

Unaddressed recommendations

Summary of recommendations from GAP reports on public policies

GAP Institute has continuously analyzed sectoral policies and decisions of governments, issuing recommendations for improvement and to avoid misuses of public money. With few exceptions, past governments lacked the will to address the identified issues, and no policies were developed which, according to our findings, would have had a positive impact on the country's economic development. This document includes concrete recommendations to improve the policies in place, drawn from the analyses and reports of the GAP Institute to date on specific topics in the fields of public finance, energy, social protection and more.

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Note: The original version of this document is in Albanian.

Economic policies and public finances



Budget transparency and fiscal policies

- The Ministry of Finance must start identifying the needs of businesses and incentives for their further development. Subsidizing workers' salaries, income tax breaks, income tax reductions, subsidizing employee contributions, exemptions from local construction tariffs or various permits, and partial grants to investors for the cost of building construction are some of the incentives the government can use;
- The Ministry of Finance should allocate a budget to increase the number of tax auditors of the Kosovo Tax Administration (TAK) as a measure to reduce informality;
- Similar to the MF Regulation No. 04/2017 on the Criteria, Standards and Procedures for Public Financing of NGOs, containing the criteria for subsidizing NGOs, a general regulation should be adopted defining the basic principles and forms of regulation for subsidies by public institutions.
- In addition to publishing documents, budget organizations should also pay attention to the format in which such budget documents are published. The Law on Public Financial Management and Accountability (LPFMA) should be amended to require budgetary organizations (BOs) to publish financial reports in a computer-readable format (e.g. Excel) to facilitate data access and use by citizens;
- All budget organizations should publish the Analytical Account Cards in a computer-readable format. Cards should be published on monthly basis and the format should be determined by an administrative instruction;
- Institutions should publish detailed data on official travel abroad, including the purpose, duration, number of persons participating in official travels, names of participants and budgetary costs associated with the travels;
- Tables of Law on Budget should be published in a computer-readable format;
- MLGA should monitor and promote the implementation of Administrative Instruction No. 04/2018 on Transparency in Municipalities, in order to a) assess whether the required budget documents are being published by municipalities, and b) check whether they are published by field;
- Municipalities should be more engaged in promoting citizens' participation in budget hearings and should publish the minutes of such budget hearings. Publication of the minutes should become a legal obligation;
- The Ministry of Finance should publish detailed data on completed debt forgiveness process. The data should be broken down by institution and by category of beneficiaries (citizens, businesses, institutions).
- In order to increase the transparency regarding the source of financing for municipalities, the law should specify that the annual Law on Budget should contain a breakdown of funding from the General Grant for each municipality based on criteria such as: a) fixed amount; b) number of population; c) geographical size; d) non-majority community population; and e) sustainability factor of municipalities. This will allow MPs and other stakeholders to be informed and monitor the extent to which municipalities are benefiting from additional resources as a result of minority communities.

- Similar to the Kosovo Customs which started publishing detailed data in Excel on imports, excise duties, customs tax, and VAT, Tax Administration of Kosovo (TAK) should also start publishing data in Excel. Some of the datasets of interest to the public, the media and researchers are: a) sector-by-sector turnover and tax statistics, broken down on monthly basis. The data should be split down to the four-digit level of the NACE classification; b) the database of active businesses registered in Kosovo broken down by sectors according to the NACE classification; c) data on formal employment by NACE sectorial classification, etc.
- In order to increase the cooperation of citizens with regard to reporting informality to TAK, it is essential to reform the complaints process in this institution. Currently, TAK requires that the evidence be submitted in person, and according to TAK's interpretation, reporting citizens have no right to be informed if measures have been taken against businesses as a result of their reporting. This leads to a significant decrease in the trust and reporting level of citizens regarding the fight against informality.
- In addition to reporting from citizens, reporting by civil servants on abuses is also low. The law on the protection of whistleblowers has not been sufficiently promoted, and institutional mechanisms are not functioning. For this reason, in our study we found that a large portion of civil servants would not report abuses since they fear of losing their jobs or lack information about their rights.
- Kosovo Agency of Statistics (KAS) has undertaken new studies and published aggregate data in the askdata platform, along with descriptive reports summarized for various data. However, these data only serves for general understanding of the issues. KAS does not share survey databases with interested parties, invoking respondents' confidentiality or anonymity issues. Since Kosovo has already started its open data initiative, publishing databases in .excel, .csv, and .dta formats should be a legal requirement. KAS should publish each database including: National Accounts database, Economic Statistics database, Social Statistics database, and Agriculture and Environment database. Also, KAS should allocate a budget for data cleaning and processing, including hiring experts in the creation of databases ensuring the confidentiality and anonymity of respondents in line with EUROSTAT standards.

Having a budgetary process that ensures independence of the prosecution and judiciary

Limited professional capacities of the Parliamentary Budget and Finance Committee, time limitations of the parliament for detailed reviews of the budget, lack of regular budget hearings with the Kosovo Judicial Council (KJC) and the Kosovo Prosecutorial Council (KPC), and the lack of comparable data with other countries are some of the reasons that could lead to limited budget capacities of the KJC and KPC to effectively fulfill their missions.

- As recommended by the Council of Europe, the involvement of KJC and KPC during budget allocations should be mandatory and provided by law;
- The Assembly of Kosovo should use benchmarks and provide transparent arguments to the public when it supports or rejects the KJC and KPC budget requests. In addition to ensuring transparency in the process, professional capacities of the Budget and Finance Committee staff should be increased;
- In order to establish benchmarks to be used by policy makers and other stakeholders, KJC and KPC should publish data according to the methodology of the Council of Europe, CEPEJ, whereas the EU should continue to support capacity-building initiatives for judges and prosecutors to publish data according to this methodology.

Maximizing economic and social return on capital investment

GAP Institute considers it essential to define the criteria for the regulation of public capital investments. One of the major problems thus far regarding the allocation of capital investments was the lack of transparency and the significant discretion given to ministries/municipalities in the allocation of such investments. Budget allocations for capital investments should be based on objective and verifiable methods. These methods should be incorporated into legislation, similar to practices in the European Union (EU). The following EU regulations are good practices for regulating investment by public funds: (EU) Regulation No. 1303/2013; Delegated Regulation of the Commission (EU) No. 480/2014; Regulation of the Commission for Implementation (EU) No. 1011/2014; (EU) Regulation No. 1299/2013. Similarly, an administrative instruction (AI) with such rules should also be drafted in Kosovo.

- A fund should be created for capital investments of ministries in municipalities, where all municipalities would have the right to apply for projects. All such projects as well as the application process should be transparent and only projects with the greatest positive economic and financial impact should be funded.
- The following two important steps should be considered before the administrative instruction enters into force: 1) drafting a manual with explanations of the steps and methods foreseen in the legislation to be used in the evaluation of capital projects; and 2) training of all budget organization (BO) officials in using such techniques for evaluation;
- Project evaluations by BOs and MF should be made transparent in the official websites of MF and relevant municipalities;
- Evaluation before and after project implementation. The AI should provide that in addition to the pre-implementation evaluation of the project, a post-implementation evaluation must also be carried out, to measure the achievement of objectives;
- The effect on employment (ex post). In order to measure the effect of capital investments on employment, companies implementing capital projects should provide evidence for the following indicators: 1) number of full-time and part-time employees; 2) average salary; 3) employee contracts; and 4) proof of payment of taxes and pension contributions for workers;

Management of public enterprises

- Government of Kosovo must reform the selection of boards. As a way to streamline this process it should: a) delegate the recruitment process of board members to private recruiting companies; b) make the board selection process transparent; c) publish the evaluation methodology and biographies of candidates online;
- As a way to diversify voices in decision-making in the public enterprises and to increase support during the restructuring processes, the Government of Kosovo should consider the possibility to include as voting members of boards representatives of POE employees;
- Public enterprises should provide consumers with alternatives for payment of dues, such as establishing agreements regarding automatic deductions of a percentage of the salary from the customer's account;
- Public enterprises should use software to identify more liquid consumers, consumers at higher risk of default, and larger debtors.

Economic and trade issues

- Under the CEFTA agreement, Kosovo should make efforts to renegotiate mechanisms within the CEFTA with Albania and other countries, in order to resolve trade barriers;
- Kosovo's new trade strategy should also include an analysis of Kosovo's gains or losses in the event of membership in the Balkan Customs Union. Also, different modules of the customs union should be discussed in this document, whether they are appropriate to the current political and commercial situation in Kosovo;
- The Government of Kosovo, together with the producers of bottled water, should discuss the outstanding liabilities of these producers to the state of Kosovo. Any debt amnesty to the private sector must go through the Assembly of Kosovo;
- In the field of competition, "Eurolab" company should be removed from the supervision of other technical control centers, as this constitutes a conflict of interest since the company also carries out the first technical control;
- Remove the provision of the administrative instruction, which requires that the first technical inspection be carried out by the homologation company. This is in violation of the Law on Protection of Competition and the right of consumers to choose.



Energy and Environment

- The contract signed between the Government of Kosovo and the US company ContourGlobal is at odds with the EU and Energy Community Treaty (ECT) legislation on State Aid. If this project becomes operational, the electricity market in Kosovo will be effectively closed for 20 years, thus blocking the development of any competition and minimizing the possibility and potential for liberalization of the energy market. Also, according to a scenario prepared by us, the entry into operation of TPP “Kosova e Re” in 2023, taking into account other planned investments in the field of energy, would increase the electricity tariffs by 60.4%, thus making them unaffordable for citizens and businesses in Kosovo.
- A plan must be developed to address the technical and commercial electricity losses, as they continue to be very high. Specifically, the investments made by KEDS thus far in the distribution network have not been sufficient to avoid technical and commercial losses. Commercial and technical losses allowed by ERO, and paid by citizens through electricity tariffs, account for over 22% of the distribution demand. Put differently, there are over 1400 GWh lost, not consumed by citizens but paid by them, namely around 8 times more than the total RES production.
- Before deciding on the construction of a new power plant, if the revitalization of TPP “Kosovo A” will not be carried out, the following is first required:
 - A detailed assessment on the need to invest in energy efficiency, especially in the household sector. Based on the findings of some reports, Kosovo uses twice as much electricity for heating than elsewhere in Europe. Also, the efficiency of stoves used for heating is lower than 70%;
 - Improvements must be made to the distribution network in downtown Prishtina neighborhoods which, according to our findings, have had the least electricity savings due to poor operation of the district heating;
 - Termokos should conduct a study on the number of customers wishing to connect to this district heating plant, and thus develop a mid-term plan for seeking additional grants or loans to connect more customers;
 - ERO should design feed-in tariffs to promote the construction of new district heating companies in Kosovo;
 - Consideration should be given to the construction of a new district heating plant in Drenas, which would be connected to “Ferronikeli”;
 - The Government and ERO should create more favorable conditions, through fiscal and tariff incentives, to increase private investments in district heating;
 - A strategic institutional plan should be developed to identify unused thermal energy, and to set targets for generation of electricity from renewable sources;

All of the above would provide a clear picture of the real demand for electricity in Kosovo and the need for support to enhance energy efficiency. Specifically, based on the request for security of supply under EU directives, and the findings of an analysis to be developed by ERO on how the transmission line with Albania

and the establishment of a common energy market with Albania would impact the demand for energy, the required capacity of the new power plant and other RES targets would be defined.

- Should the construction of the new power plant go ahead, prior to the final agreements being signed by the government, the same should be analyzed and approved first by the Energy Regulatory Office (ERO) and then by the State Aid Office;
- Energy cooperation between Kosovo and Albania should be further intensified with the help of the governments of both countries. This cooperation should result in:
 - Establishment of a common energy market with Albania;
 - Implementation of strategic plans for energy cooperation between the two countries;
 - Combating the obstacles to energy cooperation, such as corruption;
 - Signing of the cross-boundary water agreement for energy use.
- ERO should hire companies to audit the capital investments made specifically by KEDS which, according to ERO, thus far have complied the Kosovo Public Procurement Law, as required by its license. An audit report is also required on the performance of these investments, as the impact on the reduction of technical and commercial losses of energy, covered by the citizens, is not known.
- In order to encourage citizens to buy cars that meet environmental standards, incentive schemes should be designed, whereby the excise tax on cars is calculated on the basis of whether or not these standards are met, rather than simply based on the cubic meter capacity.
- An action plan on air quality management should be developed, setting out concrete measures to improve air quality.

Social protection and gender issues

The Social assistance scheme, as the only government program specifically targeted at poverty reduction, should undergo changes such as:



- Increase substantially monthly payments to families under the scheme, as the current amount of assistance is not sufficient to cover household expenses, as the extreme poverty threshold in Kosovo requires;
- The age criterion should be removed from category II of the social assistance scheme, for households to have a child up to 5, as it has an adverse impact of putting families to further poverty. Specifically, this criterion pushes families to increase the number of children, only to remain part of the scheme. The data also show that the current scheme is not adequately targeted to help the poor. For example, of all the poor households in Kosovo, 20% are families with 5 or more members, while in the current social assistance scheme only 5 to 8% of the beneficiaries are of this profile. The government should develop sufficient criteria for the poverty test that accurately target poor households, and the social assistance scheme should include additional incentives in addition to current ones, in order to increase the likelihood of households leaving the poverty threshold as soon as possible;
- Debts accumulated over the years of families under the social assistance scheme to state institutions and public enterprises should be forgiven automatically by the Government of Kosovo;
- The government should target households under the social assistance scheme through energy efficiency investment funds, under the 4th National Energy Efficiency Action Plan, since these households, although having a considerable amount of energy covered, spend additionally on electricity costs due to poor insulation of buildings;
- Currently, only one third of the beneficiaries of the social assistance scheme are women. According to our study, women heads of households in Kosovo, different from men, spend more on health and products that increase well-being, and less on tobacco. Therefore, the government should increase the number of women beneficiaries in social assistance, when this is possible. Such a step would result in a more optimal policy and increased welfare.
- Final categorization should be made on current lists of war veterans, in order to make Article 16 A, paragraph 2, of the applicable Law on Veterans, which requires that the budget for this scheme does not exceed 0.7% of GDP. Currently, compensation of this category is over 1% of GDP.
- Representation of women in boards of publicly owned enterprises, and independent institutions and agencies is low. About 85% of board members of publicly owned enterprises are men and 15% women. Also, 81% of board members in independent institutions and agencies are men, 16% are women, and there is no information for five other members. At this point, it is important to ensure implementation of Article 34 of the Law on Joint Stock Companies, which requires that 40% of members of the board of directors of the joint stock company be women. In fact, according to the same provision, the quota should be raised to 50% after two years of implementation.
- In the Kosovo civil service, over 94% of senior management positions are occupied by men. All 1,562 civil service job titles are in feminine nouns. The Law on Gender Equality and the Law on Labor require that vacancy titles include women and men. These changes should also be made to the

following two documents: “Job Titles in the Kosovo Civil Service Job Catalog”, and “Job Descriptions for Job Titles”. These measures would eliminate gender stereotypes on the division of occupations between the sexes, and would generally contribute to increasing the employment rate of women, as the number of women registered as job seekers is almost equal to that of men, implying that women are as interested in work as much as men.

- The draft budget is not gender sensitive. The Law on Gender Equality requires that gender mainstreaming is incorporated in the process of planning, adoption, implementation and evaluation of legislation. However, a gender assessment of the budget has not been done in any of the budget documents, including the Medium Term Expenditure Framework and the Draft Law on Appropriations.
- Gender impact. In accordance with the Law on Gender Equality, evaluation of capital projects should include a gender impact criterion of the project. Projects that help mitigate unemployment or problems a particular gender faces should be rewarded with additional points.
- Consumer protection As part of the Consumer Protection Council, we conducted a study on consumer protection in the banking sector. Consequently, we have found that not all commercial banks in Kosovo publish on their websites information on the cost of loans, in line with CBK rules. In its consumer protection role, the CBK has not done enough in disseminating information for a financial education to a large number of citizens. Therefore, in this regard, the CBK should monitor compliance of the Effective Interest Rate Regulation and publish aggregate data from commercial banks on nominal and effective interest rates and fees. In addition, the CBK should measure citizens’ knowledge through financial education initiatives, and improve and promote the financial education platform.

European integration

- With the ratification of the Stabilization and Association Agreement (SAA), Kosovo has undertaken responsibility to fulfill all the conditions deriving from this document. The role of municipalities in the country’s integration agenda is important. Currently, there are 146 concrete measures that municipalities must meet in order for the obligations of Kosovo at the local level under the SAA to be deemed as fulfilled. Although the Ministry of European Integration (MEI) has managed at the country level the process of the fulfillment of the requirements under the SAA, in the future there should be close central level cooperation with European integration officials in municipalities, in order to discuss the issues and achievements of the local government in the implementation of the SAA, and the Parliamentary European Integration Committee should call in hearings the heads of relevant ministries to evaluate the level of SAA fulfillment at the local level.
- The European Reform Agenda (ARE) was launched as a high-level dialog between the EU and Kosovo, to accelerate the implementation of the SAA. Our monitoring process confirms that the government has failed to show clear commitment to undertake the necessary reforms stipulated in this document, to adequately combat corruption and organized crime, improve the business environment, reform public administration and ensure a transparent, merit-based and non-political selection process. In order to achieve the best results, the government must increase its commitment to the implementation of the necessary and crucial reforms.



Publications



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2018 municipal budget transparency index



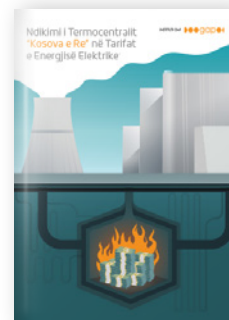
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Effects of Law on Value Added Tax



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Effects of the Law on Debt Forgiveness



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The impact of TPP “Kosova e Re” in Electricity Tariffs



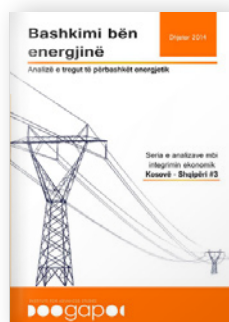
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The Effect of State Aid on the Electricity Market in the Balkans



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The usage of electricity for heating – the impact of cogeneration in energy consumption



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Bashkimi bën energjinë. Analizë e tregut të përbashkët energjetik



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Household budget management - men and women



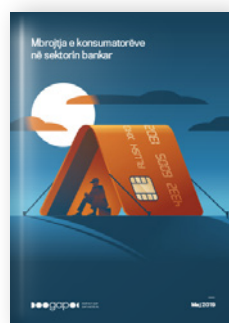
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Representation of Woman in the Boards of Publicly - Owned Enterprises and Independent Agencies



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