury Regulations issued to BOs are understood by the latter or they can make queries at any time. Also, for majority of non-financial and sector-specific internal control measures that are developed (documented or not documented) by BOs, seem to be known to their staff.	B	
(iii) Degree of compliance with rules for processing and recording transactions	Treasury financial rules are generally complied with. However, compliance with sector-specific internal controls - which are equally important - is not known.	C	

3.7.9 PI-21 EFFECTIVENESS OF INTERNAL AUDIT

PRESENT SITUATION

In 2000, the role of internal audit in the PFM process was recognized, and an Internal Audit Department (IAD) was created in the MEF. Its task is to catalyse internal audit in the BOs. The Law on Public Financial Management and Accountability (2003/17) provides the legal basis for internal audit. In regard to internal audit, the LPFMA is largely based International Standards for the Professional Practice of Internal Auditing (ISPPA).

At present, most BOs have established minimum capacity to perform their own internal audit function; the remaining BOs use the services of the IAD. There are 96 trained internal auditors, 17 of whom work in the IAD. The remainder are based in the BOs, reporting directly to their top management. All BOs have annual audit plans, but none of them are communicated to the MFE and only some of them to the Office of Auditor General (OAG). The OAG uses internal audit reports when a BO has been select for external audit. The impression is, in fact, that internal audit reports are used more extensively by the OAG than by the BOs' own management. Although further training may be needed, the main issue is the fact that little or no actions are taken by BOs managements on the findings of their own internal audit units.

REFORMS UNDERWAY

EAR continues to support the internal audit function. Apart from providing staff training, they have recently helped draft a separate law on internal audit, based on the EU Public Internal Financial Control (PIFC) model, which is expected to be approved by the Assembly and the SRSG shortly. The draft law is very detailed and comprehensive. It will

turn the IAD into a Centralized Harmonization Unit, to provide support to internal audit units in the BOs. It will no longer carry out any direct internal audits in the BOs. The development of procedures, training, and recruitment will be the main tasks of the department replacing the IAD.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Coverage and quality of the internal audit function	Internal audits are performed in all BOs, and all of them have annual internal audit plan. Professional standards are well known to the internal auditors, but poor routines in the BOs impede work. Audits tend to be mostly financial rather than systemic.	C	C
(ii) Frequency and distribution of reports	Internal audit reports are issued regularly and submitted to the BOs managements. They are not routinely submitted to the OAG, but the OAG has access to these reports at any time they wish. MEF does not receive audit reports except for when IAD does the audit.	C	
(iii) Extent of management response to internal audit findings	Managers comment on the reports of the internal auditor before they are finalized, but normally no action follows. It is estimated that corrective actions are taken in far less than 50 percent of the cases. In some BOs there is no action at all is taken.	C	

3.8 Accounting, recording and reporting

3.8.1 PI-22 TIMELINESS AND REGULARITY OF ACCOUNTS RECONCILIATION

PRESENT SITUATION

The centralisation of most of Government cash in a Treasury Single Account (with a number of sub-accounts) greatly facilitates bank reconciliation. Both Customs and the Tax Administration departments transfer their collections on a daily basis to the TSA. Although taxpayers pay their taxes through their own banks, the funds are transferred to the TSA transit accounts in each Bank, which facilitates banking reconciliation for the tax collecting agencies. Where Customs runs a daily bank reconciliation process and deals with possible gaps, the Tax Administration runs a detailed weekly reconciliation, during which discrepancies are identified. The detailed sorting out of the discrepancies requires more time, however, given the large number of tax payers dealt with by the Tax Department.

On the other hand, there has been a problem in reconciling payroll related bank account and accountings. In particular, some of the payroll requests have been returned from the Central Payment Authority for various reasons and the Treasury has a difficulty in identifying the source of return. While low in volume, the large number of cases indicates an urgent improvement is needed.

As for the limited number of treasury advance and suspense accounts mentioned in the indicator 17, these are cleared every two to three weeks, leaving very few discrepancies, which are handled, in the monthly reconciliation. It should also be noted that the accounting and the bank reconciliation is done for local governments by the Treasury. Gaps between accounting and banking data are identified and generally explained but some do remain unexplained.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Regularity of Bank reconciliations	Reconciliation of the Treasury Ledger and the TSA is done on a daily basis. Customs and the Tax Administration reconcile their GL and the revenue accounts at least monthly.	B	B
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	Clearance of a limited number of advance and suspense accounts and petty-cash takes place every two to three weeks. However, certain suspense accounts for investment projects are cleared at longer intervals depending on the arrangements with concerned donors.	B	

3.8.2 PI-23 AVAILABILITY OF INFORMATION ON RESOURCES RECEIVED BY SERVICE DELIVERY UNITS

PRESENT SITUATION

As far as cash budgets are allocated by BOs to their direct service delivery units (e.g. schools and health clinics) to enable them to spend directly, the internal accounting systems of the BOs provide information. However, most BOs (including both ministries and local governments), because of the economy of scale, make bulk purchases and provide in-kind inputs to their service delivery units, in which case information can only be compiled from the store management systems of the BOs. In the case of capital expenditures (not routine maintenance expenditures) most schools and health clinics are not capable of project implementation, and they rather use the created assets after their parent BOs complete and hand-over to them. Although the financial record of the expenditure is available in the FreeBalance system, if necessary, such attempt has not been made to date. Likewise, no special survey has been conducted to this effect within last every 3 years.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) No comprehensive data collection on resources to service delivery units in any major sector has been collected within last 3 years.	No comprehensive data collection on resources to service delivery units in any major sector has been collected within last 3 years.	D	D

PI-24 QUALITY AND TIMELINESS OF IN-YEAR BUDGET REPORTS

PRESENT SITUATION

Thanks to the centralised accounting system, detailed quarterly as well as yearly reports can easily be prepared. All reports are presented according to cash-based IPSAS and broken down according to the budget structure (see the indicator 5). Commitments are presently not reported.

REFORMS UNDERWAY

There is a plan to expand in-year reporting by including commitments related to contract-based procurement and quarterly allocations made by the MFE. In the longer term, the reports will also contain information of execution against monthly cash ceilings which will be a useful fiscal management tool for the MFE, as it among other things will give an early indication of absorption capacity in the different BOs.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Scope of reports in terms of coverage and compatibility with budget estimates	In-year reports are comprehensive and offer a direct comparison with the original budget - but not with in-year expenditure ceilings. There is no reporting on commitments as commitment accounting is only required for contract-based procurement.	B	B+
(ii) Timeliness of the issue of reports	Reports are prepared monthly and issued within 4 weeks of the end of each period.	A	
(iii) Quality of information	There are no material concerns regarding data quality.	A	

3.8.3 PI-25 QUALITY AND TIMELINESS OF ANNUAL FINANCIAL STATEMENTS

PRESENT SITUATION

Annual financial statements are prepared by the Treasury, using the monthly reports structure and format mentioned in the indicator 24 above. The annual statements include detailed information on revenues and expenditures for all BOs and include BO direct revenue as the latter is centralised in the TSA and recorded in the Treasury FreeBalance Ledger. The annual statements also include a financial balance sheet. Some BOs have parallel internal, Excel- or Access-based, or even manual, accounting systems; but these are for internal management purposes only.

REFORMS UNDERWAY

MEF has sought technical assistance to help improve the accounting functions in the BOs by training their accounting staff, and disseminating accounting methodology and quality standards. But because there is a central, well functioning accounting system, developing local accounting capacity has not been given top priority.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Completeness of the financial statements	A consolidated financial statement is prepared annually. They include with few exceptions, full information on revenue, expenditure, and financial assets and liabilities.	A	A
(ii) Timeliness of submission of the Financial statements	The annual statements are submitted for external audit in far less than 6 months.	A	
(iii) Accounting standards used.	Statements are presented in consistent format over time based on cash IPSAS	A	

3.9 External scrutiny and audit

3.9.1 PI-26 SCOPE AND NATURE OF FOLLOW-UP OF EXTERNAL AUDIT

PRESENT SITUATION

UNMIK regulation of 2002/18 amended by the regulation 2005/33 established an Office of the Auditor-General (OAG) with universal and standard powers and responsibilities. The OAG has benefited from substantial technical and financial assistance from the EAR. At present, the OAG has about 60 staff, comprising a number of international experts filling key positions, including the head and deputy-head of the Auditor-General. The Office is primarily responsible for auditing those government operations that are included in the consolidated budget (both central and local governments), as well as publicly owned enterprises. Excluded are those operations that are directly financed by SRSG funds which are audited by the UN system. The services of the OAG can be used for the audit of the latter operations as well, if a request is made to the Auditor-General and he or she accepts such an undertaking.

For lack of sufficiently trained staff, only about 50 percent of the government's operations are audited annually. Because of a heavy expatriate presence in the OAG, there is no shortage of ideas on auditing policies and standards but a lack of sufficiently trained national staff makes it difficult to incorporate such standards the Office's work. The Office from time to time receives requests from the SRSG and the Assembly to audit specific government agencies or public enterprises where special problems are known to exist.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Scope/nature of audit performed (incl. adherence to auditing standards)	Government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify some significant issues. Audit standards may be disclosed to a limited extent only.	C	D+

(ii) Timeliness of submission of audit reports to the legislature	Annual audit reports after incorporating SRSG comments is sent to the Budget and Finance Commission of the Assembly within 12 months of the end of period covered.	C	
(iii) Evidence of follow-up on audit recommendations	There is little evidence of active follow-up by the MEF or individual BOs of the audit observations. The same type of errors and mismanagement repeat themselves year after year despite being repeatedly criticized by the OAG. Furthermore, there is no reporting to the Assembly on the action taken or not taken in relation to the previous year's audit observations.	D	

3.9.2 PI-27 LEGISLATIVE SCRUTINY OF THE ANNUAL BUDGET LAW

PRESENT SITUATION

According to the LPFMA, the budget shall be submitted to the legislature at least two months before the beginning of the fiscal year. The 2006 budget was submitted to Assembly and SRSG three weeks late and the 2007 two weeks late. Procedures for the deliberations on the budget by the Budget and Finance Committee of the Assembly are well established. These procedures include engaging other parliamentary committees, the MFE and, when needed, BOs, as well as arranging hearings for the debate of the budget proposal.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Scope of the legislature's scrutiny	The review of the budget by the legislature covers the details of revenue and expenditures, and some fiscal policy issues. The development of a medium-term fiscal framework is at its fledgling stages and has not yet been fully incorporated in the annual budget process.	B	B+
(ii) Extent to which the legislature's procedures are well-established and respected	Procedures for reviewing the budget are well established. Regular meetings are held with the staff of MFE and with BOs as necessary. The budget is debated by Assembly committees and in plenum.	A	
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	According to law, the Legislature shall have has 3 months to review the government budget. The was observed in 2005 but not in 2006.	B	
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	Clear rules exist for in-year budget amendments by the executive branch, and are usually respected.	B	

3.9.3 PI-28 LEGISLATIVE SCRUTINY OF EXTERNAL AUDIT REPORTS

PRESENT SITUATION

Unlike its detailed reviewing of the budget proposal, the Assembly and its Budget and Finance Committee do not scrutinise the reports by the Auditor-General very closely. Nor do they issue any recommendations to the executive branch on the findings of the OAG. The exception is when there is some sort of scandal which generates a broader public and media interest in a particular audit report.

ASSESSMENT AND SCORING

Indicator	Explanation	Score	Combined
(i) Timeliness of examination of audit reports by legislature (for reports received with the last three years)	No active examination of the Auditor-General's report is taking place.	D	D
(ii) Extent of hearings on key findings undertaken by legislature	No in-depth hearings are conducted by the legislature on Auditor-General's annual budget execution audit reports.	D	
(iii) Issuance of recommended actions by the legislature and implementation by the executive	No recommendations on corrective actions are being issued by the legislature to the executive branch.	D	

4 On the reform agenda

The conclusion of the summary assessment in chapter 2 was that the quality of the Kosovo public financial management system is good enough to allow Kosovo's external development partners to channel their assistance through the Government's financial management machinery. This conclusion is based fundamentally on the strength of the budget execution system, i.e. the integrated control, authorisation, payments, and accounting system managed by the Treasury.

Other areas of the PFM landscape are weaker and will require systematic efforts in order to improve the effectiveness, efficiency, and transparency and thus the confidence in the public sector in Kosovo.

In the sections that follow focus will be put on two areas: the strategic and longer-term orientation of public finances and control and accountability mechanisms. Some recommendations will also be offered in the area of: tax policy and management, procurement, transparency, and budget execution.

4.1 Long-term strategy and medium-term budgeting

4.1.1 POLICIES AND STRATEGIES

During its first years of existence, Kosovo has largely led a fiscal life of one year at a time. Despite a legal framework – LPFMA – that speaks of a three-year budget framework, planning and budgeting has in practice been a one-year affair. A series of efforts have been made to lengthen the time horizon. Unfortunately these efforts have not been made in an order that would have been desirable. Rather it has gone from the details to the broad picture – from PIP to MTEF and now to KDSP.

The KDSP is long overdue but the outcome of the exercise is still uncertain. To what extent it will deal with all the crucial policy issues that the Government of an eventually independent Kosovo will have to confront and how it will translate policies into a budgetary framework is yet to be tested.

4.1.2 LONG- AND MEDIUM-TERM MACRO FRAMEWORK

The macroeconomic environment within which the Kosovo public finances have to operate is very uncertain. Revenue is very sensitive to the size of the international presence in Kosovo and the fiscal risks on the expenditure side are considerable. Together these two external factors may lead to erratic public spending, substantial efficiency losses because of it, and an undesirable pro-cyclical fiscal feed-back into the economy. Good forecasting is essential and may help reduce the negative effects by adjusting expenditure in a more orderly fashion but will not eliminate them.

The LPFMA specifies that the Government each year shall prepare three-year fiscal projections and propose aggregated expenditure ceilings for each of the following three years. These aggregate ceilings shall be broken down into aggregate expenditure ceilings for the budget organisations.

In practice this has not been done; budgets have de facto been yearly. Instead the

government in 2005 developed a separate Medium Term Budget Framework (MTBF), which evolved into a Medium Term Economic Framework (MTEF) incorporating a comprehensive list of capital projects from the public investment programme (PIP).

The question is whether MTEF shall continue as a separate process or if the Government should revert back to the intentions of the LPFMA and effectively budget for three years as originally intended. International experience is that if and when the multi-year perspective is relegated to a separate process and a separate document, its impact on the actual budgets in terms of total volume as well as their composition is more limited than when the multi-year perspective is fully integrated into the regular budget process.

4.2 Budgeting

4.2.1 PROGRAMME ORIENTED BUDGETING & MANAGEMENT

A move to programme budgeting is often depicted as a very radical and difficult shift from traditional line-item budgeting. It need not be the case if implemented with a careful and sequenced approach. The different components can be put in place gradually. What takes the longest time to develop is the whole set of management tools in the form of objectives, indicators, targets and accountability mechanisms that to a large extent, but not necessarily totally, replace input control. The start of the process can be to restructure the budget along programmatic lines. That alone will make the budget more transparent and facilitate the setting of priorities. In fact, the present Kosovo budget is already partially programmatic. As already suggested, what is needed is to review the whole budget structure and to apply programme logic more systematically to the budget. In parallel with this should be initiated a process of defining objectives, identifying simple indicators, where appropriate setting targets for the programmes and formulating clear reporting requirements. This will necessarily be a reiterative process, a process that will never come to an end.

4.2.2 BUDGET CLASSIFICATION

As pointed out in section 3.5.1, the present budget classification is a mix of institutional, and programmatic classifications and it behoves the Government to review it in order to arrive at a more logical and orderly structure.

A possible such structure could be as follows:

Dimension hierarchy	Category hierarchy	Categories	Attributes
Organisational	Level	Central, or municipal	PISG, UNMIK (for central)
	Parent BO	Ministry or equiv., or municipality	
	Sub-division	Directorates, etc.	
	Spending unit	School, clinic, etc	
Programmatic	Program	General administration, specific programmes (for ex. secondary education, on-going)	Function (COFOG)
	Project	Specified (time-bound)	
	Project component	Specified (time-bound, one-to-one link to spending unit)	

Source	Source category	Tax revenue, earmarked own source revenue, external grants, external credit	
Economic		Expenditure on personnel, other recurrent expenditure, capital	

The dimensions in this structure should for simplicity's sake also be hierarchical. Thus programmes should be subordinate to organisations. Programmes should be contained in one ministry or municipality and project components should be contained in one spending unit. In order to be able to report spending against ear-marked revenue (ear-marked external grants for example) a source dimension is necessary. Such a source dimension would most conveniently be subordinate to the programmatic dimension.

With a detailed chart-of-accounts used for the accounts, the economic categories used for budgeting and execution control can be simpler, for example: expenditure on personnel, other recurrent expenditure, and capital. The degree of detail on economic classification will depend on the level of confidence in fiduciary control mechanism and the need for flexibility for budget execution.

A number or complementary attributes can be assigned to these different dimensions. Functional codes can, for example, be attached to programmes and/or projects. As long as the division of responsibilities between PISG and UNMIK exists, such an attribute can be attached to "parent BO", for example. When that division ceases to exist, that attribute can simply be removed. This is simpler than making it part of the core classification structure.

In the programmatic structure, a distinction should be made between on-going programmes like secondary education and primary health-care and time-bound projects. Projects should be attached to programmes, however, in order to make priorities and allocations more transparent. By attaching functional codes to programmes it is possible to sort and analyse allocations from a standardised functional perspective.

4.2.3 BUDGET DOCUMENT

The budget document, together with the annual report, is the most important channel of information on the finances and the activities of the Government. In order for it to play that role efforts should be made to enrich the document, incorporate the Appropriation Bill and present the whole package to the Assembly, and later to general public, in the autumn as per the dead-line established in the LPFMA.

The content of the document can be improved in a number of areas. The description of the macro-economic and fiscal framework can be enlarged and deepened. Overall and sectoral long- and medium strategic choices should be explained and directly linked to the proposed medium-term expenditure ceilings. Fiscal risks should be discussed. The overall composition and evolution of the budget should be presented in a number of complementary dimensions: organisational, functional and economic, etc.

4.3 Budget execution

4.3.1 THE TREASURY SYSTEM

The treasury system in Kosovo is a system for execution control, payments and accounting and based on a FreeBalance application. It is a simpler system, compared to other off-the-shelf applications but it seems adequate for meeting the Government's systems needs for the foreseeable future, including the needs of the different budget organisations, provided that full use is made of the different FreeBalance modules.

In terms of improvement, it is probably most important to add the modules for purchasing in order to support and control local purchasing. Good support for the management of physical assets is also important as is support for distributed budgeting, i.e. BOs inputting their bids directly into the system on the basis of ceilings established by the Treasury. With these modules in place there should be no need for any supplementary /parallel accounting systems in individual budget organisations, be they central or municipal.

4.3.2 CHART OF ACCOUNTS

For the central treasury to adequately serve individual budget organisations it is also important that the budget classification and the chart-of-accounts is rich and flexible enough meet a wide range of accounting needs. For instance, the detailed economic classification of revenue and expenditure should be based on international standards. Such standards are developed by the International Public Sector Accounting Standards Board of the International Federation of Accountants (IFAC). The IPAS 1 standards on the Presentation of Financial Statement established by IFAC already guide the financial accounts produced by the Kosovo Government.

The elements of the chart-of-accounts should map into the aggregate economic budget classification used for budgeting and execution control purposes. Projects should not, as they are today, be a note to "capital" in the economic classification but a separate dimension as described above.

4.3.3 DEVOLUTION OF AUTHORITY

A process of devolving execution authority to budget organisations has already begun. The design of the treasury system makes it technically immaterial with whom authority to approve and execute payment lies. The only relevant considerations are expediency and control. From the perspective of a budget organisation it is clearly advantageous to control the full execution chain. On the other hand, there are obvious risks in devolving authority if and when there are not sufficient checks and balances in the form of proven internal audit, efficient external audit oversight and appropriate accountability mechanisms. Devolution should thus be conditional on a review of the solidity of these checks and balances. One approach, so-called a hurdled approach, could be for BOs to apply for the full authority to execute their budgets. To be granted such authority they would have to pass a rigorous review of its internal control processes and its responsiveness to the observations of the external audits.

4.3.4 LIQUIDITY AND DEBT MANAGEMENT

The creation of the TSA and the build-up of a cash buffer from 2000 to 2003 have

meant that the Kosovo Government has not been very hard-pressed to develop efficient treasury management (i.e. the management of financial assets including cash, and liabilities). One of the benefits of having adopted the Euro as the means of exchange is that the Government has access to a very deep market in Euro-denominated financial instruments and facilities that it can use to implement a very flexible and efficient treasury management. It may not even have to do this in-house. The Government could outsource to a large international bank the task of ensuring liquidity at any moment and managing the countries longer-term assets and liabilities within the framework of an agreed debt and surplus investment policy.

4.3.5 TAX ADMINISTRATION

With the technical and financial assistance received from the UN, IMF, EU, and USAID in last few years, the legal and administrative framework for the tax administration has been well established. The Customs and Tax Administration Departments have both developed long term strategies and in some regard perhaps even over-ambitious reform agendas and action plans. The action plans range from minor legislative amendments to staff training, further computerization, improving the taxpayer databases, identification numbers, tax audit, collection of tax arrears, to improved day-to-day management practices. Therefore, the focus now should be to implement the strategy and action plan.

4.3.6 PAYROLL CONTROLS

Payroll management and controlling salaries and wages remain one of the weakest points of the PFM system in Kosovo. While the main cause of the weakness appears to be the conduct of the staff who prepare and enter personnel data in the payroll system, the authorities' solution to the problem is to establish a centralized payroll database and possibly the transfer the central payroll management system from the Ministry of Public Services to the MFE. It is our opinion that key task is to improve the integrity of the data entry process, which could and should be addressed through the planned computerization process.

4.3.7 PROCUREMENT

A new procurement law was approved by the Assembly in early February 2007, and now awaits ratification by the SRSG. The law establishes the legal framework for BOs procurement. It also identifies the roles of the Public Procurement Agency (PPA) and a Procurement Board and details other arrangements. Once ratified and fully implemented, the Government should be able to address the long-standing procurement-related problems identified in this report. Moreover, the PPA has ambitious plans to train BO staff in procurement. Again, however, good legislation and training is not sufficient to ensure propriety. Ethic-related issues will need to be squarely addressed and a strong code of conduct enforced at all levels. Also, political interference in procurement decision making process needs to be strongly discouraged.

4.3.8 INTERNAL CONTROLS AND AUDIT

Thanks to technical and financial assistance received from the EU in the last few years, the concepts as well as the legal and procedural framework for internal controls and internal audit are well established and known. A reasonable number of staff have been trained and placed in the BOs to strengthen the internal audit units. However, internal

audit is still weak because top management of the BOs does not take it seriously. Until this attitude changes internal audit will remain weak. The problem lies in the lack of accountability. To change that will require strong sanctions of infractions, a more active Assembly, an increasingly investigative media and a stronger civil society oversight.

4.3.9 FINANCIAL AND PERFORMANCE REPORTS

With all financial information easily at hand in the databases of the treasury system, the access by all supervisory bodies as well as by the media and the public can be dramatically improved. Instead of merely presenting quarterly reports, these databases can be made searchable at an appropriately aggregate level and a wealth of pre-defined reports can be offered to whoever has an interest in scrutinising the public finances. Such possibilities would be one mechanism to hold public officials more accountable to the people and to the people's elected representatives.

To complement the financial reporting, budget organisations should be required to report on their operations and as they are developed, on their performance in relation to established objectives and targets. While the full-fledged implementation is probably only medium-term objectives, initial efforts should start to build an information system to monitor and collect basic data regarding what major spending item achieves.

4.3.10 UNMIK AND DONOR SPENDING

One prerequisite for transparency in budgeting and reporting is that the budget and the accounts are comprehensive, i.e. they should include all resources accruing to government institutions and all expenditure regardless of finance. What is missing in Kosovo is a part of UNMIK expenditure and external assistance to public institutions which does not pass through the treasury system.

The responsibility for this state of affairs lies mostly with the international institutions which have looked mostly to the need for accountability vis-à-vis the contributing institutions and countries. As regards other external assistance, the Government will need to develop a donor policy which clearly spells out the modalities to be followed by Kosovo's external partners when providing assistance to government institutions.

4.4 External audit

The office of Auditor-General has a clear vision and a strategic reform plan focused on recruitment and staff training. The reason for the observed limited impact of external auditing is, however, again one of limited accountability on the part of the institutions and their management. This issue needs to be addressed in the broader context of good governance and the legislative and executive branches' responsibility for holding public officers responsible and accountable for their actions. As emphasized before, capacity of national professional staff in the OAG needs to develop further to expand coverage and quality of external auditing and to be ready for an independent national OAG in the future.

Annex 1: Performance indicators – summary

INDICATOR		2006
Budget Credibility		
1	Aggregate Expenditure Outturn compared to approved budget	(B)
2	Composition of expend. outturn compared to approved budget	(D)
3	Aggregate revenue outturn compared to approved budget	A
4	Stock and monitoring of expenditure payment arrears	D+
Transparency and Comprehensiveness		
5	Classification of the budget	D+
6	Comprehensiveness of information in budget documentation	C
7	Extent of unreported government operations incl. donor funds	C+
8	Transparency of Intergovernmental Fiscal Relations	A-
9	Oversight of aggregate fiscal risk	C+
10	Public access to key fiscal information	B
Policy-based Budgeting		
11	Orderliness and participation in the annual budget process	B+
12	Multi-year perspective in fiscal policy, planning, & budgeting	D
Predictability and Control in Budget execution		
13	Transparency of taxpayer obligations and liabilities	B+
14	Effectiveness of taxpayer registration and tax assessment	C
15	Effectiveness in collection of tax payments	B
16	Effectiveness of cash flow planning, mgt. & monitoring.	B+
17	Recording & management of cash balances, debt and guarantees	(A)
18	Effectiveness of payroll controls	D
19	Competition, value for money and controls in procurement	C+
20	Effectiveness of internal controls.	C+
21	Effectiveness of internal audit	C
Accounting, Recording and Reporting		
22	Timeliness and regularity of accounts reconciliation	B
23	Availability of resource info received by service delivery units	D
24	Timeliness, quality and dissemination of in-year exec. reports.	B+
25	Timeliness of audited financial statements submitted to the legislature.	A
External Scrutiny and Audit		
26	The scope, nature and follow up of external audit reports.	D+
27	Legislative scrutiny of the annual budget law	B+
28	Legislative scrutiny of external audit reports.	D

Annex 2: Deviation tables

2003							
Description	Allotment Amount start of the year 2003	Carry-forward from 2002	Budget -2003 Freebalance	Total Allotment Amount end of the year 2003- FreeBalance	YTD Actual- Expenditure	Absolute Deviation - actually spent & appropriation for the year	Absolute Deviation -- actually spent & initial allotment + carry over
TOTALI KOMUNAT	141 764 358	8 874 583	178 597 663	187 472 246	138 634 127	3 130 232	12 004 814
KOVOVO TRUST AGENCY	23 134 000	71 302 145	92 037 650	163 339 795	97 729 693	74 595 693	3 293 548
MINISTRY OF LABOR AND SOC. WEL	82 600 000	1 732 172	96 453 701	98 185 873	90 376 279	7 776 279	6 044 107
POLICE SERVICES	39 900 000	5 813 348	43 628 000	49 441 348	41 850 967	1 950 967	3 862 381
MINISTRY OF HEALTH	44 400 000	7 305 344	52 121 806	59 427 150	37 266 415	7 133 585	14 438 929
MINISTRY OF EDUC.SCIENCE &TECH	18 600 000	7 794 078	27 527 889	35 321 967	19 210 588	610 587	7 183 491
MINISTRY OF TRANSPORT &COMMUN.	22 800 000	7 514 795	42 441 000	49 955 795	16 858 792	5 941 208	13 456 003
MINISTRY OF PUBLIC SERVICES	19 800 000	10 906 729	19 850 000	30 756 729	13 624 617	6 175 383	17 082 113
OFFICE OF THE KPC COORDINATOR	12 164 313	4 354 984	12 764 313	17 119 297	13 239 985	1 075 672	3 279 312
JUSTICE	12 670 000	3 635 059	13 978 881	17 613 940	11 724 237	945 763	4 580 822
PRISON SERVICES	7 800 000	644 897	8 900 000	9 544 897	7 521 211	278 789	923 686
NATIONAL ASSEMBLY	6 707 261	2 424 554	6 710 761	9 135 315	7 266 872	559 611	1 864 943
MINISTRY OF CULTURE, YOUTH &SP	6 200 000	749 373	7 105 901	7 855 274	6 949 420	749 420	47
MINISTRY OF FINANCE &ECONOMY	121 823 182	3 627 360	11 892 140	15 519 500	6 674 562	115 148 620	118 775 980
COMMUNITY AFFAIRS OFFICE	1 450 000	201 502	8 830 000	9 031 502	6 547 126	5 097 126	4 895 625
CUSTOMS	10 040 000	676 417	10 040 000	10 716 417	5 991 007	4 048 993	4 725 410
DIRECTORATE OF ADMINI. AFFAIRS	5 700 000	2 281 755	5 950 000	8 231 755	4 908 945	791 055	3 072 810
OFFICE OF THE PRESIDENT	2 194 158	1 938 718	2 194 158	4 132 876	2 187 569	6 589	1 945 307
MIN.OF AGRICULT.FOREST &RURAL	2 300 000	246 152	2 300 000	2 546 152	2 104 348	195 652	441 805
RADIO AND TELEVISION OF KOSOVA	2 000 000		2 000 000	2 000 000	2 000 000	0	0
OTHER	48 234 450	4 650 029	23 908 132	28 558 161	10 451 362	37 783 088	42 433 116
TOTAL	632 281 723	146 673 992	669 231 996	815 905 988	543 118 121	273 994 312	264 304 247
Deviation total (actuals - appropriation for the year)					-14,1%		
Deviation components (actuals - appropriation for the year)						43,3%	
Difference component and total deviations						57,4%	
Deviation total (actuals - (initial allotment + carry over))					-33,4%		
Deviation components (actuals - (initial allotment + carry over))							32,4%
Difference component and total deviations							65,8%

2004							
Description	Allotment Amount start of the year 2004	Carry-forward from 2002	Budget 2004 Freebalance	Total Allotment Amount end of the year 2004- FreeBalance	YTD Actual-Expenditure	Absolute Deviation -- actually spent & appropriation for the year	Absolute Deviation -- actually spent & initial allotment +
TOTALI PER KOMUNA	175 781 460	49 368 523	180 127 333	229 495 856	204 563 481	28 782 021	20 586 502
MIN.E PUNËS DHE MIRËQENJËS SOC	104 810 638	6 546 116	114 745 732	121 291 848	108 077 452	3 266 814	3 279 302
AGJENCIA KOSOVARE E MIRËBESMIT	27 368 980	61 349 771	76 841 226	138 190 997	94 590 055	67 221 075	5 871 304
MINISTRIA E SHËNDETSISË	49 845 423	18 872 309	54 980 126	73 852 435	66 490 277	16 644 854	2 227 455
SHËRBIMET POLICORE	52 960 000	4 928 472	52 919 252	57 847 724	48 828 906	4 131 094	9 059 566
MIN.E TRANSPORTIT DHE TELEKOMU	28 000 000	31 124 308	35 534 103	66 658 411	43 413 065	15 413 065	15 711 243
MIN.E ARSIMIT,SHKEN. DHE TEKNO	19 786 000	13 637 687	26 126 394	39 764 081	27 595 600	7 809 600	5 828 088
MINISTRIA PËR FINANCA DHE EKON	181 107 843	4 684 170	34 937 451	39 621 621	23 005 221	158 102 622	162 786 792
MINISTRIA E SHËRBIMEVE PUBLIKE	18 786 036	9 976 403	19 561 734	29 538 137	21 843 546	3 057 510	6 918 893
ZYRA E KOORDINATORIT TË TMK	15 000 000	1 939 568	18 534 200	20 473 768	17 764 839	2 764 839	825 271
DREJTËSIA	14 228 250	3 087 296	13 738 795	16 826 091	13 908 341	319 909	3 407 205
ZYRA PËR ÇËSHTJET E KOMUNITETE	12 151 750	419 247	13 029 698	13 448 945	13 031 429	879 679	460 432
DIVIZIONI I MENAGJIMIT PENAL	11 000 000	1 886 996	10 641 981	12 528 977	10 508 640	491 360	2 378 355
MIN.E KULT.RINISË DHE SPORTEVE	9 000 000	280 429	9 056 713	9 337 142	7 865 019	1 134 981	1 415 410
KUVENDI	7 686 673	1 431 160	7 586 676	9 017 836	7 404 608	282 065	1 713 225
DOGANA	6 792 296	1 349 905	6 795 751	8 145 656	6 980 001	187 705	1 162 200
DREJTORATI I ÇËSHTJEVE ADMINIS	5 200 000	1 927 626	4 874 619	6 802 245	4 980 092	219 908	2 147 534
NJËSIA RREGULLATIVE QËNDRORE	4 156 802	1 141 368	3 911 943	5 053 311	4 120 299	36 503	1 177 870
MIN.E AMBIENTIT DHE PLAN.HAPSI	3 000 000	640 490	12 324 496	12 964 986	3 770 084	770 084	129 594
ZYRA E KRYETARIT	2 200 000	1 529 144	2 097 241	3 626 385	3 160 922	960 922	568 222
OTHER INSTITUTIONS	25 245 231	4 859 205	21 878 480	25 929 052	16 010 197	9 235 034	14 094 239
TOTAL	774 107 382	220 980 192	720 243 943	940 415 503	747 912 074	321 711 644	261 748 703
Deviation total (actuals - appropriation for the year)						-3,4%	
Deviation components (actuals - appropriation for the year)							41,6%
Difference component and total deviations							44,9%
Deviation total (actuals - (initial allotment + carry over))						-20,5%	
Deviation components (actuals - (initial allotment + carry over))							27,8%
Difference component and total deviations							48,3%

2005							
Description	Allotment Amount start of the year	Carry-forward from 2002	Budget 2005 Freebalance	Total Allotment Amount end of the year 2005- FreeBalance	YTD Actual- Expenditure	Absolute Deviation -- actually spent & appropriation for the year	Absolute Deviation -- actually spent & initial allotment +
MUNICIPALITIES	172 405 644	10 975 650	160 911 782	171 887 431	164 511 450	7 894 194	18 869 843
MIN.OF LABOR AND SOCIAL WELF	123 105 656		124 287 817	124 287 817	123 896 260	790 604	790 604
KOSOVO TRUST AGENCY	80 575 592		80 118 991	80 118 991	78 158 876	2 416 716	2 416 716
POLICE SERVICE	57 789 946	1 582 221	58 162 138	59 744 359	54 943 675	2 846 271	4 428 492
MINISTRY OF HEALTH	52 188 441	614 204	54 404 297	55 018 501	52 709 935	521 494	92 710
MIN.OF EDUC.SCIENCE AND TECHN	23 023 519	2 074 920	30 804 808	32 879 728	30 652 300	7 628 781	5 553 862
MIN.FO TRANSPORT AND COMMUNIC	29 291 186	160 000	29 743 648	29 903 648	27 080 329	2 210 857	2 370 857
OFFICE OF THE KPC COORDINATOR	15 145 049		15 491 677	15 491 677	15 207 900	62 851	62 851
JUSTICE	16 770 039		16 800 989	16 800 989	14 602 754	2 167 285	2 167 285
MINISTRY OF ECONOMY AND FINANC	55 423 668		26 296 340	26 296 340	13 634 363	41 789 305	41 789 305
MINISTRY OF COMMUNITY	11 001 771		11 637 634	11 637 634	11 633 578	631 807	631 807
MINISTRY OF PUBLIC SERVICES	16 152 275		14 700 589	14 700 589	11 502 239	4 650 037	4 650 037
MIN.OF ENVIR.AND SPATIAL PLAN	10 817 450		11 217 450	11 217 450	11 171 818	354 368	354 368
PRISON SERVICES	11 751 000		11 058 000	11 058 000	9 602 608	2 148 392	2 148 392
ASSEMBLY	8 755 120		8 796 717	8 796 717	7 622 540	1 132 580	1 132 580
CUSTOMS	8 709 616		8 559 616	8 559 616	7 009 004	1 700 612	1 700 612
MIN.OF CULT YOUTH AND SPORTS	6 277 174		6 250 144	6 250 144	6 201 987	75 187	75 187
MIN.OF AGRIC FORE.AND RUR DEV	3 791 500	1 077 896	4 569 690	5 647 586	4 821 187	1 029 687	48 209
OFFICE OF COMM AFFAIRS	3 793 224		4 782 139	4 782 139	4 669 916	876 692	876 692
PRESIDENT'S OFFICE	2 274 844		3 844 724	3 844 724	3 716 006	1 441 162	1 441 162
OTHER INSTITUTIONS	27 157 739	0	23 957 678	23 957 678	20 772 450	6 385 289	6 385 289
TOTAL	736 200 452	16 484 890	706 396 867	722 881 757	674 121 175	88 754 169	97 986 858
Deviation total (actuals - appropriation for the year)					-8,4%		
Deviation components (actuals - appropriation for the year)						12,1%	
Difference component and total deviations						20,5%	
Deviation total (actuals - (initial allotment + carry over))					-6,7%		
Deviation components (actuals - (initial allotment + carry over))							13,6%
Difference component and total deviations							20,3%

Annex 3: People interviewed

A. Government officials and UNMIK

Ministry of Economy and Finance (MEF)

Mr. Haki Shatri	Minister
Mr. Behxet Brajshori	Deputy Minister
Mr. Agim Krasniqi	Permanent Secretary
Mr. Lulzim Ismajli	Director, Department of Treasury
Ms. Florie Syla	Head, Grant Unit, Department of Treasury
Mr. Gazmend Bajra	Expert, Department of Treasury
Mr. Azem Reqica	Project Supervisor, Department of Budget
Mr. Naser Osmani	Committee for Budget and Finance
Mr. Hasan Isufaj	Deputy of Budget Department
Mr. Geoff Nicol	Team Leader, Public Investment Program
Mr. Zilif Lufi	Deputy Director, Department of Treasury
Mr. Kemajl Ratkoceri	Functional Consultant, Free Balance, MFE
Ms. Rozeta Hajdari	Office of the Prime Minister, PISG
Mr. Selim Thaqi	Director, Department of Macroeconomy

Ministry of Public Services (MPS)

Ms. Melihate Termkolli	Minister
Mr. Mark Komani	Deputy Minister
Ms. Hasmije Ilazi	Advisor to Minister of Public Services
Ms. Nekibe Kelmandi	Head of Committee for Public Services, and Local Administration & Media
Mr. Naim Rustemi	Chief Executive Officer, Kosovo Institute for Public Administration
Mr. Rrahman Zahiti	Acting Director of Public Service Management Dept.
Mr. Shpresa Dushi	Head of the Payroll Sector

Tax Administration Kosovo

Mr. Ekrem Hysenaj	Deputy Director, TA
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Independent Supervisory Board (at MPS)

Mr. Sevdail Kastrati	ISB Chairman
Mr. Halim Koliqi	ISB Secretary
Mr. Hilmi Jashari	Deputy, Ombudsperson

UNMIK Customs Service

Mr. Shkelzen Mustafa Deputy Director Compliance

Office of the Auditor General

Ms. Linda Casella Auditor General

Mr. Serafim Sofroniev Deputy Auditor General

Public Procurement Agency

Ms. Vlora Kuqi Director

Ms. Aferdita Avdiu Selmani Procurement Manager

Banking and Payment Authority of Kosovo

Ms. Florim Maxharraj Payments Sector

UNMIK Pillar IV

Ms. Chiara Bronchi Head, Fiscal Affairs Office

Mr. Gregory Thwaites Economist, Fiscal Affairs Office

B. International organizations and donors

International Monetary Fund

Mr. Edgardo Ruggiero Resident Representative of Kosovo

Mr. Agim Demukaj Economist

European Agency for Reconstruction

Ms. Nadia Costantini Program Manager, Public Finance/Public
Administration Reform

UK Department For International Development (DFID)

Mr. Jeffrey Tudor Resident Representative of Kosovo

Ms. Florina Duli Program Manager, Public Administration

U.S. Office Pristina

Mr. Shante' Moore Economic / Commercial Officer

USAID Pristina / Bearing Point

Mr. Peter Thurlow Principle Advisor to the Minister

Mr. Kris Kauffmann Advisor USAID / B.E. / MEF

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