

2019 Draft Budget



An analysis of income
and expenses



November 2018

Introduction

Kosovo Budget continues to remain one of the most important instruments for addressing substantial economic and social problems of Kosovo citizens. In this brief analysis, we've identified some of the main developments pertaining to income and expenditure envisioned in the draft 2019 Kosovo Budget. The expenditure structure was analyzed in detail and compared to recommendations of the European Commission (EC) in the 2018 Kosovo Report.

In terms of the expenditure structure, findings show that this budget represents, in good measure, a continuation of last years' budgets. This because, similar to previous years, almost half of the capital investments will be managed by the Ministry of Infrastructure (MI) and almost half of them will be invested in road infrastructure. In addition, 82% of capital investments at the central level represent a continuation of projects from previous years.

A positive development which is also in compliance with EC recommendations, is the increase of the budget for healthcare and a number of institutions which ensure market functioning. Also, the increased budget for the Employment Agency, and of the number of employees in the Labor Inspectorate, are in compliance with EC's suggestions for Kosovo. Expenditures in education have also significantly increased, however they continue to remain under the level of expenditure in EU countries. Also, for the first time ever a separate grant for the capital city was allocated, and this will increase budgetary capacities of the Municipality of Prishtina to address problems faced by citizens residing or receiving services in the capital.

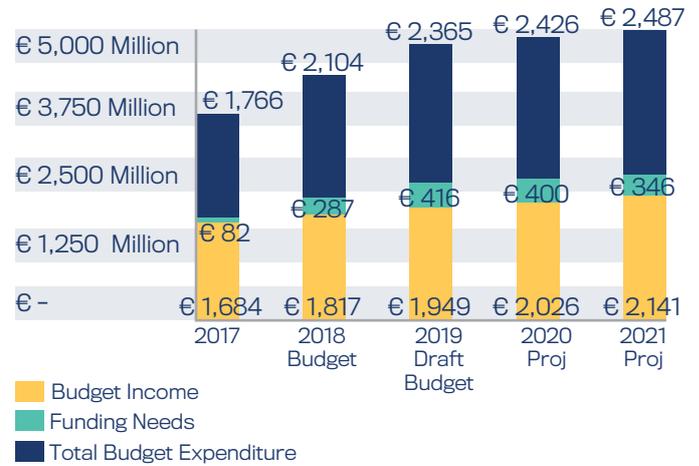
On the other hand, in lack of a new law, Radio-Television of Kosovo (RTK) remains under funding from the Kosovo budget. Other than RTK subsidizing, other subsidy and transfers categories, including pensions and compensations, have significantly increased, whereas, despite numerous disputes of the number of war veterans, the budget for this category has continued to increase. In terms of explanations given and orientation of expenditures per sectors, the draft-budget does not take into account the gender perspective. Besides gender discrimination, data on allocation of capital investments from MI suggests that there is also discrimination against municipalities governed by certain parties that are not part of the Kosovo Government.

Main findings

Financing from loans and privatization proceeds from the Kosovo Privatization Agency (KPA) has increased compared to regular budget income.

Expenses for 2019 are expected to reach €2.4 billion, an increase of around 261 million or 12% in comparison to last year. Unlike 2017, when 95% of the budget was funded through revenues, in the 2019 draft-budget that category covers 82% of the expenditure. The weight of loans and once-off income from KPA has increased from 5% in 2017 to 18% in 2019. In absolute terms, the need for financing has grown from 82 million euro in (2017) to 416 million euro, an increase of 334 million euro or 407%. Revenues have increased by 132 million euro (7%) in comparison to the previous year, and this represents a similar trend in the preceding period (2018/2017).

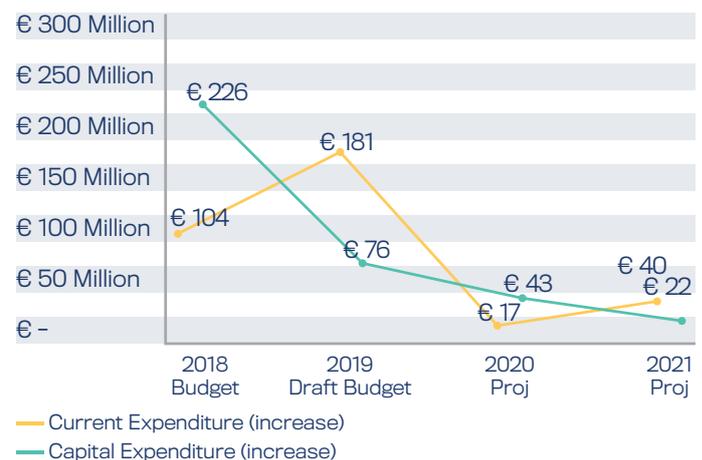
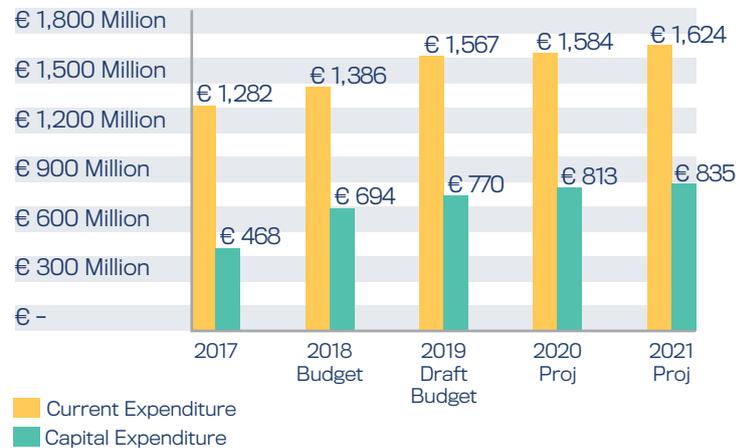
Image 1. Budget funding structure



Recurrent expenditures have grown faster than capital expenditures.

Compared to recurrent expenditures (which includes wages and salaries, goods and services, subsidies and transfers and current reserves), capital expenses are more economic growth friendly. Compared to the preceding period (2017 and 2018), the growth of expenditure has decelerated by 7 percentage points. However, the recurrent expenditures have increased faster than capital expenditure – 181 million euro (13%) in recurrent expenditures, compared to only 76 million euro (11%) in capital expenditure.

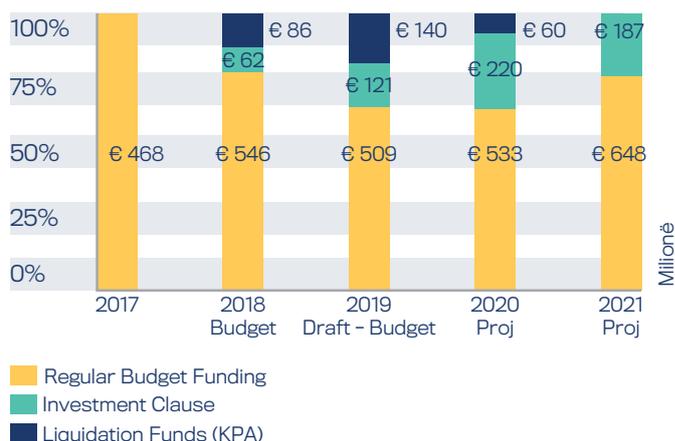
Image 2. Increase of recurrent and capital expenditures



Weight of capital investments in expenditure was maintained only due to the once-off KPA incomes and loans.

As regards the structure of expenditure based on their weight, in the 2019 draft-budget the ratio between current and capital expenditure remains the same with those of 2018, with 66% and 33% respectively. However, this structure of expenditure was maintained only due to foreign loans and incomes from KPA liquidations. According to the plan, in 2019 only 66% of capital investments will be invested from regular income, compared to 79% funded in 2018. In 2020, income from investment clause loans will increase further;

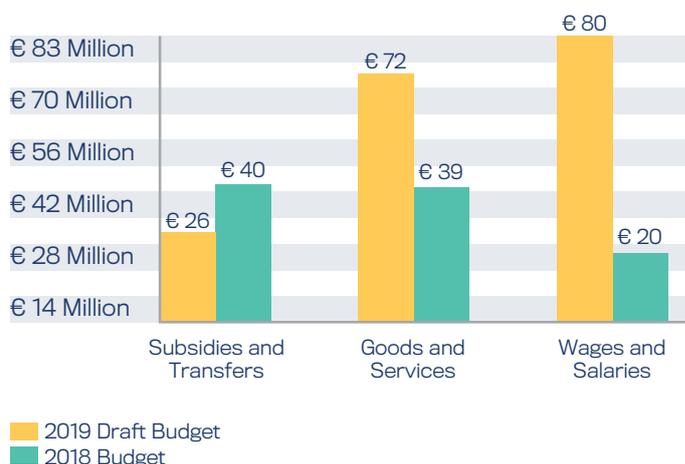
Image 3. Capital expenditure funding



Category of subsidies and transfers and goods and services have increased.

The greatest contribution to the increased recurrent expenditures in the 2019 draft-budget will fall under the categories of subsidies and transfers and goods and services, which have increased by 83 million euro (16%) and 72 million euro (27%) respectively. The increase in the subsidies category is attributed mostly to the Ministry of Labor and Social Welfare (MLSW) and Ministry of Finance (MF), whereas goods and services have increased the most in MF, Ministry of Education, Science and Technology (MEST), Ministry of Health (MH), Office of Prime Minister and Kosovo Hospital and University Clinic Service (KHUCS).

Image 4. Increase of recurrent expenditure



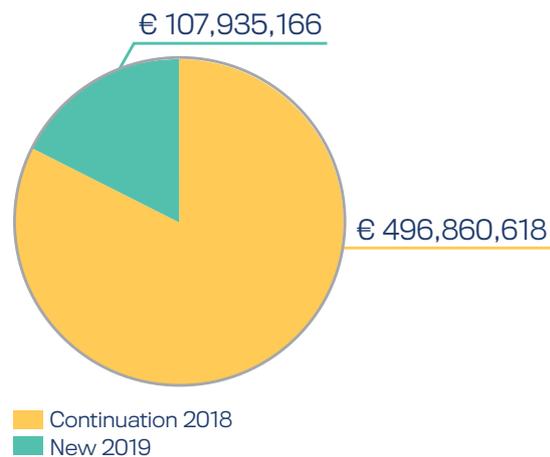
Almost half of capital investments will be spent in road infrastructure.

Similar to previous years, almost half of the capital investments (288 million, or 48%) will be managed by the Ministry of Infrastructure (MI). Of this sum of capital investments allocated to MI, 266.4 million euro (or 92%) will be invested in road infrastructure. Another ministry with a significant increase of 34% in capital investments is the Ministry of Environment and Spatial Planning (MESP), which will manage around 65.9 million (11%) of overall capital investments.

Around 82% of the budget for central capital investments will be invested in projects that are a continuation of the previous years.

Of the total of the budget of 604 million euro appropriated for central level capital investments, 82% or 596.8 million euro will be invested in projects started in previous years, whereas the remainder will be invested in new projects for 2019.

Image 5. New capital investments versus ongoing investments



Capital investments from the central level continue to be oriented on party basis.

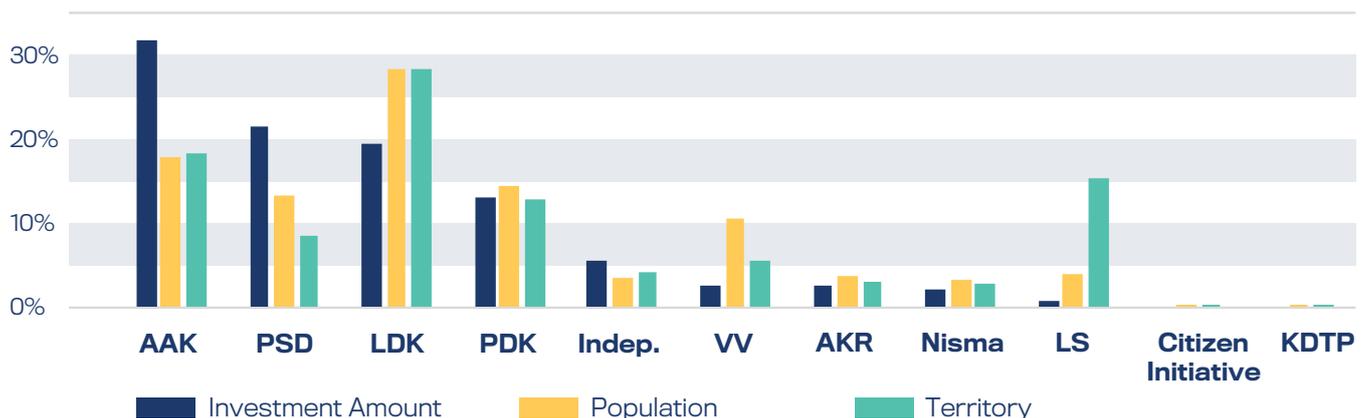
Of the 62.4 million euro foreseen to be invested in municipalities by the MI, the majority, or around 32% will be invested in municipalities managed by AAK (seven municipalities). These municipalities cover around 19% of the territory of Kosovo and are home to around 18% of the population. Municipalities managed by LDK (eight municipalities) encompass around 28% of the population and 29% of the territory. Around 19% of the total MI investments will be invested in these municipalities. Further, in municipalities managed by PDK (five municipalities), with around 13% of the territory and 14% of the population, around 13% of total investments will be made. In the municipality managed by VV (one municipality), around 3% of the budget will be invested. This municipality covers 6% of the territory and is home to around 11% of the population. In municipalities managed by PSD

(two municipalities) in which 13% of the population reside, and which cover 9% of the territory, 22% of MI's capital investments will be invested.

As may be noted from Graph 6, during the allocation of the budget from MI, there are notable differences in terms of percentage of population and territory and investments made in the municipalities. As regards, the percentage of investments compared to the population, municipalities governed by LDK are subject to negative discrimination, whereas municipalities governed by the AAK are favored. A look into the chart reveals that municipalities governed by PDK, AKR and NISMA have smaller differences than the abovementioned variables.

Municipality of Gjakova, managed by AAK, is home to 5.3% of the population and will be subject to the investment of 20.3% of the total budget allocated to municipalities. The second most favored municipality, after Gjakova, is the municipality of Prishtina. Managed by VV, Prizren is the municipality disfavored the most. The second municipality in the list of most discriminated municipalities is Drenas, managed by PDK.

Graph 6. Investments in municipalities by the Ministry of Infrastructure



Graph 7. Investments in municipalities by MI

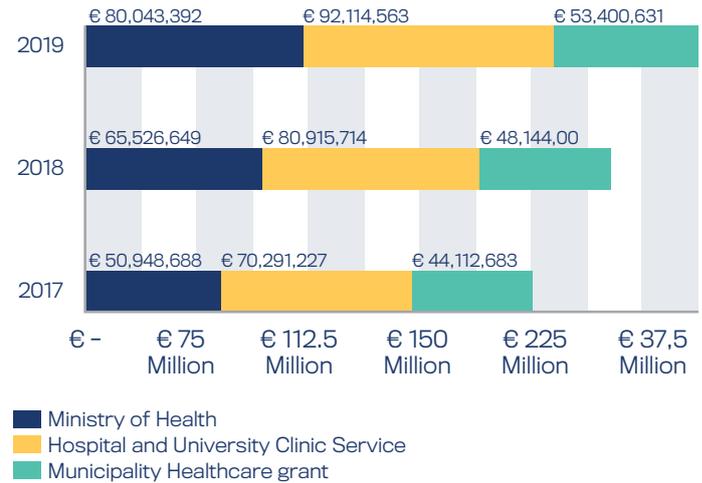
Municipality	Percentage of investments	Percentage of population	Percentage of territory	Mayor's party	Investments per capita (euro)
Gjakovë	20.3%	5.3%	5.4%	AAK	132.8
Prishtinë	19.3%	11.8%	4.7%	PSD	57.0
Ferizaj	8.5%	5.7%	3.2%	PDK	51.3
Podujevë	5.8%	4.6%	5.8%	LDK	43.6
Skenderaj	5.3%	2.9%	3.4%	Indep.	63.1
Deçan	3.6%	2.3%	2.7%	AAK	53.1
Pejë	3.5%	5.5%	5.5%	LDK	22.0
Vushtrri	3.4%	3.6%	3.2%	LDK	33.3
Klinë	3.3%	2.2%	2.8%	AAK	51.8
Dragash	3.1%	1.9%	3.9%	PDK	56.8
Gjilan	2.7%	4.5%	3.6%	LDK	21.2
Prizren	2.7%	10.7%	5.5%	VV	8.8
Mitrovicë	2.5%	3.9%	3.0%	AKR	22.9
Kamenicë	2.3%	1.7%	3.9%	PSD	46.5
Malishevë	2.1%	3.2%	2.8%	NISMA	22.2
Junik	1.7%	0.4%	0.7%	AAK	169.4
Obiliq	1.5%	1.1%	1.0%	AAK	48.1
Viti	1.4%	2.6%	2.5%	LDK	18.2
Lipjan	1.3%	3.2%	3.1%	LDK	13.7
Istog	1.0%	2.2%	4.2%	LDK	15.5
Rahovec	0.9%	3.3%	2.6%	AAK	9.4
Shtërpcë	0.7%	0.4%	2.3%	LS	60.3
Shtime	0.6%	1.5%	1.2%	PDK	14.1
Drenas	0.6%	3.4%	2.5%	PDK	6.1
Suharekë	0.6%	3.3%	3.3%	AAK	6.1
Kaçanik	0.4%	1.9%	1.9%	PDK	8.0
Hani i Elezit	0.4%	0.6%	0.8%	Indep.	23.6
Fushë Kosovë	0.3%	2.1%	0.8%	LDK	4.8
Graçanicë	0.2%	0.7%	1.2%	LS	8.3
Klllokot	0.0%	0.2%	0.2%	Citizen initiative	0.0
Leposaviq	0.0%	0.8%	4.9%	LS	0.0
Mamushe	0.0%	0.3%	0.3%	KDTP	0.0
Mitrovicë veriore	0.0%	0.7%	0.0%	LS	0.0
Novobërdë	0.0%	0.4%	1.9%	LS	0.0
Partesh	0.0%	0.1%	0.3%	LS	0.0
Ranillug	0.0%	0.2%	0.6%	LS	0.0
Zubin Potok	0.0%	0.4%	3.1%	LS	0.0
Zvecan	0.0%	0.4%	1.1%	LS	0.0

The healthcare budget has significantly increased.

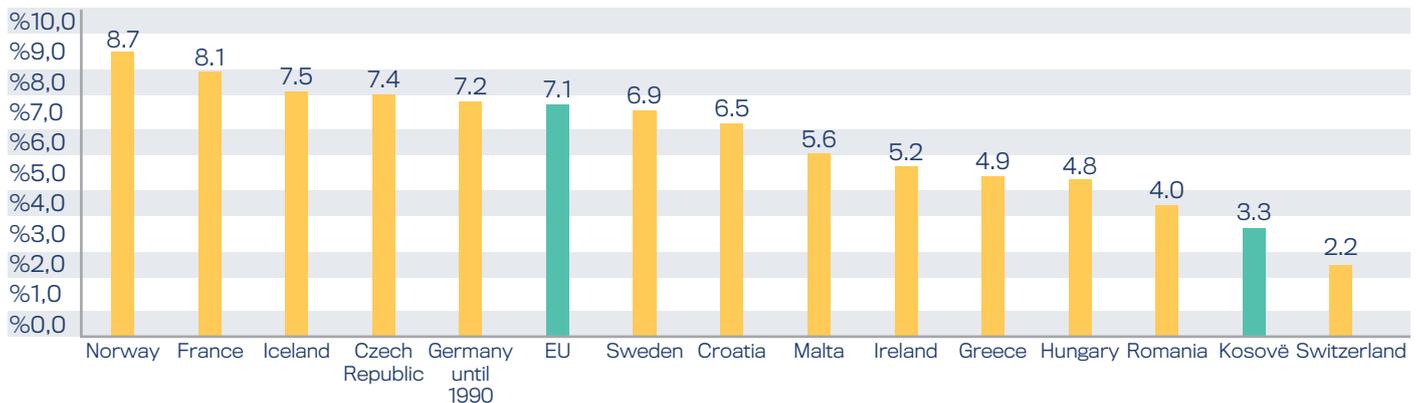
In total, the draft-budget for MH, KHUCS and municipal healthcare grant will be around 225.6 million euro, with an increase of 31 million (16%) in comparison to 2018. In terms of the MH and KHUCS budget, economic categories to increase the most are those of capital expenditure (a growth of 11.7 million euro, or 47%) and goods and services (11.5 million euro, or 25%). The increase of expenditure in healthcare is in line with European Commission recommendations for Kosovo, since public expenditure in healthcare is insufficient. Along with increased quality, institutional accountability should increase and also drafting drafting of a strategy to increase productivity, efficiency and quality in this sector.¹

According to a 2016 assessment, the overall annual healthcare needs were only 40% fulfilled. Out of pocket expenditure made in healthcare services from citizens of Kosovo (40%), Albania (49.9%), or Montenegro (42.8%), as a percentage of total healthcare expenditure in the country, are calculated to be around the double of expenditure made by citizens in the European Union². Despite the increase of the healthcare budget, compared to EU countries, Kosovo spends around 3.8 percentage points less in healthcare, compared to the Gross Domestic Product (GDP).

Graph 8. Healthcare budget



Graph 9. Healthcare expenditure (% of GDP)



Source: Eurostat and GAP Institute calculation with data from the Kosovo 2019 draft-budget

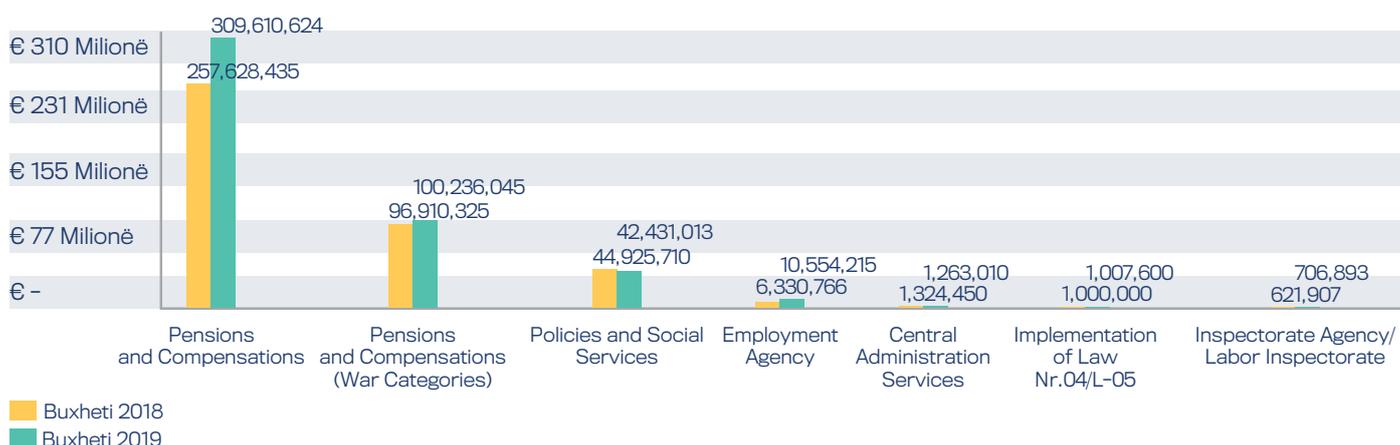
¹ European Commission, Kosovo Report 2018, Source: <https://bit.ly/zlhNbzf>

² Ekonomisti, Intelligence Unit. Modernization of healthcare systems in Balkans. Source <https://bit.ly/2jy-jëKd>

The budget for pensions and compensations has increased.

MLSW budget is planned to be 465.8 million euro. Compared to 2018, the budget of this ministry is planned to increase by 57 million euro (14%). The category with the greatest increase is that of subsidies and transfers, which has increased to 456 million euro from 398.4 million euro, with an increase of 58 million euro or 15%. The increase is due to the increase of pensions and compensations.

Graph 10. MLSW Budget



Graph 10 presents the MLSW budget at program level, for 2018 and 2019. The budget for pensions and compensations is planned to increase by 52 million euro (20%), compared to 2018. The greatest contribution to this increase is by basic social pensions (24.2 million euro, or 21%); contributors' pensions (21 million euro, or 24%) and pensions for paraplegics and tetraplegics (around 11 million euro, or 767%).

As regards war veterans, the budget allocated for 2019 is 60.6 million euro, and comprises an increase of 1.8 million compared to last year. During this year, 97% of the veterans' budget was spent by September, and the Government of Kosovo was forced to allocate additional funds of around 11.2 million euro for October and November³. Considering this, in the event that the number of veterans doesn't increase in 2019, the allocated budget will be insufficient.

³ The Government of the Republic of Kosovo, January – September Financial Report, Budget of the Republic of Kosovo 01 January – 30 September 2018, Source, <http://bit.ly/2QYHwzf>

The budget for the Employment Agency and the allowed number of labor inspectorates has increased.

The Budget of the Employment Agency has increased by 4.2 million euro, or by 80% in comparison to 2018. For the most part, the budget increase was allocated to subsidies and transfers. In addition, the budget for wages and salaries of the Labor Inspectorate has increased by around 50 thousand euro, or 10%, whereas the number of allowed employees has increased by 10. Increased budget for the Labor Agency was recommended by EC, considering the agency's rather low budget⁴. In parallel, EC concluded that the current number of labor inspectors is low⁵. Among other, EC has recommended the increase of budget for professional trainings, however, the budget for the sub-program of the Professional Capacity Building Service has increased by 4%, whereas the program for the Agency for Education and Vocational Training in MEST has increased by 6%;

The draft-budget does not take into account the gender perspective.

Law on Gender Equality requires the inclusion of the gender perspective in all phases of legislation planning, adoption, implementation and assessment. However, a gender assessment of the budget was not performed in any of the budget documents, including the Mid-Term Expenditure Framework and the draft-budget on appropriations. Furthermore, as mentioned above, almost half of the capital investments is appropriated for road infrastructure, whereas 98% of the employees in the construction sector are men.⁶ Women are also discriminated in other economic categories of budget allocations, including that of wages and salaries or subsidies. Most of the employees in leadership positions are men, whereas men are also the greatest beneficiaries from social transfers;⁷

4 European Commission, Kosovo Report 2018, Source: <https://bit.ly/2lhNbzf>, pg. 42

5 European Commission, Kosovo Report 2018, Source: <https://bit.ly/2lhNbzf>, pg. 59

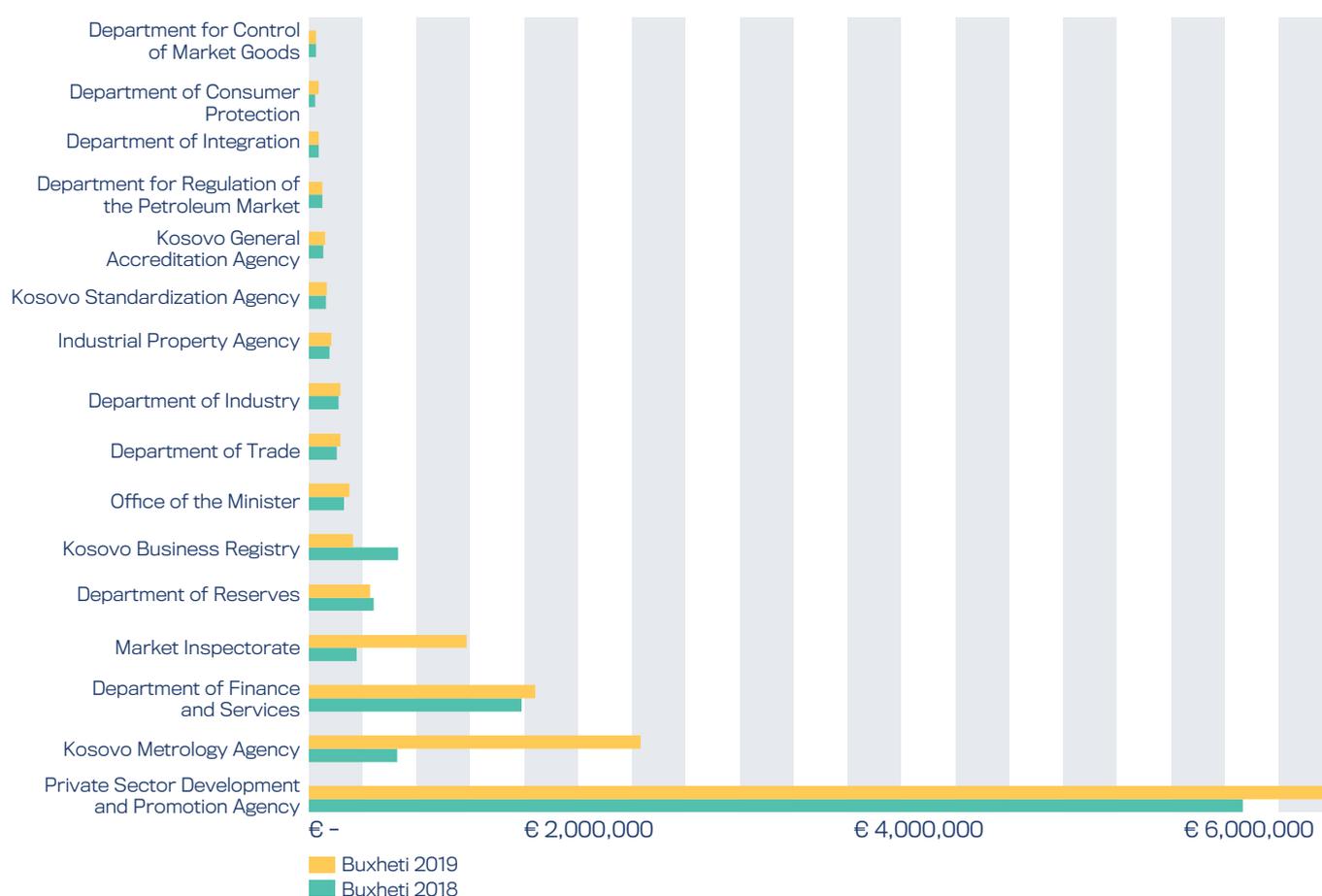
6 KSA, Labour Force Survey, Q2 2018, Source: <http://bit.ly/2znLmuX>

7 GAP Institute, Employment and women representation in Kosovo, Source: <http://bit.ly/2qWSABx>

In compliance with EC recommendations, the budget for a number of institutions ensuring market functioning in the Ministry of Trade and Industry has increased.

The report considers that a number of MTI institutions lack human resources. In some institutions, such as the Kosovo Accreditation Directorate, Consumer Protection Department, and Industrial Property Agency the number of employees increased by one, whereas for the Metrology Agency the number of staff increased by four. In addition, the budget of the Metrology Agency envisages an increase of 1.4 million euro, mostly from the investment clause. For the Market Inspectorate, there is a substantial increase of the budget by 662 thousand euro (235%), the most of which will be allocated to capital investments. Institutions that were not allowed an increase of the staff, but which need such increase, are: Kosovo Standardization Agency and the Market Inspectorate.

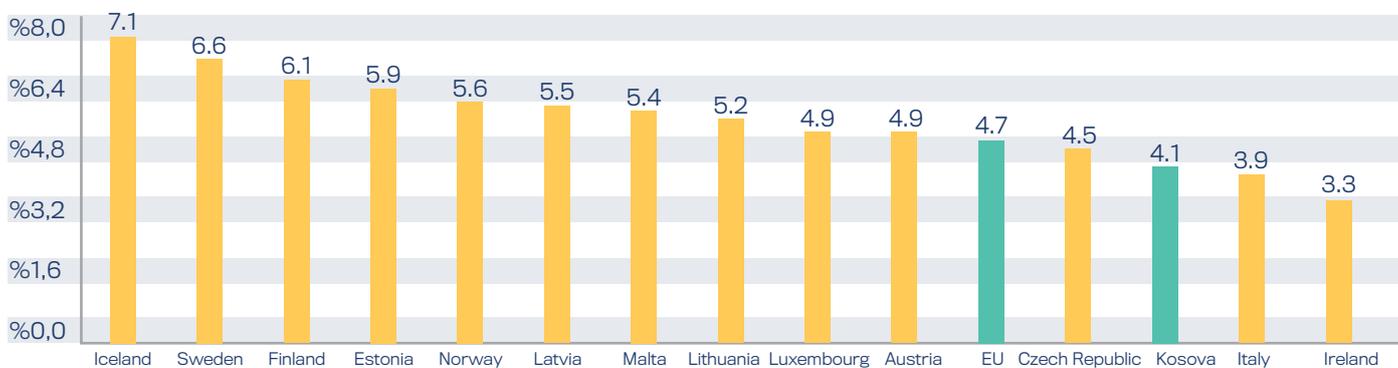
Graph 11. MTI Budget



Expenditure in education remain lower than the average relative EU country expenditure.

Expenditure in education in 2019 will be around 292.4 million euro, marking an increase of 10% in the sector. Similar to previous years, MEST's priority in 2019 is construction of school facilities, with 38 such facilities planned, along with a considerable number of sport halls. However, problems in education, as underlined by the EC Report for 2018, continue to remain the overall poor quality and failure to adopt education programs to market demand, failure to strengthen quality assurance mechanisms and lack of programs in vocational schools, with special focus on practical work and applied subjects.⁸ Programs that treat these matters, such as the program for teacher training, have a budget of increase of 50 thousand euro, or 13%. Similarly, the program for curriculum development and pre-university education has increased by 57 thousand euro, or 40%. A positive development this year is the budget support for students with extraordinary abilities (200 thousand euro).

Graph 12. Percentage of GDP in education expenditure in EU countries



Source: Eurostat and GAP Institute's calculation of Kosovo's Draft-Budget in 2019

Despite the increased education budget, compared to EU countries, Kosovo spends less in education. On average, EU countries in 2016 spent 4.7% of their GDP in education, whereas in Kosovo the education-related expenditure will reach around 4.1% of the GDP next year. Taking into account the low level of GDP and the young age of Kosovo's population, Kosovo should significantly increase its education expenditure.

⁸ European Commission, Kosovo Report 2018, Source: <https://bit.ly/2lhNbzf>

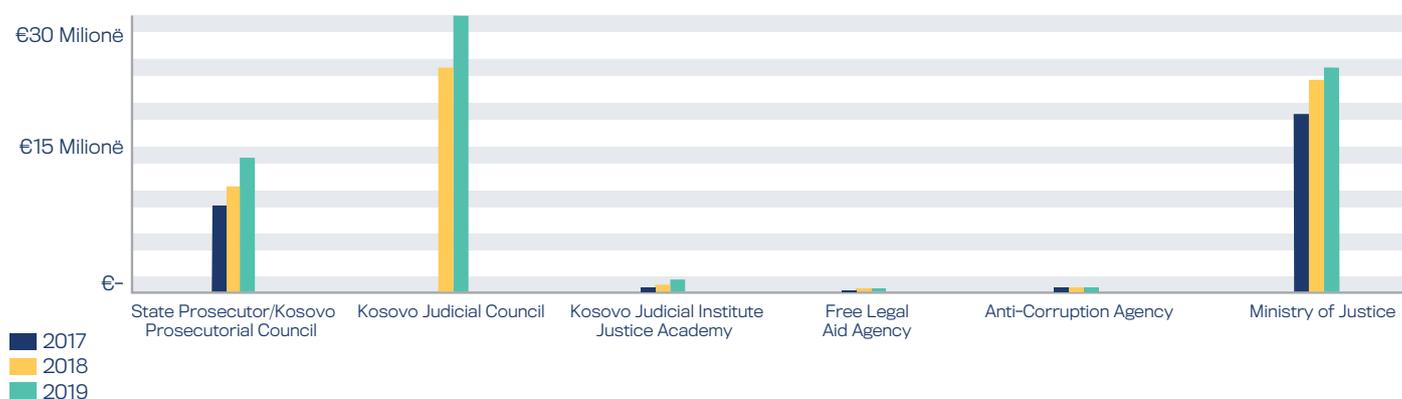
Radio Television of Kosovo (RTK) has remained under the funding of the state budget.

Although the legal deadline for finding sustainable funding for RTK has elapsed in 2015, the Assembly of Kosovo has still not adopted a new law on public broadcaster, which would address the problem of RTK funding. This year too, RTK will be subsidized with 11.2 million euro.

The budget in the justice sector has increased considerably.

In total, the 2019 draft-budget envisages around 68.8 million euro for the Ministry of Justice (MJ), Kosovo Judicial Council (KJC), Justice Academy (JA), State Prosecutor (SP) and Anti-Corruption Agency (ACA). In MJ, JA and ACA, this increase is mostly due to the increase in the category of capital investments by 580 thousand euro, with 550 and 30 thousand euro respectively. In KJC, the increase is mostly a result of the increase in the category of wages and salaries (around 4.6 million euro), whereas in ANJF the budget line for goods and services has increased by 40 thousand euro. Despite the increased budget for wages and salaries in KJC, the allowed number of staff has not increased, although there were constant request from KJC for increasing the number of assistants in the judicial system.

Graph 13. Budget for certain rule of law institutions



For the first time, a budgetary grant was allocated for the Kosovo capital.

Upon adoption of the law on Kosovo capital, along with the allocation of the government grant for municipalities, the municipality of Prishtina was allocated an additional 10.8 million euro in its 2019 budget.⁹ This will positively impact the enhancement of municipality of Prishtina's budget capabilities and provision of services and addressing of problems for all citizens residing or receiving services in the capital. In compliance with the Law on the Capital, the grant for Prishtina is equal to 6% of the general grant for municipalities.

⁹ Law No. 06/L-012 on the Capital of the Republic of Kosovo – Prishtina, Source: <http://bit.ly/zzkeOSM>

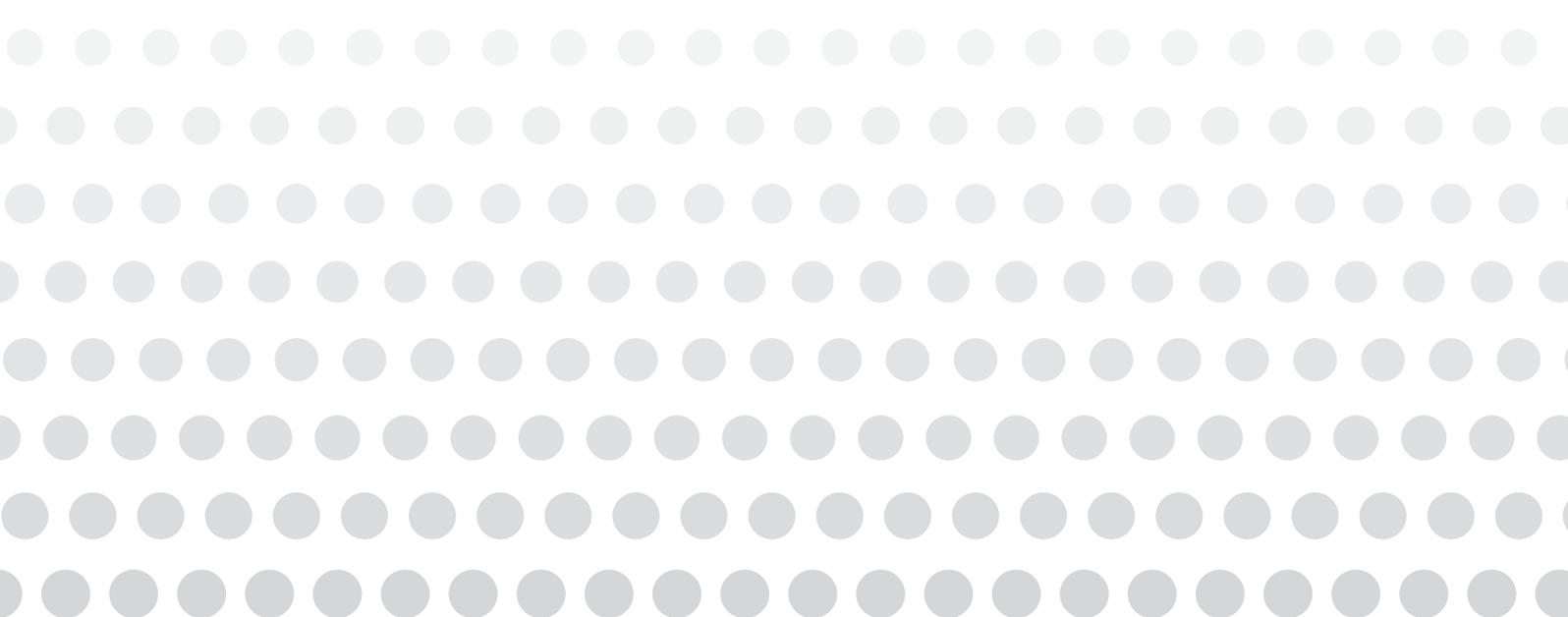
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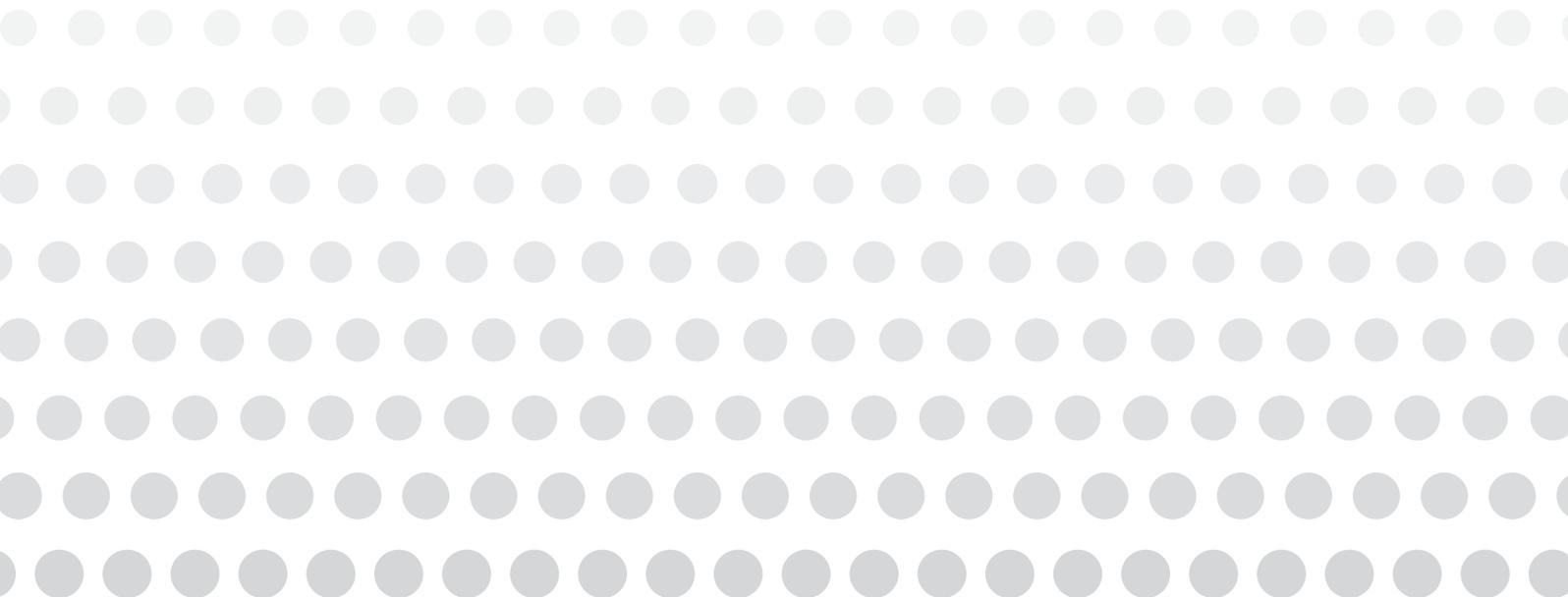
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