

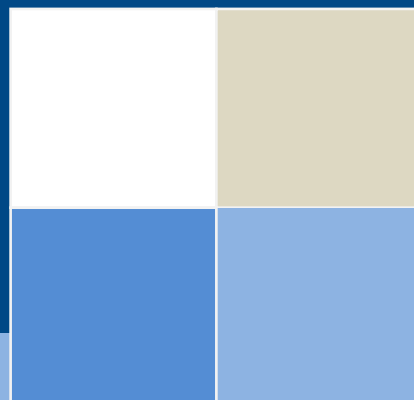
Policy Analysis - No. 04/2012



GROUP FOR LEGAL  
AND POLITICAL  
STUDIES

# Budgeting Partisan Needs:

Kosovo, European priorities and the Government  
budget planning



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# BUDGETING PARTISAN NEEDS: KOSOVO, EUROPEAN PRIORITIES AND THE GOVERNMENT BUDGET PLANNING

## I. Background

EU integration is a standards-driven process, which, amid different forms of communication, requires potential candidate countries to establish important standards for state and institution building. However, for governments, it is often quite complex to invest in developing standards that advance state-building and strengthen good-governance practices, especially with regard to budget planning practices. Certainly, this relates to the fact that incumbent political parties may risk losing their monopoly over government and administrative behaviour. As a consequence of this pattern, in countries in transition, the political elites adjust the state budget to their political/partisan needs and aim to ensure long-term control over state administration, thus avoiding establishing mechanisms that could hamper their partisan monopolies and interests.

The budget planning is an indicator of commitment vis-a-vis the implementation of national policies, and, as such, it should correspond to the policy priorities of a state. In particular, the budget expresses the government's commitment to a policy, and, of course, indicates the level of priority assigned to it. On the other hand, a critical determinant of the success of a particular country in addressing the European policy standards is the extent to which the European priorities are linked to and supported by the state budget.

Budget analysis is crucial for both evaluating government decisions about allocation and distribution of limited resources among competing priorities and for assessing whether adequate resources reflect properly the recognized priorities. Thus, for the purpose of our analysis, it is of immense importance to assess equally the process of budget distribution over the years and decisions to determine budget priorities, as they directly impact the accomplishment of the EU integration priorities and internal market development. In this regard, based on the findings of the Policy Report 05/2012, this Policy Analysis offers an analysis of the consistency between the European priorities for Kosovo and the government budgetary priorities, from 2007-2011.

In short, the report argues that the determination of budgetary priorities does not support the Kosovo Government European agenda, as a policy tool to achieve both country's institutional transformation and long term development. The report affirms that Kosovo has a politically oriented budget allocation rather than a budget that addresses the European priorities. In particular, the report acknowledges that the ranking of European priorities in government agenda and their (lack of) representation in the budget don't reflect any serious commitment to achieving timely progress on the European agenda vis-a-vis the budgeting process.

## II. Methodology

For the purpose of this analysis, we use the budget amounts as shown in the Kosovo Informative System of Financial Management (SIMFK) and reported in the Financial Annual Reports and Budget of the Republic of Kosovo. Noting that some data concerning KIPA and Tax Administration are not available in the reports, we present the amounts as available in the Budget Tables for respective years.

We calculate the year-on-year (YoY) nominal growth rate in the budget allocation to determine how much the size of the budget allocation of specific budgetary organizations (BOs) grew/decreased from one year to another on a nominal basis. To calculate YoY growth rates in budget allocations to the BOs, the following formula has been applied:

$$\text{Growth Rate} = (\text{current year allocation} - \text{previous year allocation}) / \text{previous year allocation} \times 100.$$

On the other hand, to calculate the real allocation we have divided each budget allocation by the deflator for the respective year.

Price deflator is calculated by dividing the Consumer Price Index (CPI)<sup>1</sup> by 100. For each year, we have divided the nominal budget allocation to the BOs by the price deflator, thereby converting these amounts into real values.

$$\text{Real allocation} = \text{Nominal allocation} / \text{Price deflator}$$

The YoY Annual Real Growth rate is calculated following the same formula as per nominal growth rate, using the real allocation data. Real Average Annual Growth rate has been calculated by dividing the summed real growth rate by the number of yearly growth rates calculated.

Whereas, the weight to the Total State Budget (henceforth TSB) is calculated by dividing the budget allocation of the BOs by TSB for the respective year and then multiplying the generated amount by 100.

$$\text{Weight to TSB} = (\text{BOs budget allocation for X year} / \text{TSB for X year}) \times 100$$

### III. Context: Budgeting process in Kosovo

In Kosovo, the annual procedure for budget formulation starts in April and is regulated by the Law on Public Financial Management and Responsibilities (03/L-048). The law prescribes and regulates the time schedule and procedures for the preparation of the MTEF.<sup>2</sup> The budgeting process consists of three main phases: a) budget formulation, b) approval/enactment, and c) implementation.

In the first phase, the Ministry of Finance (henceforth MF) is responsible for preparing the budget of the Republic of Kosovo and later submitting it to the government for approval. At the local level, the mayor of the municipality is the competent authority in charge of preparing the municipal budget and presenting it to the municipal committees and municipal assembly for approval. Initially, in lieu of the strategy and on maximal approval amounts, MF is required to offer guidelines for all budgetary organizations on the form of budget circulars. Budgetary Organizations (henceforth BOs) prepare proposals of their budget requests based on guidelines for the budget circular. The ministry must submit the budget circular for municipalities to the municipalities by September 30 at the latest. Despite a separate budget circular, the budget preparation and implementation

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<sup>1</sup> The CPI values reflect the values published by the Statistical Institute of Kosovo for respective years.

<sup>2</sup>MTEF provides an overview of recent fiscal trends, forecast of the macroeconomic outlook for the three year period.

procedures set out in the Law on Public Financial Management and Responsibilities are applicable to municipalities. Due to a deficiency of funds for the majority of BOs, the first budget circular is then followed by budgetary hearings (henceforth BHs). On the basis of the adjustments approved in BHs, the budget proposal and the budget justification have to be prepared. The Ministry has to set up the budget draft.

In the third circular, which is the concluding one, the Ministry communicates the final budget draft. It then submits the Budget Proposal and draft law for budget allocation to the government for approval. The government has to submit the draft-budget for approval to the Assembly at the latest on October 31 of current fiscal year. The minister of Finance has to present the draft budget in the parliamentary session for the first reading. Following the first reading, the draft law is then passed on to the main committee (for budget and finance) and other parliamentary committees<sup>3</sup> that have the right to submit proposals for amending the draft law. The Committee for Budget and Finance prepares a report which highlights the amendments and submits the draft budget for the second reading in the plenary session in the Kosovo Assembly. Throughout the second reading, each amendment should be voted on, and only then may the draft law of the Budget be approved. The Budget of the Republic of Kosovo must be approved at the latest by 31<sup>st</sup> December.

#### IV. Nominal and real trend of the sectoral budgets and their weight to total state budget: Problems and Analysis

European Commission (EC) Progress Reports have persistently identified Kosovo's ineffective public administration, corruption, and weak rule of law institutions as some of the main obstacles in building sustainable/efficient state mechanisms and advancing the state-building process. In addition, the political interference in justice and interference and/or intimidation in public procurement processes, according to EC Progress Reports for Kosovo, hinder Kosovo's efficiency in carrying out legal, political and economic reforms and limit the progress in the European integration process. However, while there is a need to address many challenges/priorities that help advance and/or improve the state of several sectors and institutions, this Policy Note highlights some of challenges continuously addressed by EC reports (as fig.1 shows) to argue that the budget is in total disharmony with the increasing EC expectations regarding Kosovo's performance in those policy areas. Clearly, the much-stated EU priorities have not been translated into real priorities, as there is no link between the declared priorities and the budget allocations.

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<sup>3</sup>It should be noted that each committee of the Assembly of Kosovo has the right to propose amendments however, the Committee of Budget and Finance is the main committee for reviewing the proposals for amendments of Draft Budget from all other Parliamentary committees and submits the proposals in plenary session where the budget is also approved.

**Fig. 1: explaining the EC attitude toward key reforms**

Year	EC Progress Report Priorities to be addressed	EC Progress Report Priorities (persisting through years)			Progress YoY
		Judiciary System	Public Procurement	Public Administration Reform	
	YES/NO				▲ Improve ▲   (I)
2007	YES	a) The judicial system remains weak and efficiency needs to be enhanced;	a) Provisions on concessions in the current legal framework diverge significantly from the acquis;	a) Further efforts are needed to reinforce the capacity of institutions in charge of public administration reform as well as to allow the transfer of knowledge and best practices across the region;	↓ D
2008	YES	b) Data and case management is still weak; a significant backlog of court cases;	b) Procurement officers in Kosovo remain vulnerable to interference and intimidation;	b) Public administration and the coordination capacity of public bodies in Kosovo continue to be weak;	↓ D
2009	YES	c) This is a serious concern as regards impartiality of judiciary;	c) Administrative capacity and coordination mechanisms of the main stakeholders in the public procurement system still need further strengthening, in particular to reduce the scope for corruption;	c) Civil servants continue to be vulnerable to political interference, corruption and nepotism.	↓ D
2010	YES	d) Political interference in the work of the judiciary is still a concern;	d) The three public procurement bodies need to cooperate more efficiently;		↓ D
2011	YES	e) Improvements are needed in the efficiency of court proceedings and enforcement of decisions;			↓ D
		f) Cooperation between the prosecutor's office and the police is limited.			↓ D
					↓ Deteriorate ↓   (D)

In general, based on the findings of the GLPS Policy Report 05/2012, we present the analysis of the budget trend of BOs, (responsible to address the challenges/priorities in sectors defined as priorities from EU for Kosovo over time in selected sectors, and the weight/participation of BOs budget in the total state budget), to measure whether politically important policy sectors are being prioritized by the political party in the government at the expense of state building policy priorities. That said, it should be noted that the total state budget expenditures have shown, on average, continuous increases (except for 2010)<sup>4</sup> throughout the period of 2007-2011, with a nominal and

<sup>4</sup> For more please refer to chart 6.

real annual growth rate of 17.1% and 15.12%, respectively (see chart 1). The increase in the percentage indicates increased government provision to certain sectors in its budget allocations; however, the proportion of total government spending allocated to many of such sectors has been and remains highly insignificant.

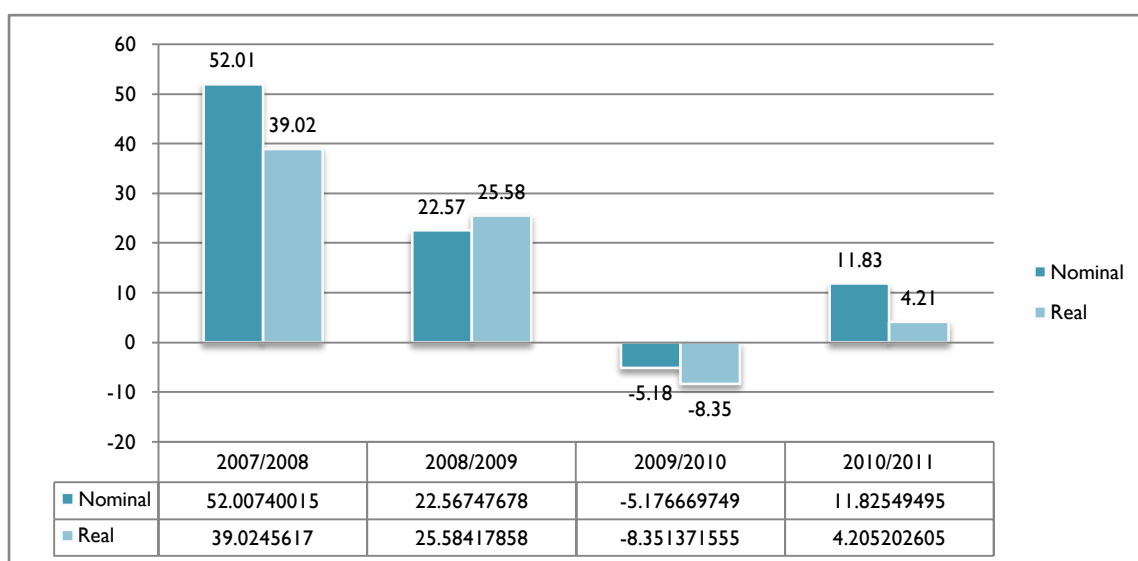


Chart 1: Nominal and Real Total State Budget Expenditure Trend through 2007-2011 (%)

The increase of the total state budget, in general, needs to be reflected in the increase of the budget of European priority BOs. Of note is that fact that of the proportion of increase of the total state budget, there is a larger amount dedicated to 'real government' partisan priorities. The distribution of budget funds should be balanced to avoid under-budgeting for sectors that are important for both state building and European Integration. The assumption herein is that the increase of a BO's budget indicates an increase in government's attention towards this BO. Having said that, considering the annual increase of the state budget, in the following analysis we assess whether the European priority BOs whose annual budget increased, do, as a result, increase their share/weight in the state budget.

The analysis shows that European priorities and/or challenges received little if not minimal budget attention, as a majority of them amount to around 1% of the total state budget during the period 2007-2011. This is mainly a result of the government's failure to design the budget based on state building and European integration priorities and their concentration on funding partisan priorities. From another perspective, this weak government commitment has resulted in numerous challenges, revealing the unsatisfactory and weak governmental efforts and commitment to push forward the European priorities.

In particular, though the state budget shows a continuous increase, notwithstanding 2010, the majority of BOs concerned are worse off vis-a-vis their allotment from the total state budget compared to 2007.<sup>5</sup> On the other hand, this implies a diminishing focus on European priorities in relation to the government agenda and its budget priority list. As Table 1 shows, infrastructure has been clearly placed as a top priority of the government, as the proportion of MI budget to total state

<sup>5</sup>For more refer to charts 3, 4 and 9 and table 5 and 6.



budget rocket from 4.68% to 18.3% for the last five years. However, as evidence suggests, regardless of having their budget increase nominally, many BOs have seen their participation to TSB decrease.

	2007/2008		2008/2009		2009/2010		2010/2011		
	Nom	Real	Nom	Real	Nom	Real	Nom	Real	
<b>YoY Nominal and Real % Change<sup>6</sup></b>	289.7	256.4	15.5	18.3	29.0	24.7	33.1	24.0	
	2007	2008	Change from last year	2009	Change from last year	2010	Change from last year	2011	Change from last year
<b>Weight to Total State Budget (%)</b>	4.7	11.3	↑	12.0	↑	15.4	↑	18.3	↑

The analysis shows that the increase of the total state budget has been reflected in increases of the budget of several BOs on a nominal basis; however, this was not the case for many of them. The year of 2008 was quite beneficial for most of the BOs included in the analysis. However, 2009 has not been 'generous,' particularly for the Public Procurement Agency, Police, State Prosecutor and KIPA, as some of the key institutions with the authority and competence to address main European integration priorities (see tables 2 and 3, columns 2, 3, and chart 8).

In 2010 and 2011, the decrease in the annual budget has been more pronounced and severe for many BOs compared to the previous years (see tables 2, 3, 4, and 6, columns 4 and 5, and chart 8). While the evidence shows an increase of the budget for several European priority BOs, in many cases it has been largely disproportional to the percentage increase of the total state budget as is the case with Public Procurement institutions (see chart 2).

In contrast, as was common between the years of 2007 and 2011 in these years, the Infrastructure sector received an increase of 33%, although an increase much smaller in scale compared to that of 2008 (290%). This is in sharp contrast to the increase in the 2011 total state budget, which rose only 11.8% above the 2010 budget.

<sup>6</sup> Year on Year Nominal and Real percentage change shows the trend of the respective BOs budget from previous year (increase/decrease). For more information on how we calculated the nominal and real trend refer to the section of methodology. While for real and nominal budget allocations see Table 8.

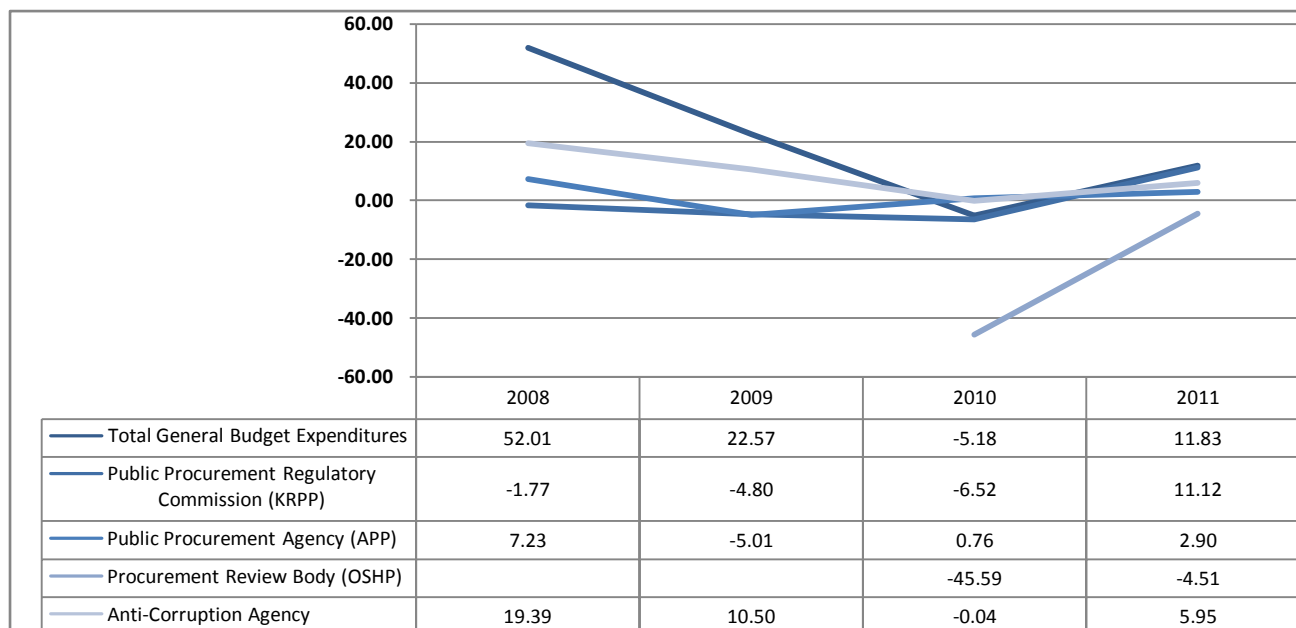


Chart 2: YoY % Change of the Public Procurement and Anti-Corruption Institutions compared to that of Total State Budget

Certainly, if we account for inflation, some of the improvements in the allocation of funds and increased spending, both promoted by the government as serious commitments toward European Priorities, turn out to be a mere delusion. Via the use of real value calculation, the results showed that the budget allocation for many European priority BOs is smaller compared to the nominal one.<sup>7</sup> An example of this is the annual budget of the Public Procurement Regulatory Commission for 2011 that nominally increased by 11.2%, but in fact received a real increase of only 3.55% (see table 3). Moreover, the budget of the Public Procurement Agency, despite increasing in nominal terms, reflects a purchasing power that actually decreased; in real terms, the budget (the purchasing power) decreased by 4.11% (see table 3). This finding is representative for several European priority BOs through years (see tables below).

## V. Sectoral Budget Allocation and Participation on Total State Budget through years

### A) Justice Sector

The EC enlargement report (2010-2011) highlights the need to develop concrete plans to tackle the reform in judiciary and, moreover, highlights the need for broader financial resource allocation. According to the EC progress report, “Kosovo is still at an early stage in addressing priorities in the area of justice.”<sup>8</sup> Despite this, as shown in table 2, the allocated budget in the sector of justice

<sup>7</sup> See real and nominal value columns in respective tables (2, 3, 4, 6 and chart 8)

<sup>8</sup> COM(2010) 660. COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL. Enlargement Strategy and Main Challenges 2010-2011.

throughout the years is very low and far from being sufficient and satisfactory for its needs. Considering the role of the Ministry of Justice in building an efficient, independent, and impartial judicial and prosecutorial system, harmonizing the laws with the EU standards, and developing international legal cooperation, its budget accounts for only 1.33% of the overall state budget in 2011, and on average only 1.7% from 2007 to 2011 (see chart3).

Justice Sector	2007/2008		2008/2009		2009/2010		2010/2011		Real A.A growth rates
	Nom	Real	Nom	Real	Nom	Real	Nom	Real	
Ministry of Justice	20.8	10.5	19.51	22.45	-0.67	-4.00	-8.8	-15.0	3.5
Dep. of Justice/State Prosecutor	-17.1	-24.2	-30.8	-29.09	-89.16	-89.52	4098.3	3812.2	917.4
Judiciary Institute of Kosovo	25.1	14.4	79.3	83.76	-5.77	-8.92	-11.2	-17.2	18.0
Secretariat of Kosovo Judicial Council	32.2	20.9	18.3	20.1	3.86	0.38	20.1	11.87	13.6

The situation is even worse for the State Prosecutor, the Secretariat of KJC,<sup>9</sup> and the Judicial Institute of Kosovo, as key actors in promoting justice for all citizens and ensuring the independence and impartiality of the judicial system. Each comprise of only a minor part of the state budget (see chart 3), and, moreover, all together account for only 1.56% of the state budget in 2011 (please refer to chart 7 below). As we demonstrated above, the BOs responsible for addressing European priorities in justice sector are under-budgeted to a large extent. Moreover, their budget and the participation in TSB are in total contrast with that of infrastructure. This, on the one hand, shows that there has been no serious commitment from the side of the Government to invest in addressing such priorities, and that, although the needs to improve the situation in justice sector have increased Kosovo's responsibilities to invest in this field, the financial support in this policy area has either been insufficient and, in cases, has even decreased in real terms.

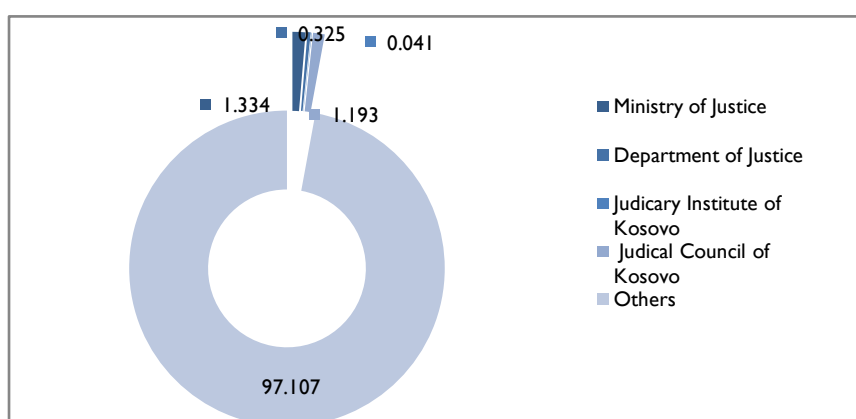


Chart 3: Weight (%) of Justice sector BOs on Total State Budget for 2011.

<sup>9</sup> KJC refers to Kosovo Judicial Council.

## B) Anti-Corruption

The EC reports (see fig.1) consider corruption a persisting problem and a serious challenge for Kosovo. Despite some improvements, in particular regarding anti-corruption legal frameworks, the anti-corruption mechanism is considered as incomplete and not in compliance with European Standards. From 2008, EC progress reports highlight several priorities that the governmental authorities must address, such as establishing mechanisms that facilitate the transparency of corruptive affairs. There remains a need for better coordination between several institutions engaged in fighting corruption and eliminating political interference in cases/processes of corruption. In this respect, chart 4 shows that the budget of the Anti-Corruption Agency (AKK) through years has not absorbed even 1 percent of the overall state budget and its share has consistently declined over the years (except for in 2010). What's more, as a consequence of such a trend, AKK was worse off in 2011 in regard to its share of the total state budget as compared to 2007 (see chart 4). In addition, the percentage change of the AKK budget is disproportionate vis-a-vis the overall state budget percentage increase.<sup>10</sup> Thus, it is not surprising that, to date, not a single corruption affair has been handled successfully by authorities, which supports our argument that the government tends to ignore these sectors as it suits their political interests.

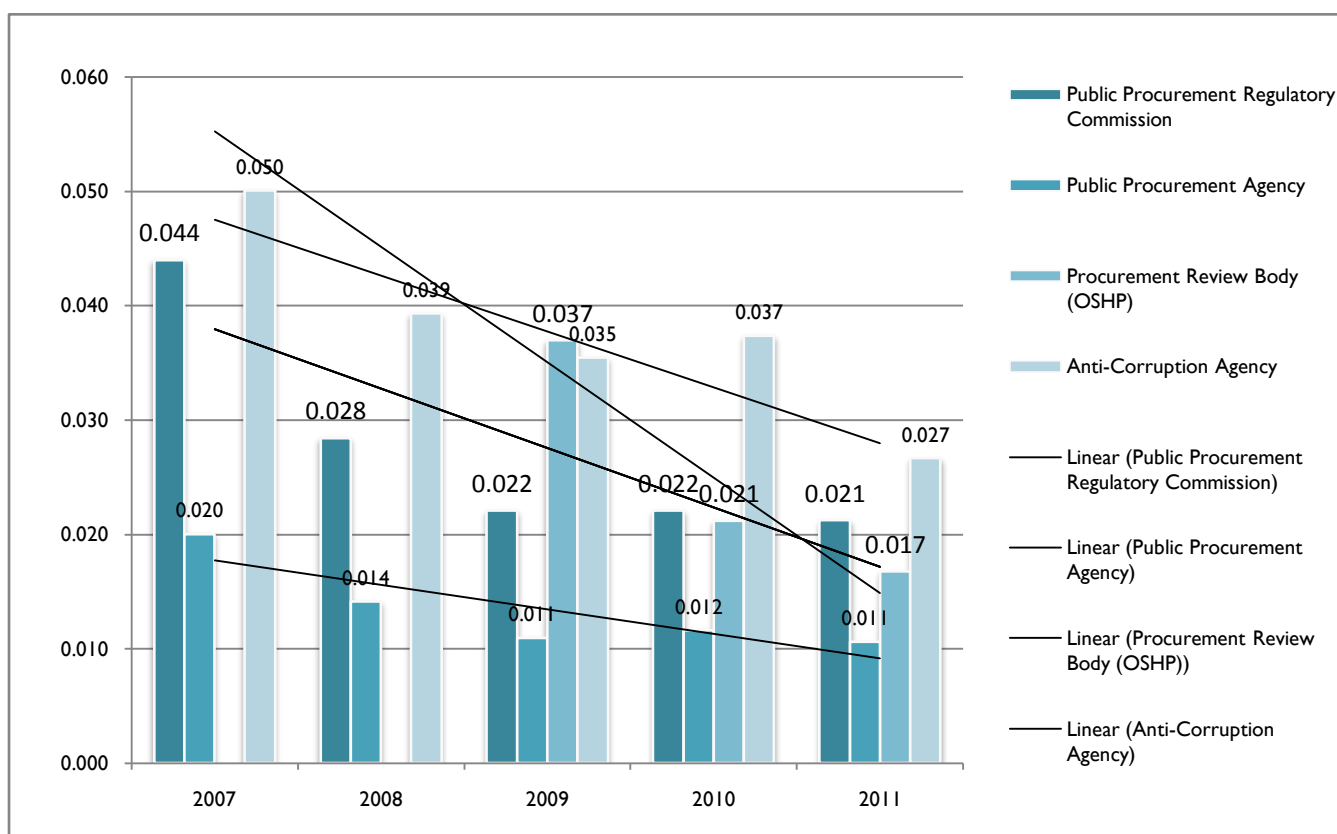


Chart 4: Public Procurement and Anti-corruption Institutions participation in total state budget (%) through 2007-2011

<sup>10</sup> See for more Chart 2.

## C) Public Procurement

Regarding public procurement, EC reports (see fig 1 above) acknowledge that the implementation of the existing laws is a serious concern. Such reports highlight the need to strengthen the role of public procurement officers in order to ensure proper monitoring of the implementation of procurement contracts. According to the same reports, independence and professionalism in the public procurement system remains a serious challenge, and the corruption in this sector remains a serious concern. Kosovo's provisions on concessions diverge significantly from European standards.

Sector Rule of Law	2007/2008		2008/2009		2009/2010		2010/2011		Real annual average growth rates
	Nom	Real	Nom	Real	Nom	Real	Nom	Real	
Public Procurement Regulatory Commission (KRPP)	-1.77	-11.3	-4.79	-2.45	-6.52	-9.6	11.2	3.54	<b>-4.97</b>
Public Procurement Agency (APP)	7.228	-1.96	-5.01	-2.67	0.76	-2.61	2.90	-4.11	<b>-2.84</b>
Procurement Review Body (OSHP)					-45.6	-47.4	-4.5	-11.0	<b>-29.22</b>
Anti-Corruption Agency (AKK)	19.39	8.42	10.50	13.22	-0.04	-3.38	5.95	-1.27	<b>4.25</b>
Police	4.24	-4.88	-8.77	-6.53	15.99	12.11	17.7	9.67	<b>2.59</b>

While progress in the field of public procurement is vital for improving governance over the public sector and opening the sector to competition, the budget allocated to public procurement is highly insufficient. The insufficient budget for the public procurement sector is only one of several problems, followed by the lack of administrative capacities in the Public Procurement Agency, direct bidding procedures, and the lack of competition. The real annual growth rate of budget allocated to public procurement institutions has been negative,<sup>11</sup> the lowest being that of the Procurement Review Body, which decreased by 29.22% (see Table 3, column 6). As chart 4 shows, the proportion of the total state budget allocated to three public procurement institutions has been trending negative, as almost every year their percentage of the total state budget has decreased. Moreover, together with the Anti-corruption Agency, their stake in the total state budget amounted only 0.07% of TSB during 2011 (see chart 5). Such a budget is definitely inadequate and unable to meet the numerous challenges of the sector, especially regarding those related to European priorities.

<sup>11</sup> Except for KRPP in 2010/2011.

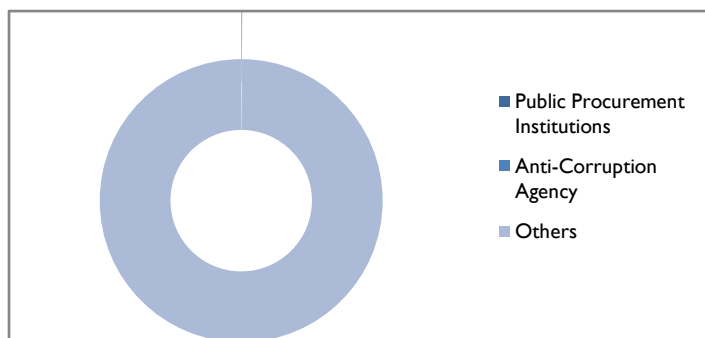


Chart 5: Participation (%) of Public Procurement Institutions and Anti-Corruption Agency on Total State Budget in 2011

Institution	YoY % change (2008/2009)	2008	2009	Trend
Anti-Corruption Agency (AKK)	10.50	0.039	0.035	↓
Public Procurement Agency (PPA)	19.39	0.02	0.014	↓
Ministry of Justice	20.84	2.092	1.663	↓
Judicial Institute of Kosovo	25.08	0.036	0.029	↓
Tax Authority	13.42	0.53	0.49	↓
Kosovo Institute for Public Administration	6.0	0.014	0.09	↓

## D) Economic Development

As pointed out by the progress reports for Kosovo, the weak rule of law, corruption, uncertain property right guarantees, and high interest rates, continue to harm the business environment and economic development in Kosovo. Moreover, the informal sector remains an important challenge. Despite this, the budget of the Ministry of Trade and Industry (MTI), the Competition Agency, and the Tax Authority, as very important European priority BOs, each share less than 1 percent of the overall state budget.<sup>12</sup>

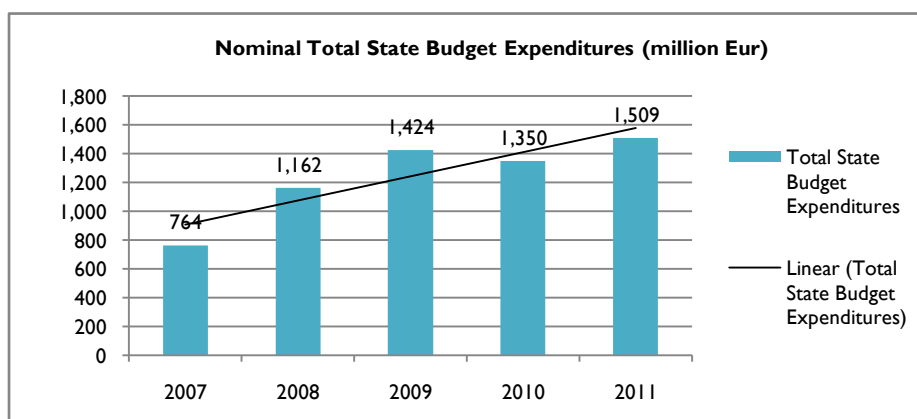


Chart 6: Total State Budget Expenditures through 2007-2011.

<sup>12</sup> For more see Table 5.

Economic Development Sector	2007/2008		2008/2009		2009/2010		2010/2011	
	Nom	Real	Nom	Real	Nom	Real	Nom	Real
Ministry of Trade and Industry	59.53	45.91	60.5	64.45	4.8	1.3	-24.6	-29.8
Tax authority			13.41	16.21	0.76	-2.62	1.28	-5.62
Kosovar Committee for Competition					18.45	14.48	-1.47	-8.18

In addition, the MTI and Competition Agency and Tax Authority budget have decreased in 2011 by 29.77% and 8.18%, 5.62% respectively (see table 4), implying their drop on government priority lists despite the severe challenges in place.

	2007	2008	Trend	2009	Trend	2010	Trend	2011	Trend
Ministry of Trade and Industry	0.47	0.49	↑	0.65	↑	0.72	↑	0.48	↓
Tax Authority		0.53		0.49	↓	0.52	↑	0.47	↓
Kosovar Committee for Competition				0.01		0.02	↑	0.01	↓

## E) Public Administration

The study reveals that the budget provided to KIPA since its establishment has been rather small and insufficient. Moreover, its budget has continuously decreased (both in nominal and real terms) during the period of 2007-2009 (see chart 8), implying a total disharmony between the increasing persistence of EC reports' calls to address several challenges regarding public administration and the weak professionalism among civil servants.

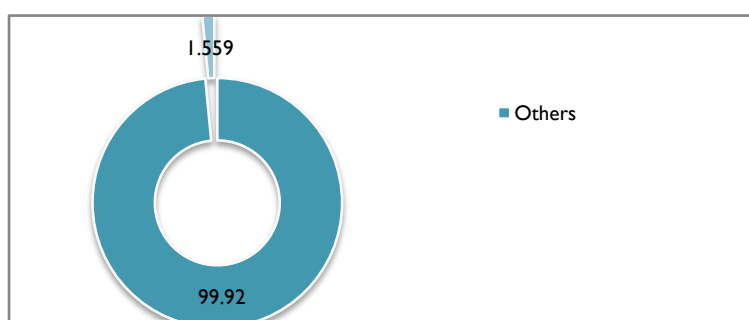


Chart 7: Participation (%) of State Prosecutor, the Secretary of KJC<sup>13</sup> and Judicial Institute of Kosovo in Total State Budget in 2011.

<sup>13</sup> KJC- Kosovo Judicial Council

As chart 9 shows, the proportion of KIPA's budget from the total state budget is practically insignificant; KIPA does not even account for 1% of the total state budget. What is more, KIPA was worse off in 2011, considering its weight in the total state budget compared to 2007. Thus, the study indicates that the efforts/commitments of the Government to invest in building the capacities of civil servants have been rather weak.

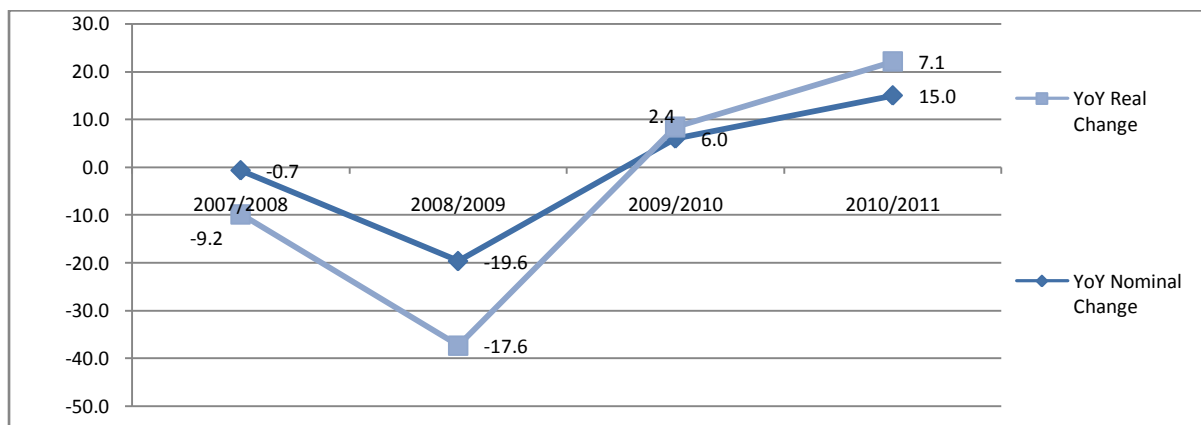


Chart 8: KIPA's Budget: YoY Nominal and Real % Change

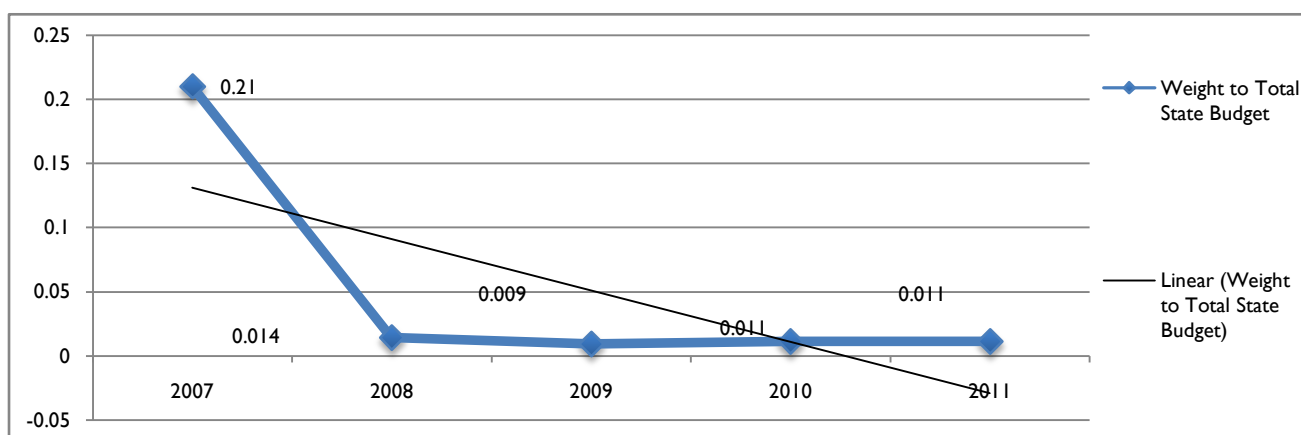


Chart 9: KIPA's Weight to Total State Budget through years (%)

## F) Environment

Kosovo's environment is severely damaged by pollution. Kosovo's power plants omit an estimated 25 tons of ash and dust per hour, which exceeds the permitted EU standards by a multiplied of 74. So far, Kosovo has made some progress in transposing the EU directives, however the implementation is far from being satisfactory.



Table 7: Ministry of Environment and Spatial Planning									
Environment	2007/2008		2008/2009		2009/2010		2010/2011		
	Nom	Real	Nom	Real	Nom	Real	Nom	Real	
YoY nominal and real % Change	29.6	18.6	23.7	26.8	-18.5	-21.2	-31.1	-35,8	-2.9
	2007	2008	Change from last year	2009	Change from last year	2010	Change from last year	2011	Change from last year
Weight to Total State Budget	1.3	1.1	↓	1.1	↔	0.9	↓	0.57	↓

As table 7 shows, only around 1% of the total state budget, on average over the last years, goes towards financing environmental activities. Moreover, except for 2008/2009 when there have been small increases, the last two years have seen decreases in the Ministry's budget and its proportion of the total state budget. Despite accounting for a fairly small proportion of the total state budget in recent years, its weight of the total state budget dropped to 0.57% in 2011 (see table 7). With this budget, bearing in mind that the standards in the environmental field are accompanied by high financial costs, it seems almost impossible to implement the European standards in this field.

## VI. Policy Recommendations

1. It is highly important that the Government of Kosovo adhere to the priority-based model of budgeting, giving special emphasis to the priorities that derive from the EC progress reports for Kosovo. It is essentially important that the Government refrain from offering priority to budgets in the 'partisan oriented' policy field. This said, the Government must strictly improve its budgetary decision-making with regards to the budgetary distribution, offering sufficient space and financial support for the long-term and strategic priorities over those aimed at garnering electoral support;
2. As evidenced by this Policy Analysis, the allocation of the budget has provided for tremendous increases in certain policy areas such as transportation and infrastructure, whereas there has been only small increases (and even decreases) in the allocation of funds for key priorities highlighted in EC progress reports such as anti-corruption, justice, public prosecution, etc. Therefore, the Government must develop a solid balance in the increase of budgets for each sector, especially for those sectors that are marked as priorities in EC progress reports, thus enabling a balanced and proportionate increase of budget across sectors such as transportation and rule-of-law;
3. As noted by the Policy Analysis, although the budget for certain European priority sectors has been slightly increased in nominal terms, an economic analysis exhibited that in fact such sectors' budgets have, in many cases, even decreased in real terms. This said, the law on Kosovo's budget should explicitly establish that there must be no decrease, compared to the

previous year, in the real term budget of BOs that are identified as European priorities, therefore allowing for said BOs' activity to at least be sustained at the same budgeted level. The Government and the Ministry of European Integration should introduce an assessment mechanism to check whether the real budget of the European priorities' BOs has decreased compared to previous years;

4. There seems to be no relation between the European priority BOs in regards to the formulation of the state budget. As it stands, the Action Plan for European Partnership has no financial assessment for each of the action lines. This said, we propose that in order to substantially improve the implementation of standards required by the progress reports, there must be a more credible model of budgetary policy-making introduced in order to tackle the European priorities with more responsibility. The current practice of budgeting for European priority areas must therefore be fully revised. We propose the following new set of mechanisms. First, each European priority BO should undergo a financial assessment, with a review of the action lines within each of its lines in ACEP, and should provide a fully-fledged proposal based on the financial needs required to meet such targets. Second, the budgetary ceilings for the European priority BOs should be set on basis of the progress reports' priorities and should be collectively managed by a group of institutions. This group of institutions should consist of the Ministry of European Integration, the Ministry of Finances, the Parliamentary Committee for European Integration, of the Parliamentary Committee of Budget and Finance, the European Priority BOs themselves, the European Union Office in Kosovo, and Kosovo's civil society organizations. Third, the budgetary ceilings set by the informal group mentioned above should be reflected in the state budget without any interference from the Government or Assembly. As long as the Ministry of Finance continues to unilaterally dictate the European priority BOs budgetary ceilings on the basis of its own interest, it remains difficult to believe that the progress reports' concerns are being addressed in an effective and consistent manner.
5. It is highly important that the Parliamentary Committee on European Integration regularly organizes hearing sessions with the Ministry of Finance to review the final draft-budget and to make a full review on whether the progress reports' priority areas have been provided sufficient financial support on the basis of the European Priorities BOs' financial assessments. The Committee should also check whether there appears to be a balance in the proportional increase of budgets across sectors, particularly between the budgets of political priority areas such as transportation and the budgets of the European priority areas such as judiciary or competition policy;
6. To ensure that the issue of properly budgeting the progress reports' priorities remains at the top of the agenda, the European Commission should design a new chapter in its progress report for Kosovo wherein it assesses the integrity and credibility of the budgetary distribution in the context of the European priorities for Kosovo. This process may then prompt the proper budgeting of the European priorities in Kosovo to become integration conditionality for Kosovo's government; this would certainly prompt the Government of Kosovo to assess the fulfilment of the state-building criteria in a more efficient manner. In addition, the European Union Office in Kosovo should become directly involved in the

process of monitoring and designing Kosovo's budget and, therein, should pressure the government to allocate funds more proportionally to the priority policy areas highlight in the progress reports for Kosovo;

7. The Parliamentary Committee for European Integration should make an annual review of the budgets of the European priority BOs, with a particular focus on possible surpluses. Should it become evidenced that the European priority BOs, as is currently happening, have surpluses in their annual budgets, it must immediately recommended that the Assembly seek accountability from such BOs and emphasize the necessity for financing the planned activities in the proper way;
8. The Office of the Auditor General should establish a new department, namely the Department for European Integration, via which it will annually assess and monitor the performance of the European priority BOs and the use of their budgets. This practice will reveal whether the expenditures within the European priority policy areas have been efficient and regular. Such reports must then be reviewed and used for political accountability by the Parliamentary Committee for European Integration;
9. The Assembly, its European Integration Committee, the Budget and Finance Committee, and the Ministry of European Integration, should establish accountability mechanisms for assessing the performance and implementation of the European Priority BOs' budgets. This would ensure that the performance of the latter adheres to the principles of accountability and efficiency.



Year →	2007		2008		2009		2010		2011	
Total State Budget Expenditures	Nominal budget allocation	Real budget allocation	Nominal budget allocation	Real budget allocation	Nominal budget allocation	Real budget allocation	Nominal budget allocation	Real budget allocation	Nominal budget allocation	Real budget allocation
	764,272,638	743,455,874	1,161,750,967	1,033,586,270	1,423,928,847	1,298,020,827	1,350,216,753	1,189,618,285	1,509,886,567	1,239,644,144
	2007		2008		2009		2010		2011	
Institution/Area	Nominal budget allocation	Real budget allocation	Nominal budget allocation	Real budget allocation	Nominal budget allocation	Real budget allocation	Nominal budget allocation	Real budget allocation	Nominal budget allocation	Real budget allocation
Ministry of Infrastructure	35,766,968	34,792,770	139,394,085	124,016,090	160,980,517	146,746,141	207,728,288	183,020,518	276,510,991	227,020,518
Ministry of Education	50,326,303	48,955,548	70,037,591	62,311,024	55,441,554	50,539,247	43,458,825	38,289,714	36,789,985	30,205,242
Ministry of Environment and Spatial Planning	9,596,461	9,335,079	12,440,973	11,068,481	15,389,929	14,029,106	12,547,262	11,054,856	8,638,717	7,092,543
Ministry of Agriculture	7,270,137	7,072,118	9,947,615	8,850,191	13,339,298	12,159,798	11,988,529	10,562,581	13,962,958	11,463,841
<b>Rule of Law:</b>										
KRPP	336,126	326,971	330,170	293,746	314,336	286,541	293,854	258,902	326,523	268,081
AKK	382,439	372,022	456,600	406,228	504,553	459,939	504,338	444,351	534,351	438,712
PPA	153,036	148,868	164,098	145,995	155,870	142,088	157,058	138,377	161,617	132,690
Police	57,604,800	56,035,798	60,050,104	53,425,359	54,779,154	49,935,418	63,540,059	55,982,431	74,782,072	61,397,432
OSHP					526,071	479,554	286,222	252,178	273,308	224,391
<b>Justice:</b>										
Ministry of Justice	15,989,941	15,554,417	19,322,202	17,190,571	23,092,639	21,050,719	22,937,187	20,208,975	20,915,517	17,172,017
Justice/State Prosecutor	1,811,818	1,762,469	1,502,358	1,336,617	1,039,727	947,791	112,723	99,315	4,732,469	3,885,443

Judiciary Institute of Kosovo	272,995	265,559	341,468	303,797	612,425	558,273	577,091	508,450	512,515	420,784
Secretariat of Kosovo Judicial Council	9,340,378	9,085,971	12,348,643	10,986,337	14,608,746	13,316,997	15,172,791	13,368,098	18,214,792	14,954,673
<b>Other</b>										
Ministry of Trade and Industry	3,601,263	3,503,174	5,745,138	5,111,333	9,220,857	8,405,521	9,660,158	8,511,152	7,280,842	5,977,703
Tax authority			6,183,538	5,501,368	7,013,063	6,392,947	7,066,135	6,225,670	7,156,868	5,875,918
KCC					205,900		187,694	243,884	214,876	197,289
KIPA	164,145	159,674	163,050	145,062	131,050		119,462	138,884	122,365	131,093
Ministry of Culture, Youth and Sport	8,064,766	7,845,103	11,743,508.00	10,447,960.85	12,181,728		11,104,583	12,356,657	10,886,922	10,775,245

Legend	
Anti-Corruption Agency	AKK
Public Procurement Regulatory Commission	KRPP
Public Procurement Agency	PPA
Procurement Review Body	OSHP
Kosovo Institute of Public Administration	KIPA

Table 8: Total State and Institutions Nominal and Real Budget through 2007-2011 period

## **Policy Analysis**

Policy Analysis in general is a policy advice paper which particularly aims to influence the key means through which policy decisions are made in both local and central levels of government. The purpose of Policy Analysis is to address, more in-depth, a particular problem, to examine the arguments related to a concerned policy, and to analyze the implementation of the policy. Through Policy Analysis, Group for Legal and Political studies seeks to stimulate wider comprehensive debate on the given issue via presenting informed policy-relevant choices and recommendations to the key stakeholders and parties of interest.