

Addressing the budgetary challenges of European Commission Report on Kosovo

March 2016



Executive Summary

The 2015 Kosovo Report of the European Commission (hereafter Report) addressed a number of issues related to budgetary capacities of central and local institutions, in addition to the overall assessment of Kosovo institutions in meeting the objectives of the European integration process. The latest Report on Kosovo was published on 11 November 2015.¹ Three days later, the Kosovo Assembly adopted in principle the Law on Budget of the Republic of Kosovo for Year 2016². The law was adopted without any substantial debate, ignoring even the findings of the 2015 European Commission Report.

In this study, GAP Institute has summarized some of the main findings of the 2015 Report related to budgetary capacities, and has compared them with the new budget appropriations as specified on the Law on Budget of Kosovo 2016. The findings are categorized according to specific fields, such as economic development, rule of law, public administration, and so forth. Although several institutions in the area of rule of law have seen a budget increase, in overall our findings show that additional budget is necessary in order for Kosovo to receive a better 2016 Report.

In terms of the public administration, the main problems identified here are: the lack of capacities in implementing the public administration strategy, lack of professionalism, and lack of e-service. The 2016 budget does not provide any substantial increase for such departments and projects within the Ministry of Public Administration.

With regard to the economic development, the budget of several agencies has not increased, regardless of such requests by the 2015 Report. For example, the Kosovo Standardization Agency and the Kosovo Metrology Agency, under the Ministry of Trade and Industry, will have the same number of staff and the same budget respectively, while the Report recommended an increase of budgetary capacities for both these agencies. Furthermore, the Agency for Energy Efficiency under the Ministry of Economic Development was considered to be understaffed and unable to implement its duties and responsibilities deriving from several strategies on energy.

Other institutions identified as having insufficient budget are related to the rule of law, professional trainings, health, environment, statistics, etc.

¹European Commission, Kosovo 2015 Report, Source: <http://bit.ly/1SKQMSt>

²Assembly of Kosovo, Minutes of extraordinary plenary session of Assembly of Republic of Kosovo held on 17th November 2015, Source: <http://bit.ly/1U7kNQw>

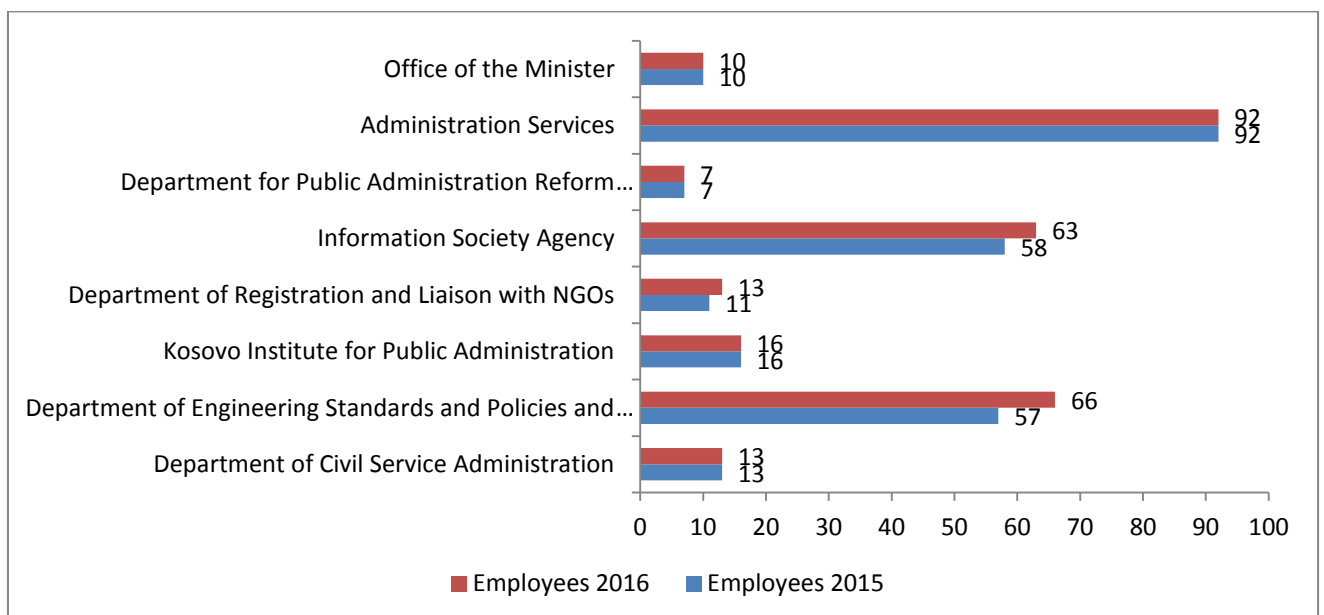
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1. Public Administration

One of the main critics addressed in the Report 2015 in relation to the public administration is lack of the necessary staff to implement and monitor the Public Administration Reform Strategy. Due to highly limited human resources, the MPA faces obstacles in implementation of public administration legislation and principles.³ Despite the above-mentioned Report findings, the MPA budget for 2016 does not provide staff increase for the Department for Public Administration Reform Management.

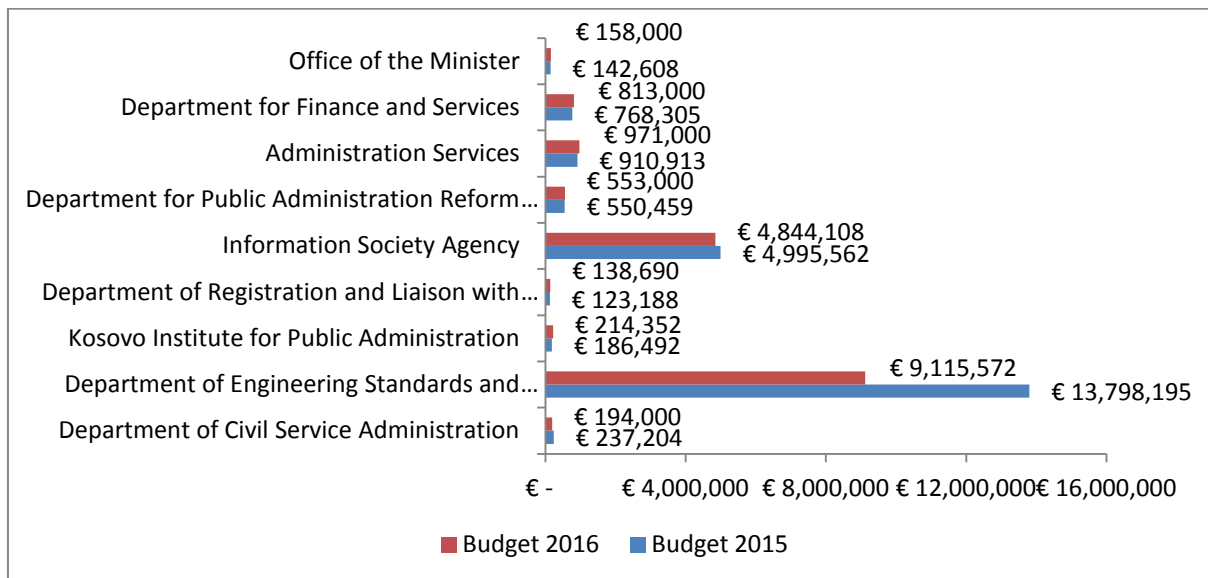
Figure 1. MPA staff number, by departments



According to the Report 2015, in addition to the lack of staff, public administration lacks in professionalism as well, and this is because of political influences and lack of trainings. Lack of professional trainings come as a result of insufficient financial means and lack of suitable facilities of the Kosovo Institute for Public Administration (KIPA). The 2016 budget provides an increase of around 28,000 Euros (15%) in the category of salaries and wages and municipal services for the KIPA, however the number of employees has remained the same. While around 100,000 Euros have been allocated, namely carried over from the previous year, for the construction of the KIPA building.

³ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 12

Figure 2 MPA budget, by departments



Another issue addressed in the Report 2015, in relation to services provided to citizens is the lack of e-services in the public administration due to lack of an appropriate interoperability framework. There is also a lack of equal access to services for citizens with disabilities. In the 2016 budget, the number of staff of the Information Society Agency under the MAP is expected to increase by five persons. Capital investments will also grow by around 318,000 Euros (53%).

There are issues also with the use of the information technology system because the human resources management information system is not up-to-date. The table of capital investments in the MAP does not include any capital projects related to the human resources management information system.

Regarding the overall structure of the public administration, based on the Report, lack of a legal framework has resulted in the establishment of a large number of government agencies with overlapping responsibilities, and a large number of independent institutions reporting directly to the Assembly, while the Assembly lacks in supervising capacity.⁴ In one of our earlier analysis, we had concluded that around 3.6 million Euros per year could be saved in the costs of ministries' cabinets by restructuring the ministries.⁵

2. Economic Development

⁴ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 11

⁵ Gap Institute, Government Restructuring, July 2914, Source: <http://bit.ly/1vjlfxo>

2.1 Ministry of Trade and Industry

With regard to the services provided by the MTI, the Report has criticized the business registration process. Both the online business registration and the market exit procedures need improvements, the Report states⁶. Based on the 2016 Budget, business registration will receive around 37,000 Euros more than in the previous year; however, this increase will mainly be used for salaries and wages⁷.

The Kosovo Standardization Agency, operating under the Ministry of Trade and Industry, was considered that needs to be consolidated. Furthermore, the Report recommends expanding the online sales of services.⁸ However, the 2016 budget provides for only a modest increase, mainly for goods and services⁹.

Recommendations were given to also increase investments in the Kosovo Metrology Agency, operating under the Ministry of Trade and Industry.¹⁰ However, the 2016 budget of the Agency is almost the same as in the last year.

The Report also mentions two laws on oil have still not been adopted. Based on the Legislative Program of the Government of Kosovo 2015, the Draft Law on Obligatory Petroleum Reserves and the Draft Law on Petroleum Market and Products in Kosovo were planned to be adopted¹¹. Based on the budget impact assessment, the Draft Law on Obligatory Petroleum Reserves, planned to be adopted in 2015, has not been included in the Mid-Term Expenditure Framework 2016-2018.

⁶ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 34

⁷ Annex II

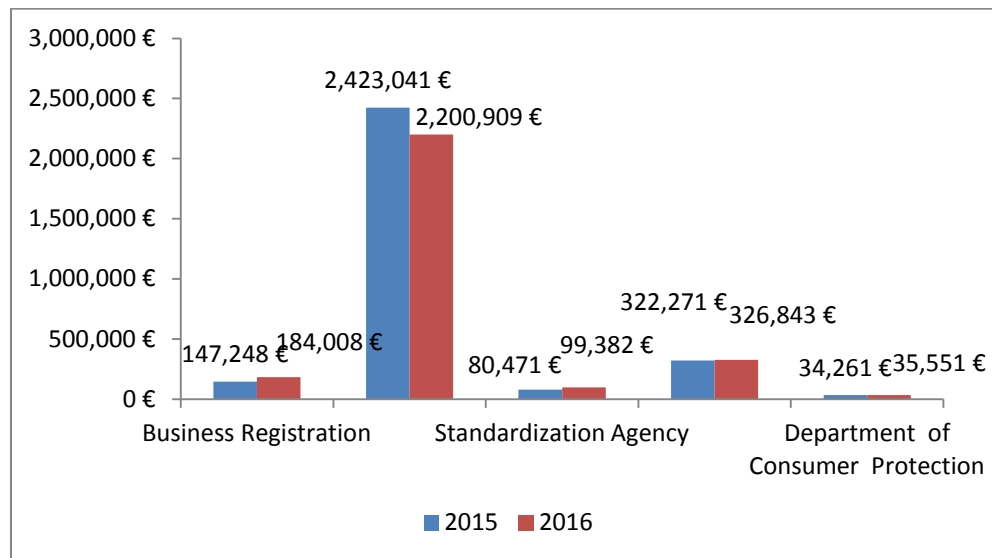
⁸ Ibid, page 39

⁹ Annex II

¹⁰ Ibid.

¹¹ Government of the Republic of Kosovo, Legislative Program 2015, Source: <http://bit.ly/1QWeddc>

Figure 3 MTI departments budget in 2015 and 2016



2.2 Ministry of Economic Development

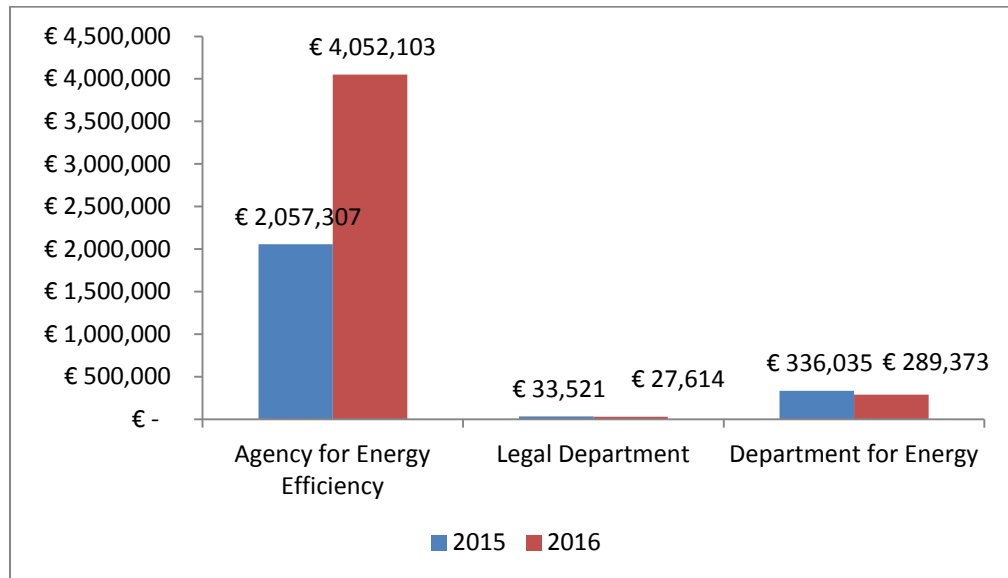
The Report 2015 has criticized the lack of energy efficiency fund. According to the Report, the Agency for Energy Efficiency operating under this Ministry, is understaffed and has no capacity to monitor, evaluate and verify progress towards the targets set for efficiency¹². Number of staff of this agency has remained the same this year as well, while the budget has been doubled¹³. Agency must have nine employees but actually employees only four.¹⁴

¹² Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 51

¹³ Annex III

¹⁴ Energy Efficiency Agency, Interview by email, 24.03.2016

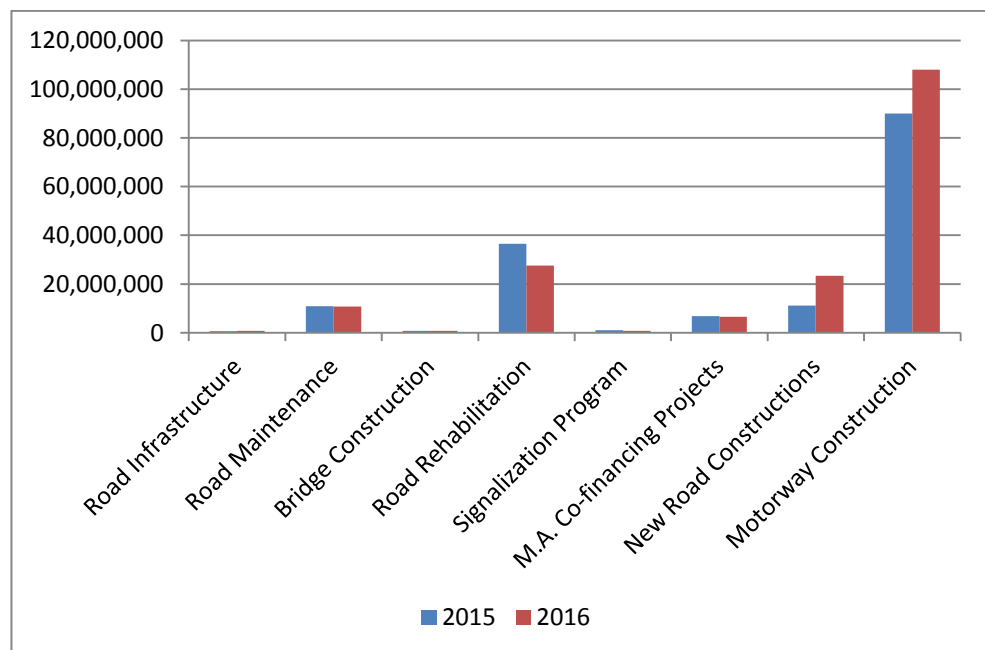
Figure 4 MED departments budget in 2015 and 2016



2.3 Ministry of Infrastructure

In the Ministry of Infrastructure, 100% of capital investments are intended for road infrastructure investments. Despite the budget allocated for road infrastructure, according to the Report 2015, the maintenance budget for motorways is insufficient.¹⁵ Under the MI, there is no budget line allocated for motorways maintenance, and the road maintenance budget has been decreased by 1%.

Figure 5 Allocation of the MI budget for road infrastructure



¹⁵ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 47

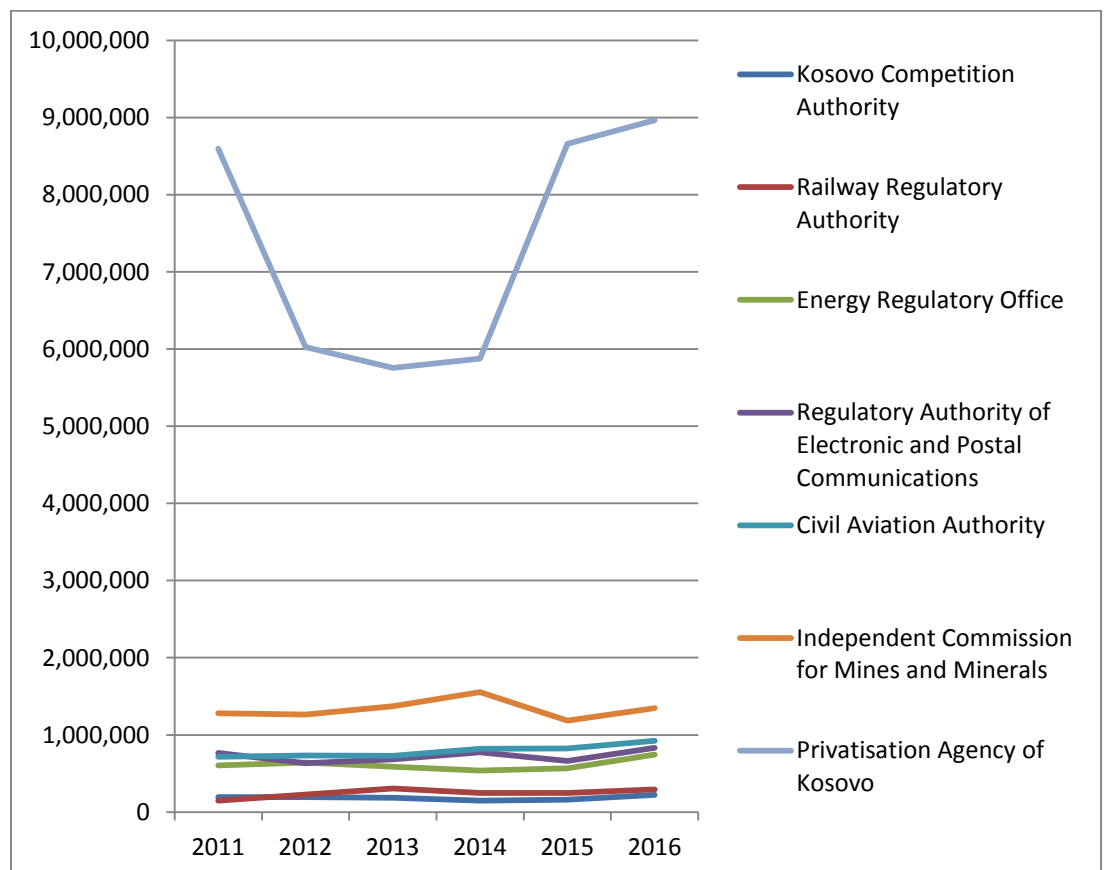
2.4 Budget of Independent Institutions

The Report has addressed the issue of political influences, understaffing and budget of the Energy Regulatory Office (ERO) as one of the main concerns.¹⁶ Although the budget allocated to ERO is planned to increase, the staff has remained the same as in the previous year.

The Report has also recommended to increase staff, equipment and trainings for the Kosovo Competition Agency (KCA). This year, the KCA's budget was increased by 65,000 Euros, however the number of employees has remained the same.¹⁷ Due to the lack of physical space, KCA could have not filled open vacancies yet.¹⁸

Lack of capacity was identified also in the Railway Regulatory Authority (RRA). Based on 2016 budget, the budget of the RRA has been increased, but the number of employees has remained the same.

Figure 6 Budget trends of independent agencies and institutions



¹⁶ Ibid, page 34

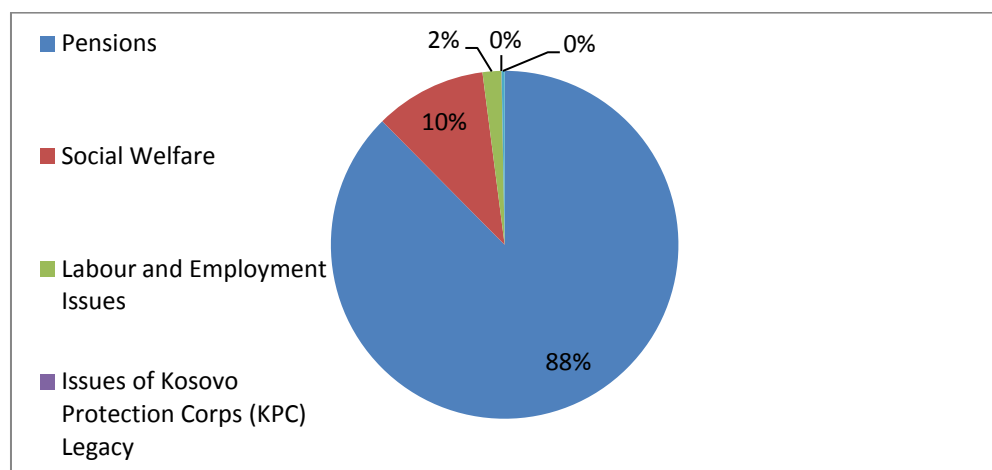
¹⁷ Ibid, page 41

¹⁸ Kosovo Competition Authority, Interview by email, 14.03.2016

3. Employment and Social Issues

Ministry of Labor and Social Welfare (MLSW) as holder of social and pension schemes budget, is the ministry with the highest budget in 2016. Compared to the previous year, the budget of this Ministry was increased by 52 million Euros (17%). As shown in Figure 7, the majority of the budget (88%) of this Ministry will go to pensions. Social welfare budget takes 10% of the budget, whereas the employment only 2% of the budget of this Ministry.

Figure 7 Allocation of the MLSW budget



Budget of the Professional Training Department has remained the same as in the previous year, while professional training is considered as one of critical aspects for employment in the Economic Reform Program. Furthermore, according to the Report 2015, the funding for professional trainings remains insufficient.¹⁹ It also mentions the lack of budget to implement the 2014-2020 Employment Sector Strategy as an issue.²⁰

As regards the budget for employment issues under the MLSW, a staff increase of five employees (total 70) to the Labour Inspectorate Authority has been planned. This can be considered as a positive step taking into consideration that implementation of the Labour Law in the Report 2014 and 2015 was considered as unsatisfactory.²¹ Another concern mentioned regarding the Roma, Egyptian and Ashkali communities is child labor and lack of active measures to include these communities in the job market.²²

¹⁹ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 36

²⁰ Ibid, page 44

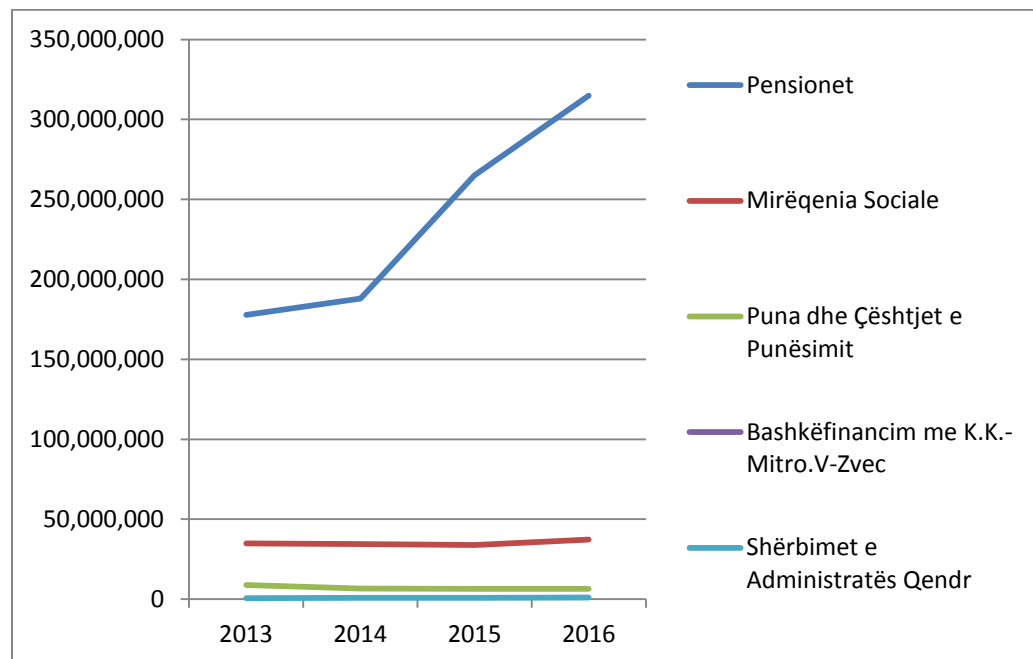
²¹ Ibid, page 44

²² Ibid, page 26

Furthermore, the General Collective Agreement signed between trade unions and the Government of Kosovo in 2014, is said that is not being implemented yet due to lack of budget.

Regarding the pensions, the Report 2015 has addressed as a concern the removal of more than 1,000 members of the deaf community from the pension scheme.²³ It also mentions the lack of allocation of funds for municipalities regarding provision of social services.²⁴

Figure 8 Trends of budget allocations by departments - MLSW



4. Rule of Law

According to the Report 2015, rule of law institutions suffer from a consistent lack of funding. The number of judges dealing with serious crimes remains low and both the Kosovo Judicial Council (KJC) and the Kosovo Prosecutorial Council (KPC) are understaffed in terms of decision-related monitoring and implementing capacity.

Although there was an improvement in the number of clearance rate within a year, from 74% to 84%, lack of funds has resulted in a slow administration. In early 2015, the State Prosecutor had a backlog of around 121,000 cases while the KJC around 92,000 cases. Staff and budget increase is one of the main recommendations in order to improve this situation.²⁵

²³ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 24

²⁴ Ibid, page 45

²⁵ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 14

The budget appropriated for State Prosecutor and KJC for 2016, is around 871 thousand respectively 1.2 million euro larger than in the previous year. The table below shows that a staff increase of 41 employees is planned for the KJC, and the Basic Court in Prishtina will employ 36 of them. The State Prosecutor (SP) will also have a staff increase by 50 employees. Even though the number of allowed employees for these two institutions has increased, this does not guarantee higher number of staff. This is due to the fact that these institutions have not filled a large number of open vacancies.

Table 1 KJC staff number

	Employees 2015	Employees 2016	Difference
Supreme Court and Special Chamber	89	88	-1
KJC Secretariat	278	265	-13
Performance Review Unit	7	7	0
Office of the Disciplinary Prosecutor	20	20	0
Court of Appeals	121	111	-10
Basic Court in Prishtina	416	452	36
Basic Court in Prizren	219	225	6
Basic Court in Gjilan	199	202	3
Basic Court in Ferizaj	163	168	5
Basic Court in Peja	230	231	1
Basic Court in Gjakova	159	160	1
Basic Court in Mitrovica	217	230	13
Total	2,118	2,159	41

According to the Report of 2015, in addition to the lack of staff, there is no court monitoring system and the use of information technology in general remains low.²⁶ In the 2016 budget, around 100,000 Euros are allocated to the KJC budget for purchase of audio recording equipment, which were carried over from the previous year. While around 70,000 Euros were allocated to the State Prosecutor budget for the electronic case management system. The budget of this institution contains a photocopy machines purchase project, yet no fund was allocated for this project.

Table 2 KJC Capital Projects

Projects	Budget 2016
Emergent repairing, electricity, water, sewage system in court facilities	150,000
Security and video surveillance equipment	100,000
Court audio recording project	100,000
Design and construction of facility of the Basic Court in Ferizaj	791,000

²⁶ Ibid, page 15

4.1 Corruption

According to the Report 2015, although the regulatory framework for political party financing has been improved, there are shortcomings in the way rules are implemented, a lack of monitoring and absence of regulatory bodies. Due to political influence and limited capacity, high-level corruption investigations are rarely conducted. Limited Kosovo's expertise in tackling complex financial investigations and effectively confiscate criminal assets has resulted in a low number of successful investigation cases.

The anti-corruption *task force* with 30 investigators, eight prosecutors and five experts focusing on high-level corruption and financial crime cases, should be further strengthened to improve inter-agency co-operation.²⁷

4.2 Fight Against Organized Crime

In general, Kosovo is at an early stage in the fight against organized crime. The number of final convictions, financial investigations, and the rate of convictions in cases against human trafficking and drug seizures remains low.²⁸

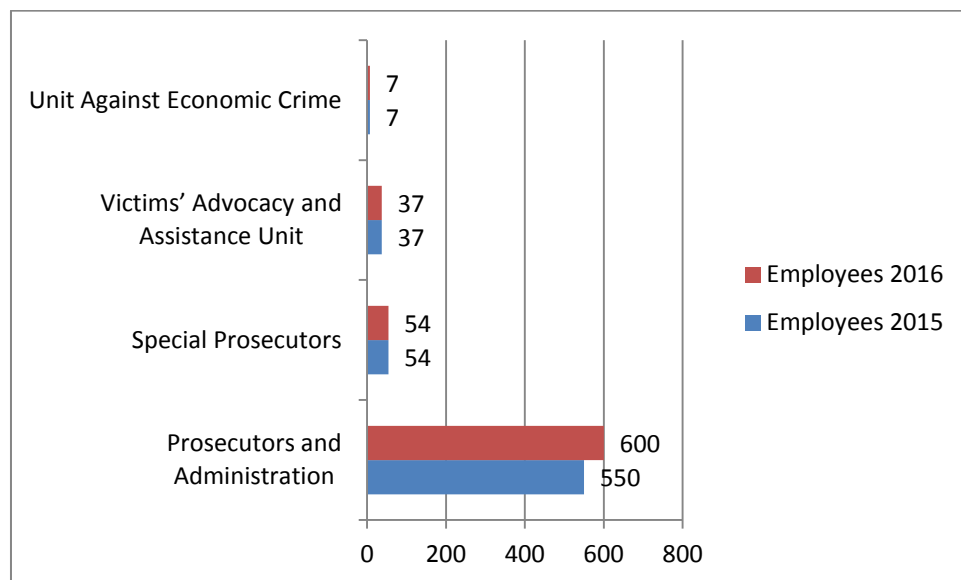
Local prosecutors are dedicated but often do not have the necessary expertise, especially as concerns investigations of war crimes. 12 out of 15 positions for local prosecutors in Kosovo's Special Prosecution Office have been filled, however, this office does not have the required human resources to cope with the expected workload in view of the planned handover of cases from EULEX.²⁹ Based on the 2016 budget, the number of staff at the special prosecutors department will remain the same as in 2015 (a total of 54).

²⁷ Ibid.

²⁸ Ibid, page 19

²⁹ Ibid, page 20

Figure 10. State Prosecution Employees



Furthermore, Kosovo Police has a lack of Serb ethnic investigators, limited criminal investigation intelligence, lack of basic equipment such as computers and vehicles. Another issue in relation to organized crime is the human and managerial resources with respect to intelligence-led policing, which should be strengthened further. Moreover, the new Kosovo Police information system has yet to be used by all levels of the Kosovo Police, in order to allow improved risk analysis and proactive operations. Compared to the previous year, capital investments in the Kosovo Police have decreased by around one million Euros, however the capital investments table 2016 includes a series of IT projects.

5. Agriculture and Environment

5.1 Agriculture

Both the Report 2014 and 2015 identify logging and forest management as one of the most important issues of this Ministry. The continued trend of illegal logging is unsustainable and it must be addressed urgently by the Kosovo Forests Agency (KFA)³⁰. In 2016, the KFA budget will increase by around 372,000 Euros (19%). Also the Department of Forestry will have a budget increase of around 2,000 Euros (2%), amounting to a total of 96,000 Euros. Along with the budget increase, in 2016 will also increase the number of staff of the KFA by 20 employees

³⁰ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 47

Table 3. Trend of budget in the MAFRD institutions

	2014	2015	2016
Kosovo Forests Agency	2,341,683	1,993,209	2,365,642
Department of Forestry	115,793	93,990	95,946
Kosovo Agriculture Institute	933,065	571,961	584,460
Agriculture Development Agency	371,871	347,518	1,333,726
Department for Agriculture and Trade Policy	16,346,501	30,754,773	25,748,560
Administration Services	5,405,269	2,396,580	3,908,014
Department for Economic Analysis and Agricultural Statistics	606,227	589,126	601,080
Department for Vineyards	84,953	96,905	403,895
Department for Rural Development Policy	109,050	18,094,482	21,557,635
Department for Services	780,967	655,045	567,845
Legal Department	48,587	37,040	39,980
Human Rights Unit	26,521	26,732	29,489

Both the Report 2014 and 2015 emphasize the issue of understaffing in the Agriculture Development Agency in order to be able to control and monitor granting of subsidies in agriculture. To solve this issue, set up of an internal audit unit is recommended.

5.2 Environment

Both the Report 2014 and 2015 present the air and water quality monitoring as an issue. The Reports state that although the monitoring equipment are available, they are not fully operational. In addition, maintenance budget for these equipment is not sufficient. Also, the data published by the Kosovo Environmental Protection Agency (KEPA) on air quality are not available in real time³¹.

Furthermore, the Report emphasizes that the Ministry of Environment and Spatial Planning should have in place a master plan for waste management and it should increase investments in this regard. However, the budget planned for 2016 contains only a small number of waste management projects. Moreover, the Law on Waste does not define clearly the issue of recycling, thus limiting

³¹ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 48

involvement of private sector that would be interested to invest in waste recycling³².

Another obstacle emphasized by both above-mentioned Reports is implementation of the new Law on Spatial Planning. This law is not being sufficiently implemented due to non-coordination between stakeholders dealing with construction permits and implementation of sanctions on illegal constructions and land use. The Report also emphasizes that implementation of the law on organic production is weak, and the establishment of a supervisory authority for this law is still pending³³.

6. Health

Health Insurance Fund, as one of the main projects of the health sector, has not been included in the budget neither this year. The Law on Health Insurance was adopted in 2014, and its implementation requires a fund of 18 million Euros from the Kosovo budget.³⁴ According to the Ministry of Health, this fund was not included in the 2016 budget due to other budgetary priorities.³⁵

In addition to the lack of health insurance, according to the Report 2015, public health spending remains among the lowest in the region. Despite this conclusion, the budget allocated to the Ministry of Health and Hospital Clinic Service for 2016 has been increased by 1% only.

As a result, insufficient funding hampers the ability to meet basic needs for maternal and child health, and public health in general.³⁶ Report 2015 also criticizes the health sector for inadequate health services provided to persons with disabilities.³⁷ Other issues addressed by this Report are: a) non-enforcement of the Law on Tobacco; b) lack of communicable diseases infrastructure and reporting system; c) drug abuse prevention; d) cancer screening, etc.

7. Media and Statistics

³² Ibid. Pg. 48.

³³ Ibid, page 47

³⁴ Official Gazette of the Republic of Kosovo, Law No. 04/L-249 on Health Insurance, Source: <http://bit.ly/1MhAePq>

³⁵ Telegrafi.com, MoH criticized for withdrawing from the Law on Health Insurance, Source: <http://bit.ly/1HTf1Y5>

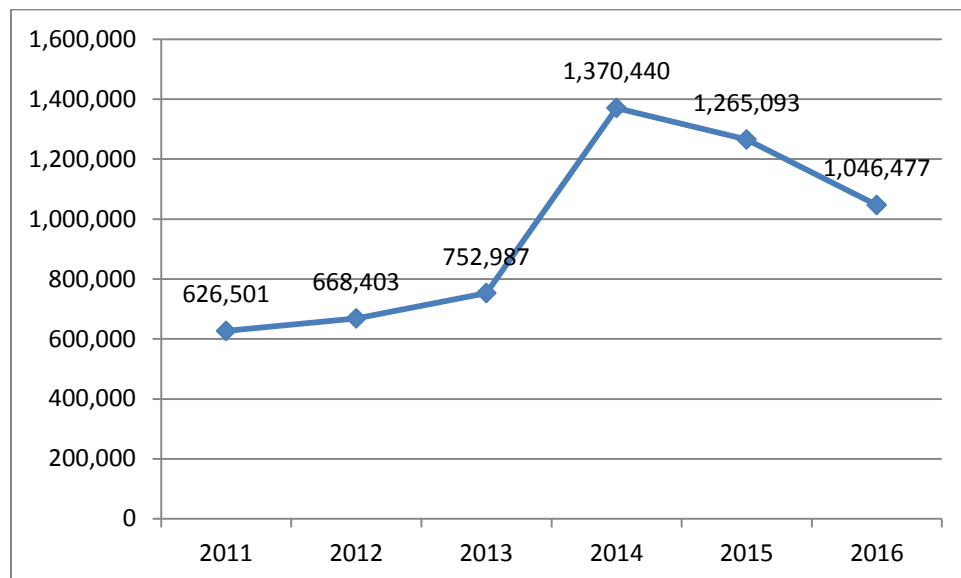
³⁶ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 45

³⁷ Ibid, page 20

7.1 Media

As regards the Independent Media Commission (ICM), lack of budget to meeting financial obligations in 2014 and execution of capital investments was considered as an issue. Although the Report 2015 addressed the need for budget increase, as shown in Figure 11, the budget will be decreased by around 219,000 Euros (-21%), while the number of staff will remain the same (total 31).

Figure 11. ICM Budget

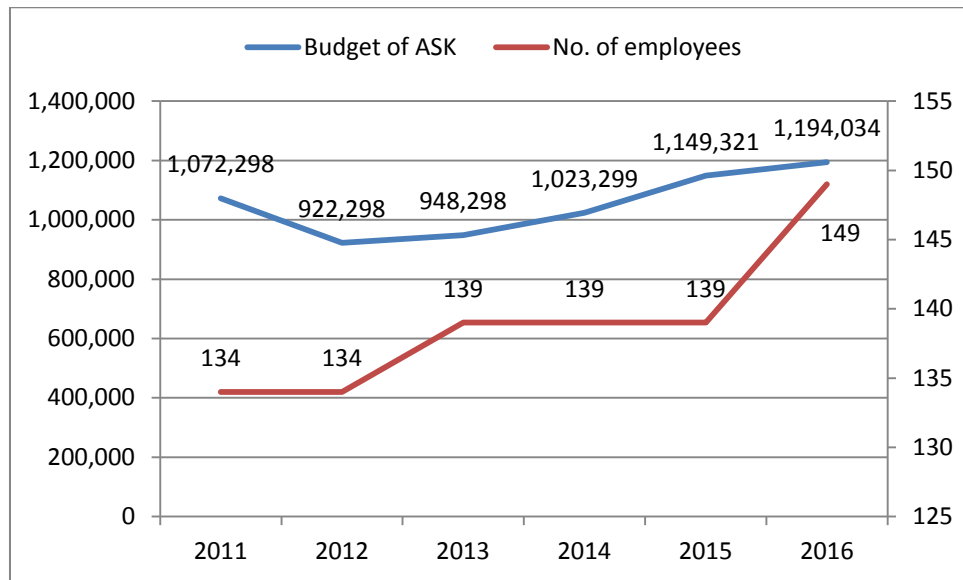


7.2 Statistics

In general, the Report 2015 considers the statistics sector to be at an early stage.³⁸ The Kosovo Agency of Statistics (KAS) faces substantial shortages in terms of administrative and financial capacity. In addition to staff shortages, the newly recruited staff needs additional training, both on data collection methods and quality issues.

³⁸ Progress Report on Kosovo 2015, Source: <http://bit.ly/1SKQMSt>, page 55

Figure 12. KAS Budget



The budget allocated to the KAS in 2016 is planned to increase by around 45,000 Euros (4%), as the number of staff is expected to increase by 10 employees. These employees lack professional trainings as they are being employed due to the process of integration of so-called "Civil Protection" structures.³⁹

³⁹ Kosovo Agency of Statistics, Interview by email. 16.03.2016

8. Conclusions and Recommendations

Country Report of European Commission is an important document for Kosovo with regard to the process European integration. Addressing the findings of this report, *inter alia*, has a budget cost. In order for Kosovo to receive a better 2016 Report, the budget and staff of several institutions has to increase. It is necessary therefore that the Ministry of European Integration, together with the European Integration Parliamentary Committee, Committee on Budget and Finance coordinate and monitor budget allocations according to Report findings during the process of drafting the budget, while the Ministry of Finance creates more budget space.

Considering the above-mentioned findings, GAP Institute recommends a staff/ budget increase for the following ministries, agencies or independent institutions:

- Department for Public Administration Reform Management (MPA);
- Kosovo Institute for Public Administration (MPA);
- Kosovo Business Registration Agency, Kosovo Metrology Agency, Kosovo Standardization Agency (MTI);
- Agency for Energy Efficiency (MED);
- Road Maintenance (MI);
- Energy Regulatory Office (ERO);
- Kosovo Competition Authority (KCA);
- Professional Training Department (MLSW);
- Ministry of Health and Kosovo Hospital and Clinic Service;
- Institutions/Departments conducting organized crime investigations, such as: Kosovo Police and State Prosecution;
- Independent Media Commission;
- Kosovo Agency of Statistics;
- Increase investments on information technology and public administration e-services; and
- Increase the number supervising staff in the Assembly of Kosovo.



GAP Institute is a Think Tank established in October 2007 in Kosovo. Its main goal is to attract experts in creating a professional development and research environment, which may be found in other similar institutions in western countries. This also provides Kosovars with opportunities to research, develop, and implement projects aiming to advance the Kosovar society. This Institute's priority is to mobilize experts in addressing economic, political and social challenges in the country. GAP's main objectives are to bridge the gap between the Government and citizens and between problems and solutions.

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