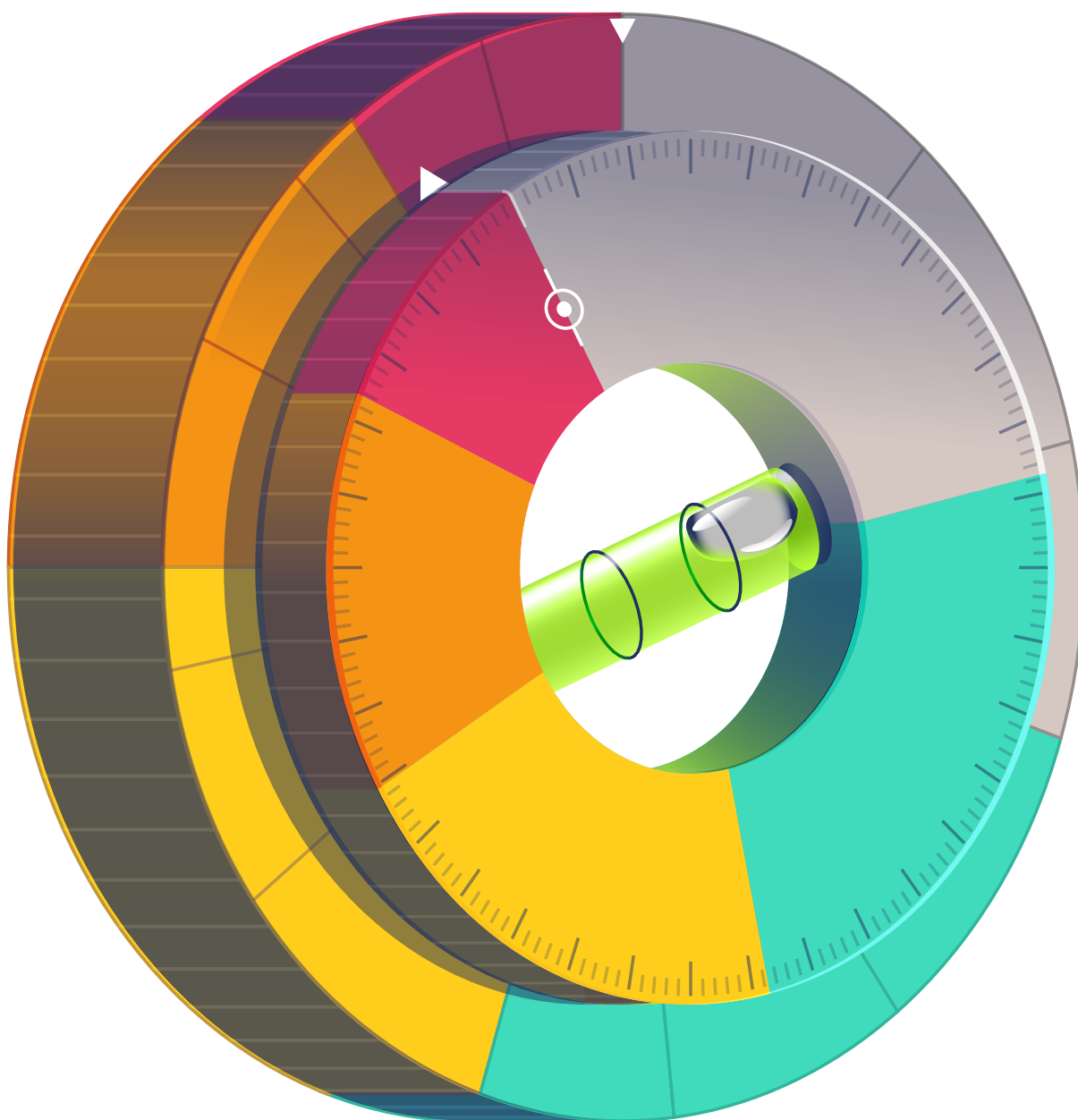


Draft Budget 2023

Analysis of Budget Revenues and Expenditures



Draft Budget 2023

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and Expenditures

December 2022

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This analysis was originally written in Albanian.

Executive Summary

The budget is the most important instrument through which the Government of Kosovo implements its program, including through new policies, supporting the development of key sectors for the country, reducing inequality in the society, etc. As in previous years, GAP Institute has analyzed budget allocations for 2023, by comparing them with 2022.

The 2023 Draft Budget prepared by the Government reflects a trend of a faster increase of current expenditures compared to the capital ones, a decrease in the need for debt due to the increase in budget revenues, and an increase in subsidies and transfers, particularly due to inflation-tackling packages. In this Draft Budget, the healthcare sector will have a budget of around 38 million Euro more than in 2022. The budget for the main educational institutions will be around 13 million Euro higher than in the previous year. Compared to developed countries, European Union (EU) countries in particular, spending as a percentage of GDP in these two important sectors remains low. Around eight million Euro more than in 2022 have been planned for the justice sector, with no increase for the Anti-Corruption Agency (ACA) to allow for strengthening of its capacities, as recommended by the European Commission Country Report.

The 2023 Draft Budget envisages 65.1 million Euro as additional costs if the Law on Salaries is adopted, 75 million Euro to address the energy crisis in the winter (received as a grant from the EU), around 144 million Euro as subsidies for the Recovery Package, etc.

A favoring of the municipalities led by Vetëvendosje (VV) is observed in new capital investments of the central level in municipalities, which will benefit over half of such investments. Similarly, the 2023 Draft Budget envisages another legal change, namely any unspent own-source funds of municipalities will be taken under central government management, if they date prior to the last fiscal year. This initiative contradicts the legislation in force and adversely affects the municipal performance.

Draft Budget 2023 – Key points

Significant increase in budget revenues and expenditures and a reduction of the need for debt.

Budget expenditures in 2023 are expected to be around 3.2 billion Euro, marking an increase of 17%, or about 464 million Euro compared to 2022. Meanwhile, budget revenues are expected to be around 2.88 billion Euro, which are 520.1 million Euro (22%) higher compared to the Draft Budget of 2022. These revenues are expected to cover 90% of budget expenditures. As a result, the need for financing in 2023 is expected to fall to 10% (326 million Euro) from the 14% projected in 2022. The central level will have a budget increase of around 366 million (17.1%) compared to 2022, with the highest budget increase expected in the Ministry of Finance, Labor and Transfers (MFLT) with 189.2 million Euro (20%) more than in 2022, Ministry of Defense with around 21 million Euro (20%) more, Ministry of Industry, Entrepreneurship and Trade (MIET) with 20 million Euro (123%) more, Ministry of Culture, Youth and Sports with about 19 million Euro (50%) more, etc. Whereas the local level will have a budget of around 93 million Euro (16.3%) more than in 2022.

A higher increase of current expenditures compared to the capital ones. 2023 Draft Budget envisages a faster growth of current expenditures than capital ones compared to 2022. Specifically, current expenses are expected to increase by 18% compared to 2022, while capital expenses by 15%. In terms of the structure of expenditures based on weight, in the 2023 Draft Budget the share between current and capital expenditures remains the same as in 2022, 74% and 26% respectively.

Figure 1.

Financing structure of the Kosovo budget;

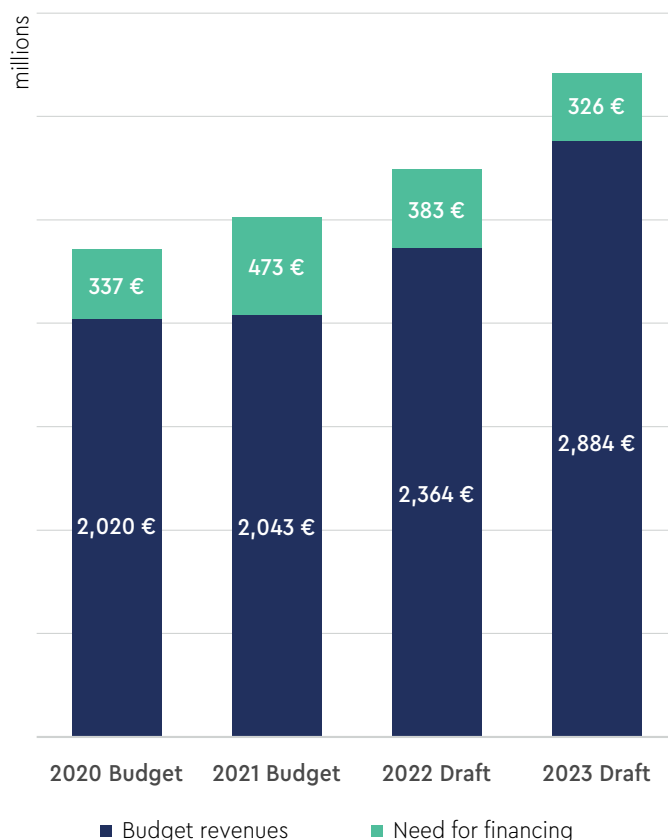
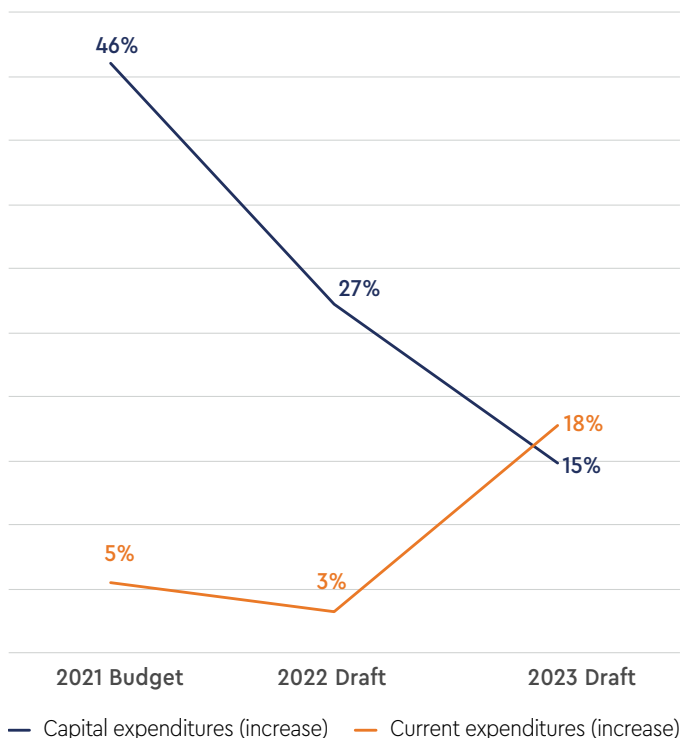


Figure 2.

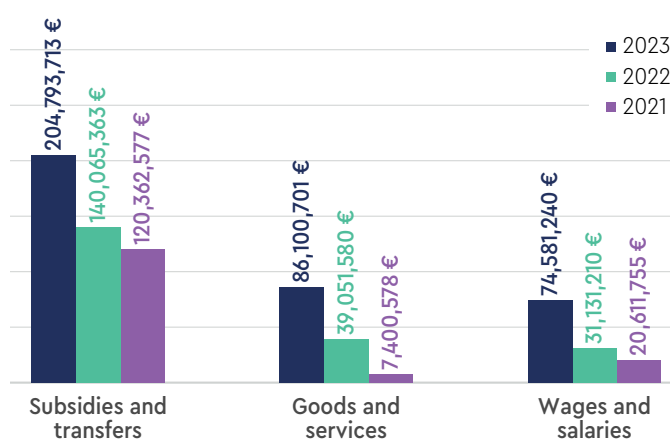
Increase in capital and current expenditures



Significant increase in subsidies and transfers and goods and services. In the main categories of current expenditures, the highest budget increase is reflected in the category of subsidies and transfers with around 205 million Euro or 23% increase. MFLT will have the highest increase in the category of subsidies, mainly due to a higher budget for subsidies under the Recovery Package, as well as 75 million Euro budgeted as energy contingency. Meanwhile, the budget for the category of goods and services has increased by 86.1 million Euro (23%), with over 28 million Euro of this increase intended only for the Ministry of Defense.

Figure 3.

Current expenditures 2021–2023



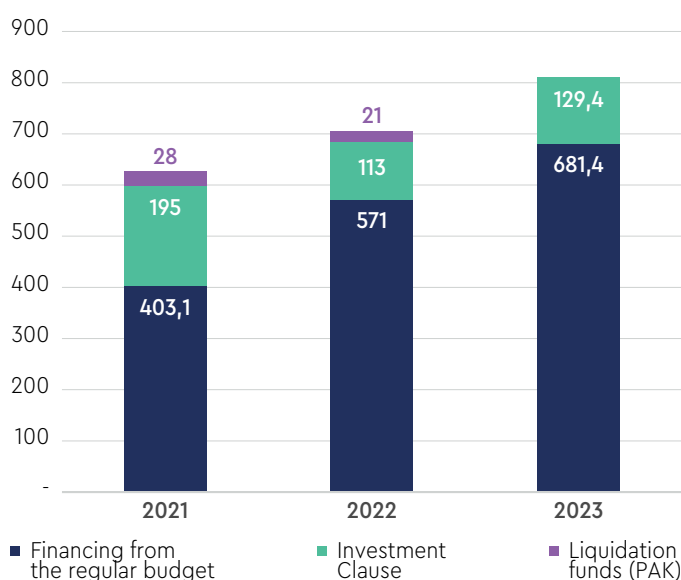
Over 65.1 million Euro for the Law on Salaries. 2023 budget for wages and salaries has increased by around 75 million Euro (11%) compared to 2022. MFLT has budgeted around 65.1 million Euro in this category, as contingency for salaries, intended to cover the additional cost of a new Law on Salaries. The other 10 million Euros in wages reflect the increase in the ceiling on the number of public employees, with space created for 1,435 additional positions, of which 910 planned for the central and 525 for the municipal level. At the central level, 300 additional positions are foreseen for the Kosovo Police, 108 new positions for the Assembly of Kosovo, of which 100 are political support staff, etc. For municipalities this means an increase in the number of allowed positions, with Prishtina Municipality having 86 additional positions, Municipality of Prizren 44, etc.

Increase in financing of capital investments from the regular budget.

Over 84% or 681.4 million Euro of capital expenditures for 2023 will be covered with regular budget financing, and 16% or 129.4 million Euro from the investment clause. Compared to the 2021–2022 period, financing from the regular budget in the 2023 Draft Budget is expected to increase by 110.4 million Euro (19%). Financing through the investment clause has increased by 16.4 million Euro (15%) compared to 2022. In 2023, liquidation funds of the Privatization Agency of Kosovo (PAK) are not expected to be used as a source of financing. PAK funds allocated for 2022 have not been used at all, as of September this year.

Figure 4.

Financing of capital expenditures, in EUR millions



Around 200 million Euro in new capital investments. Of the total of 810.7 million Euro expected in capital investments for 2023, 611.4 million Euro (75%) are planned for previous ongoing projects and 199.3 million Euro (25%) are planned for new capital projects.

- Of the 611.4 million Euro for ongoing projects, around 89% (543.3 million Euro) are allocated to the central level and around 11% (68.1 million Euro) to municipalities;
- Around 114.4 million Euro (19%) for ongoing projects from previous years will be financed through the investment clause, all for the central level.
- On the other hand, of 199.3 million Euro for new projects, around 26% (51.2 million Euro) are allocated to the central level and 74% (148.1 million Euro) to the local level.
- Around 15 million Euro (8%) of new projects will be financed by the investment clause, of which nine million Euro (60%) intended for the central level and six million Euro (40%) for the municipalities;

New central level funded capital investments in municipalities favor municipalities led by Vetëvendosje (VV). Unlike capital projects that are carried over from previous years, reflecting the budgeting approach of several consecutive governments, new capital investments for this year show the focus of the current government when it comes to the distribution of investments. Of the 51.2 million Euro in new capital investments at the central level this year, there are around 22 million Euro intended for specific projects in 20 municipalities. More than a half of this amount (52% or 12 million Euro) will be allocated to the three municipalities led by VV, municipalities that cover 9% of Kosovo's territory and 8% of the population. On the other hand, in the municipalities led by the Democratic League of Kosovo (LDK) and the Democratic Party of Kosovo (PDK), a more balanced division of the budget can be observed in relation to the size of the municipalities and the population.

Figure 5.

New capital investments compared to ongoing ones

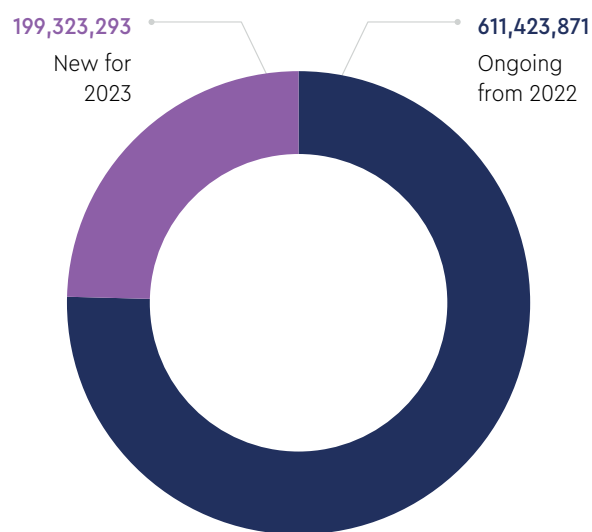
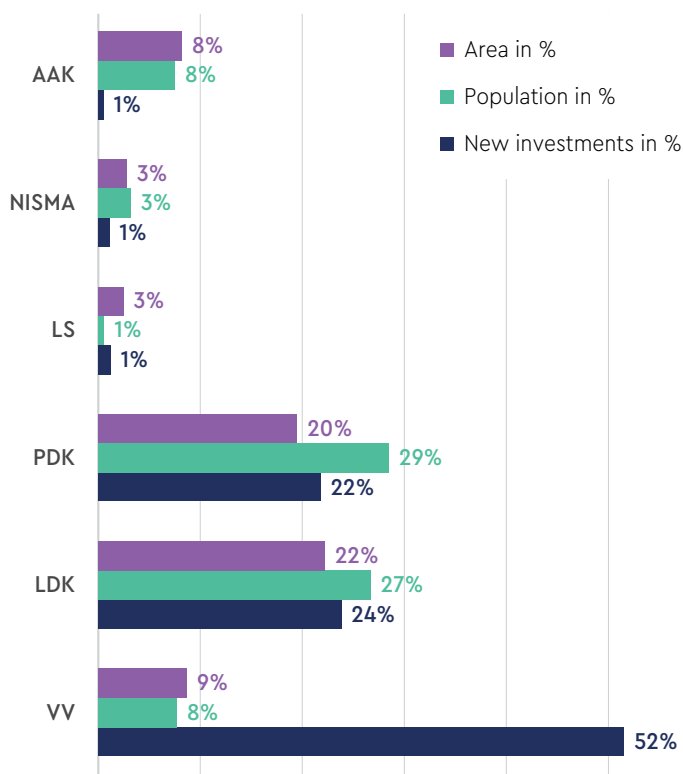


Figure 6.

New capital investments from the central level in municipalities



Of the municipalities that will benefit the most, the Municipality of Gjilan led by VV stands out, with investments amounting to 7 million Euro (around 31%) of new central level investments in municipalities for the next year. It is followed by the Municipality of Shtime, also led by VV, with around 3.9 million Euro (17.1%) of new investments. The third municipality benefiting the most, with over 15% of new capital investments or about 3.5 million Euro, is the PDK-led Mitrovica. There are also 18 municipalities which will enjoy no funds of the new central level investments in municipalities.

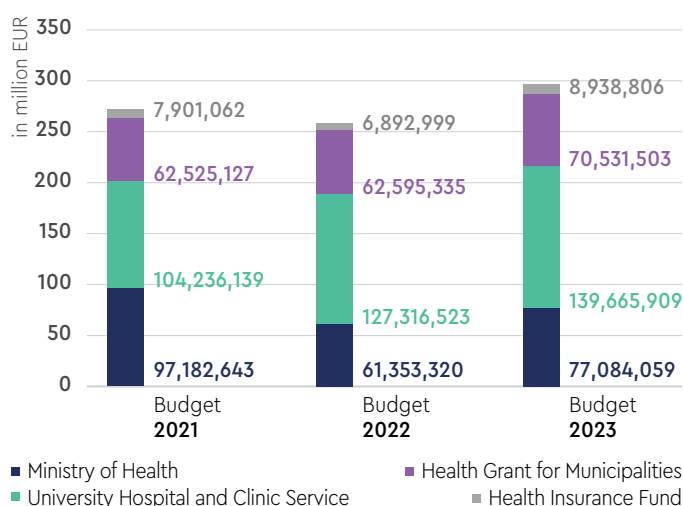
Table 1. Central level investments in municipalities

Municipalities	New investments (€)	New investments (%)	Population (%)	Territory (%)	Political Entity*	New investments per capita (€)
Gjilan	7,042,500	30.7%	4.5%	3.6%	VV	95.79
Shtime	3,920,000	17.1%	1.5%	1.2%	VV	145.43
Mitrovicë	3,465,000	15.1%	3.9%	3.0%	PDK	62.01
Fushë Kosovë	1,600,000	7.0%	2.1%	0.8%	LDK	40.76
Lipjan	1,500,000	6.5%	3.2%	3.1%	LDK	554.53
Prishtinë	885,200	3.9%	11.8%	4.7%	LDK	4.04
Kamenicë	850,000	3.7%	1.7%	3.9%	VV	24.52
Istog	776,000	3.4%	2.2%	4.2%	LDK	18.87
Pejë	500,000	2.2%	5.5%	5.5%	LDK	86.06
Prizren	457,500	2.0%	10.7%	5.5%	PDK	2.36
Skenderaj	430,000	1.9%	2.9%	3.4%	PDK	8.18
Drenas	380,000	1.7%	3.4%	2.5%	PDK	6.26
Malishevë	250,000	1.1%	3.2%	2.8%	NISMA	4.35
Dragash	200,000	0.9%	1.9%	3.9%	LDK	5.97
Ferizaj	200,000	0.9%	5.7%	3.2%	PDK	1.89
Kllokot	180,000	0.8%	0.2%	0.2%	LS	4.48
Klinë	100,000	0.4%	2.2%	2.8%	AAK	3.82
Shtërpçë	100,000	0.4%	0.4%	2.3%	LS	15.38
Kaçanik	60,000	0.3%	1.9%	1.9%	PDK	9.44
Gjakovë	20,000	0.1%	5.3%	5.4%	AAK	0.22

* The political entity of the Mayor of the Municipality

75 million Euro to address the energy crisis. The 2023 Draft Budget has also budgeted 75 million Euro as a contingency for dealing with the potential energy crisis, secured as a grant from the European Union.

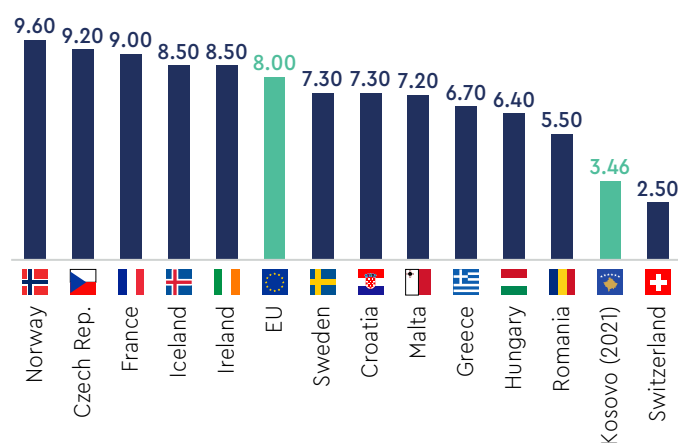
Around 38 million Euro more for healthcare than in 2022. For the institutions in the field of healthcare, including the Ministry of Health, the University Hospital and Clinic Service, municipalities, and the Health Insurance Fund, a budget of 296.2 million Euro has been allocated for 2023, 38 million Euro (15%) more than in 2022. The budget of the Ministry of Health has increased by 26% or 15.7 million Euro, with around half planned for capital investments, while the budget of the Clinical and University Hospital Service has increased by 12.3 million Euro or 10%, with around 80% of this increase expected to go on goods and services. Whereas, the health grant in municipalities has increased by 7.9 million Euro or 13%, while the Health Insurance Fund has increased by 2 million Euro (30%).

Figure 7. Healthcare budget, 2021–2023

Compared to the developed countries and countries in the region, expenditures in the health sector of Kosovo remain low even in 2023, with around 3% of the Gross Domestic Product. According to Eurostat data, the EU average for public spending on health is 7.9%, in Bosnia and Herzegovina it is 6.4%, 5.1% in Serbia, 3.9% in Turkey, 3.2% in Albania.¹

Figure 8.

Health expenditures (% of 2020 GDP)

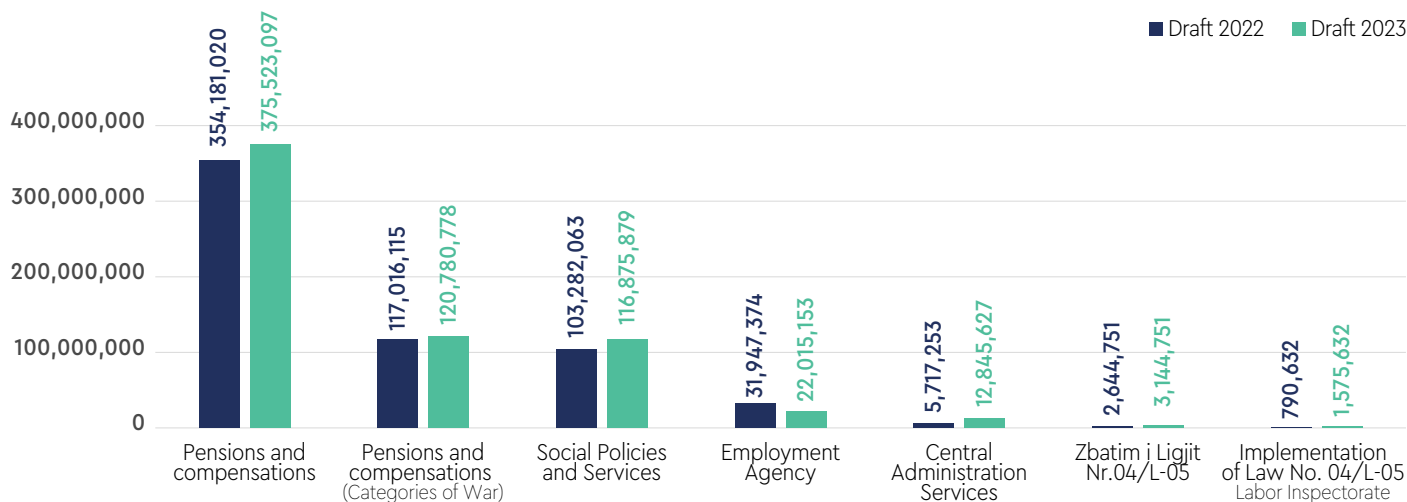


Source: GAP Institute using Eurostat, ASK and MFLT data

Around 39 million Euro more for pensions and social policies and 144 million Euro in subsidies and transfers for the Recovery Package. Pensions and compensations are expected to increase for 21.3 million Euro (6%), pensions for the war category for 3.7 million Euro (3%), social policies and services for 13.6 million Euro (13%), expenditures for social assistance by around 3 million Euro (6.8%), whereas pensions for veterans have remained unchanged. However, 144 million Euro have been allocated within MFLT in the form of subsidies and transfers, with many of the pension categories and families in the social scheme benefitting thus far.

Figure 9.

Budget of the Ministry of Finance, Labor and Transfers (MFLT)



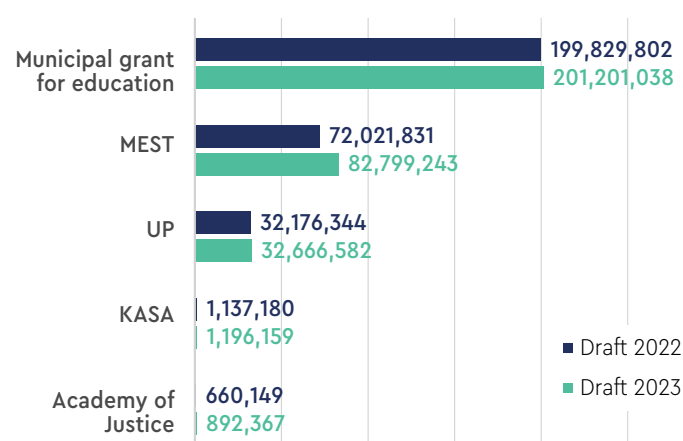
A significant increase in the budget for food reserves and support for enterprises in the Ministry of Trade and Industry (MTI). In 2023, a significant increase is envisaged in the budget of the Department of Reserves at MTI, with a total budget of 15.3 million Euro, to be allocated to increase basic food reserves, especially due to the difficult situation with prices in the markets. Similarly, there will be an increase of around 4.7 million Euro (47%) for the department that supports innovation and entrepreneurship.

¹ Eurostat. Source: <https://bit.ly/3u4sgpw>

Around 13 million Euro more for the main institutions in the education sector. The 2023 Draft Budget envisages an increase of 12.9 million Euro (4.2%) compared to 2022. This increase will mainly benefit the Ministry of Education, Science and Technology with an additional budget of 10.7 million Euro and the municipalities through the education grant, with an additional 1.4 million Euro.

Figure 10.

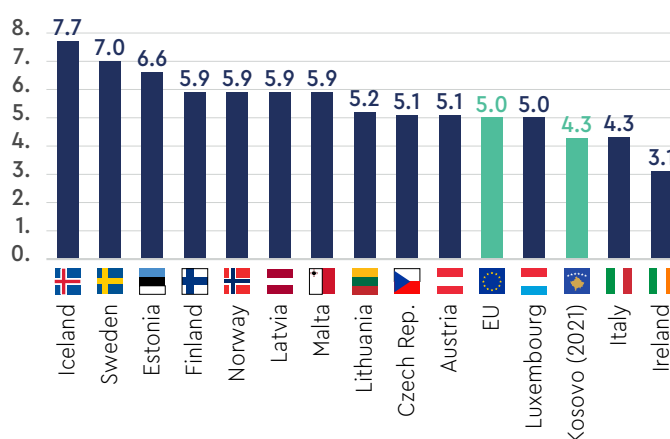
Budget for education, 2022-2023



However, compared to EU countries, Kosovo still spends significantly less on education. On average, EU countries spent 5% of GDP on education² in 2020. With the 2023 Draft Budget, education expenditure in Kosovo will be around 4.3% of GDP. When we compare the low level of GDP in Kosovo, the young age of the population and the results of the PISA test, it becomes clear that Kosovo would have to significantly increase its spending on education.

Figure 11.

Spending on education (% of GDP 2020)



Source: GAP Institute by using Eurostat, ASK and MFLT data

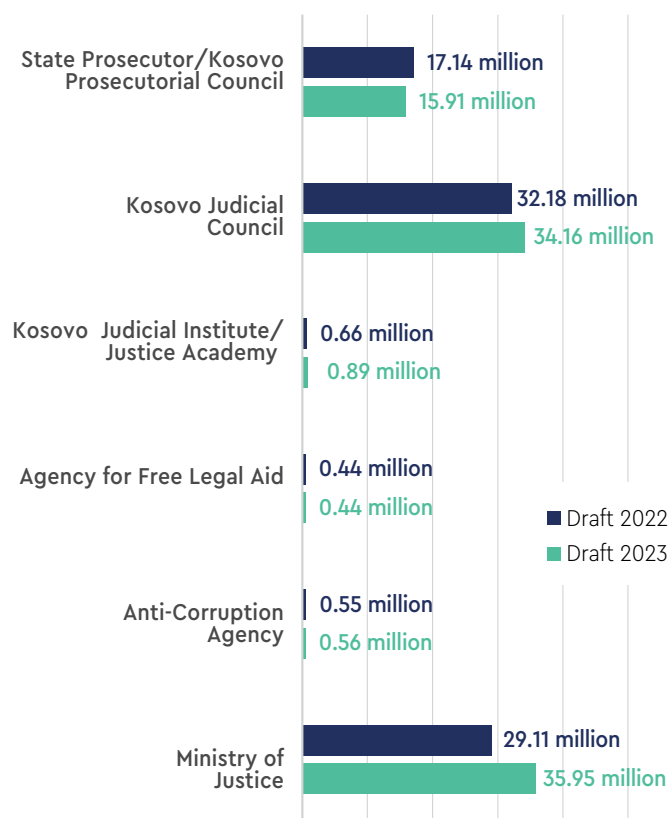
² Eurostat. Source: <https://bit.ly/3ilSa5x>

Eight million Euro more for the justice sector.

According to the 2023 Draft Budget, the budget for the five central institutions, the State Prosecutor/Prosecutorial Council of Kosovo (SP/KPC), Kosovo Judicial Council (KJC), Kosovo Judicial Institute/Academy of Justice (KJI/AJ), Ministry of Justice (MoJ), the Agency for Free Legal Aid (AFLA) and Anti-Corruption Agency (ACA) is expected to amount to around 88 million Euro. Compared to 2022, the Ministry of Justice will have the highest budget increase with 6.8 million Euro (23%) and KJC for about two million Euro (6%). Similarly, the budget for KJI will be 232 thousand Euro (35%) higher, 175 thousand Euro higher (0.04%) for AFLA, and 12 thousand Euro higher for ACA or 2%. Although in its Country Report the European Commission recommended an increase of the capacities and number of ACA staff³, in order for this institution to effectively implement its mandate, its budget for 2023 remains insufficient to cover any additional positions. Whereas, the KPC budget for 2023 is expected to be 1.2 million Euro (7%) lower, mainly affecting the category of capital expenditures.

Figure 12.

Budget for a number of rule of law institutions Free Legal Aid

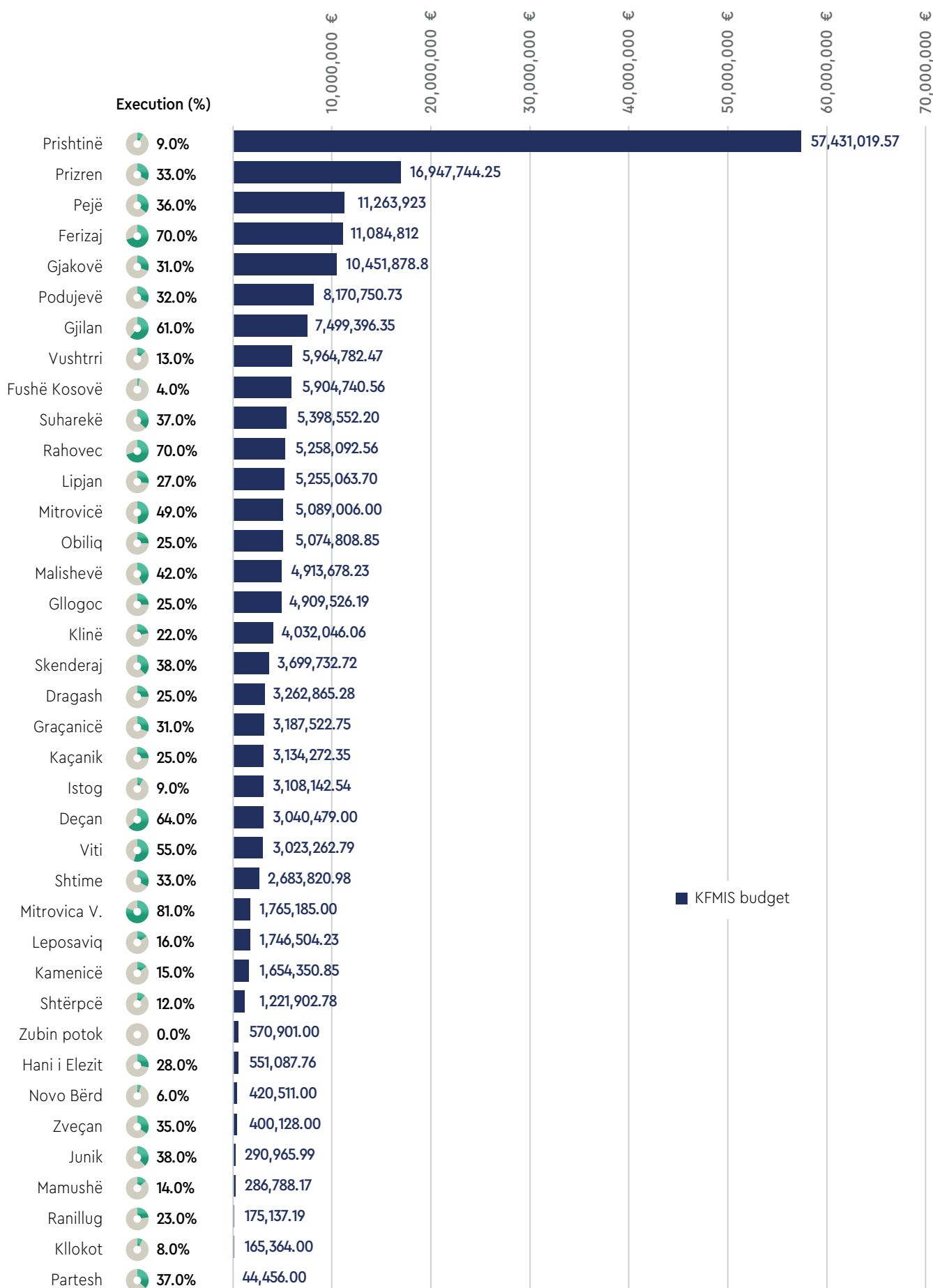


Redistribution of municipal own revenues unspent from previous years. The 2023 Draft Budget, in Article 9.6, requires that all unspent municipal revenues collected prior to 2022, will be transferred and taken under the management of the Government to be used for various needs. In 2021, funds carried over from previous years amounted to 55.4 million Euro, while in 2020 funds carried over from 2019 and earlier were around 49.5 million Euro. Such an initiative could significantly affect the revenues of municipalities, specifically the projects which may have already started, for which financing may have been based on these revenues. For instance, in 2021, over 58% of these funds carried over from 2019 or earlier had been spent. On the other hand, it is important that municipalities increase their effectiveness in spending public money due to the opportunity costs of not spending money. In 2022, the non-functioning of the Procurement Review Body and the increase in the prices of construction materials had a negative impact on the rate of execution of investments by municipalities, although the data regarding such execution differ significantly between municipalities. Until September this year, some municipalities had a very low performance in the execution of capital investments, while others saw an increased dynamic. Municipalities with the highest budget for capital investments and the lowest performance included Prishtina with only 9% execution, Vushtrri with 13%, Fushë Kosova with 4%, etc. Whereas municipalities which manage a higher budget that have shown a higher level of project execution include Ferizaj with 70%, Gjilan with 61%, Peja with 36%, etc.

³ European Commission. Country Report 2022. Source: <https://bit.ly/3GLwjyO>

Figure 13.

Execution of capital investments by municipality, January-September 2022



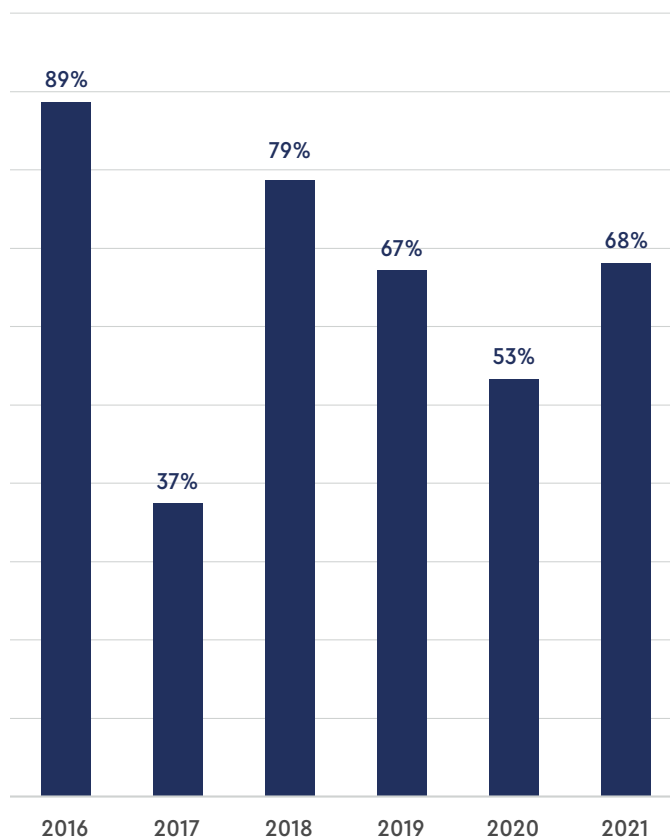
Continuous problems in budget execution

Low dynamic of execution of capital investments.

Although capital investments occupy a significant portion of the annual budget and represent the main category through which the government can make changes in the economy, planning and execution levels of this category remain unsatisfactory. There are a number of factors that have influenced this situation, including the COVID-19 pandemic, implementation of large infrastructural projects with large donors without highly skilled implementing units, lack of a functioning Public Procurement Review Body for a long period, etc. However, the main reason remains inadequate planning, with no appropriate analysis of the causes that can lead to non-execution of projects. Similarly, in 2022, the late response of the Government to adjust the increase in the cost of construction in capital project contracts also had an impact, where the law addressing this issue was only adopted in November 2022, despite the fact that increase in prices and indications of issues with inflation were well known since the end of 2021. The consequences of not spending funds are multiple, ranging from the opportunity costs, where the unspent funds allocated for the construction of a road could be allocated to other projects.

Figure 14.

The trend of execution of capital investments in Kosovo, 2016–2021



Source: GAP Institute using Treasury (MFLT) data

Lack of correlation between the budget and the medium-term and long-term strategic documents.

In the past, some correlation was observed between the annual budgeting and strategic development documents, such as the National Development Strategy (NDS) 2016–2021 or the Economic Reform Program. This resulted in a failure to fulfill the targets defined in NDS 2016–2021. Although the 2020 public health crisis, as a result of the pandemic, as well as the inflation crisis forced a deviation from the structural changes, it is necessary to establish priorities under the annual budget law in these documents. Lack of a long-term development strategy prevents major and radical reforms in the country, as it takes a long time to design, plan and implement them. Similarly, the Budget Law must follow the path laid out in the Midterm Expenditure Framework (MTEF) in order to achieve fiscal stability.

Excessive use of budget lines without specific designation. In recent years, a tendency has been observed to use a number of budget lines which do not contain specific projects, but are included under more generic activities. The 2023 Draft Budget will include contingencies for capital investments of over 20 million Euro, contingencies for subsidies of over 40 million Euro, etc. These come in addition to other contingencies, including the one for energy with over 75 million Euro, as the contingency for covering salaries based on the changes made through the new Law on Salaries with over 65.1 million Euro, the intended use of which is more defined. Good budgeting practices require adequate planning in order to spend public money effectively.

In addition, the 2023 Draft Budget continues to include generic budget lines with no clear understanding of the exact intended use. The 2023 Draft Budget includes lines such as the one of the Municipality of Klina for the "Construction of roads and underground infrastructure in Klina", Municipality of Istog with the "Construction of roads in Istog", MCYS with "Renovation of sports fields in schools" and "Construction of tennis courts in various municipalities", etc., where the investments location is not specified. This practice gives great discretion to the mayor or the minister and falls short of ensuring effective spending of public money. In particular, projects to be financed are selected ad-hoc and can be prioritized on a party basis. In addition, such a practice is in violation of the Administrative Instruction on the Selection Criteria and Prioritization of Capital Projects of the MFLT, which clearly states that only capital projects with clearly defined strategic importance and economic impact and an implementation plan in place should be included in the budget law.⁴

Failure to ensure a gender-responsive budgeting. Although Kosovo legislation in force requires a gender-responsive budgeting, and provides manuals on how to perform gender assessments of various policies, strategic documents, such as the 2023 Draft Budget, do not include a gender assessment of the budget, including a gender budget assessment or an analysis that shows how women and men are affected by the construction of roads, construction of daycare centers, construction of stadiums, street lighting etc. Capital investment data indicate that some of the largest projects in terms of budget value do not include gender impact assessments.⁵ Similarly, no analysis is provided of how men and women are affected by the Salaries and Wages category in the Draft Budget, considering that the share of employment in the civil service at the central level and in the municipal administration includes 67% men and 33% women, or by the category of Subsidies and transfers, where 66% of social assistance recipients in Kosovo are men, etc.⁶ The Draft Budget should also provide an analysis of how to improve gender equality in the country, taking into account the high unemployment rate of women (23.9%) and their inactivity rate (77.5%).⁷

⁴ Ministry of Finance, Labor and Transfers.

Source: <https://mf.rks-gov.net/desk/inc/media/C67DFC33-2744-4957-8D3E-83ACA5614DD3.pdf>

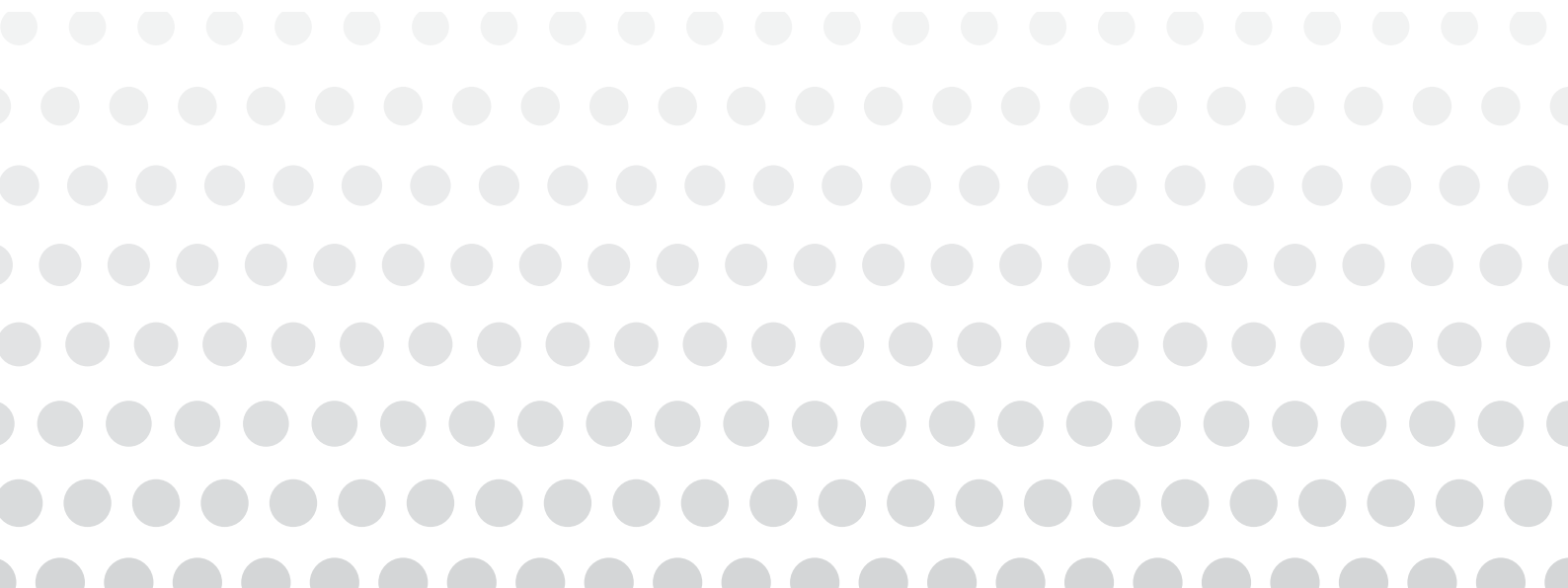
⁵ Public Expenditure and Financial Accountability (PEFA) performance assessment report. Source: <https://bit.ly/3F5mLNI>

⁶ GAP Institute. Employment and representation of women in Kosovo 2019. Source: <https://bit.ly/3H8ZYCn>

⁷ Kosovo Agency of Statistics. Labor market, Q3 2021. Source: <https://bit.ly/3AZMJjr>



GAP Institute is a Think Tank established in October 2007 in Kosovo. GAP's main goal is to attract professionals to create an environment of professional development and research, as seen in similar institutions in Western countries. This also provides Kosovars with opportunities to research, develop and implement projects in order to advance the Kosovo society. Priority for this Institute is the mobilization of professionals to address the country's economic, political and social challenges. GAP's main goals are to fill the gaps between government and citizens, and between problems and solutions.



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