Public Revenues and Expenditures in Kosovo

Azem Duraku

PhD Cand. Departament of Finance, Faculty of Economy, University of Tirana, Albania

Abstract

Within this Thesis, efforts have been made to explore, analyse and address the role and importance of Public Revenues and Expenditures, regarding their functioning in the country, with particular emphasis on the Republic of Kosovo during 1999 - 2018. Following the end of the war in June 1999, the Republic of Kosovo faced serious challenges, which it should have gone through. After the war, between 1999 and 2008, Kosovo was administered by UNMIK. With the declaration of independence in 2008, the Republic of Kosovo assumed all the responsibilities in the management of public finances, where state activities related to the collection of public revenues and public expenditure coverage are steered and managed by the Ministry of Finance within the State Government. According to the Legislation of the Republic of Kosovo, accountability in the management of public money consists of a chain of participants, each of which is responsible for achieving certain goals, and each is accountable to the highest level authority for achieving these goals. The highest authority in this hierarchy is held by citizens, who are represented by elected members of the Assembly and Municipal governments. The Government elected by the Assembly then assigns responsibilities to the Ministers, in order to enforce government policies, who within the scope permitted by applicable rules, through regulations, policies and administrative arrangements, assign further powers and responsibilities to the senior managers of budget organizations and other users of public property. The research question put forward is: How will the Government, through public revenues and public expenditures with a budget management, impact the growth of goods, public services for the citizens of Kosovo.

Keywords: Public Revenues, Public Expenditures, Budget, Accountability

Introduction

In order to accomplish many tasks and measures that the state is obliged to perform under the constitution, other laws and provisions, there is a need also for certain incomes. The means by which the state meets its national and social needs in its power, we name it as public income. Income systems of developed countries with roughly the same revenues per inhabitant differs, depending on whether they are developed countries, are more or less oriented to foreign trade exchange, what is the organic composition of their capital etc. Oil-rich state income systems differ from oil-importing countries. There are three main functions of Public Finances: (1) distribution - optimum allocation of resources, which is also the main function; (2) redistribution of national revenues, between individuals and households, as well as between sectors of the economy; (3) sustainability - state intervention through economic policies when the economy is in disequilibrium.

Incomes comprise mainly of income from taxes and fees, as well as the profits of state-owned companies. The state budget revenues are divided into: tax and non-tax income. The most important forms of public incomes are: taxes, contributions, fees, customs, state loans, incomes from social assets, etc. The goals and tasks that can be accomplished with the collection of public incomes can be divided into these groups: Redistribution and accumulation of revenues are the main functions of public incomes. It is known that the national incomes are generated in the process of material production and the execution of manufacturing services. Certainly, it is quite normal for people who work in non-economic sector to participate in the distribution of national revenues by redistributing it. The distribution of national revenues generators is executed through market by prices and money, which this represents the primary distribution. Secondary distribution or redistribution of the national revenues for the benefit of non-economic activities is carried out through financial instruments such as taxes, contributions, fees, customs and other charges. These instruments redistribute primary distribution through budget and reserve funds. The division of manufacturing factors is made through public incomes. Through public incomes, are generated financial means which through public outcomes shall prompt division of economic factors in those economic activities, in that volume and structure of investments according to the desire of financial policy.

Economic and social stability. The impact of incomes on the national economy is important due to that it has stabilizing capabilities. If stabilization policy requires increasing the demand, which is smaller than the supply, the public income should be reduced according to the structure. On the other hand, if demand is required to be reduced, then public income will increase through financial policy.

Promotion (stimulation of economic development). Public incomes may affect in many ways the economic development, both directly and indirectly. In direct manner, they promote the economic development through the accumulation of incomes by funds, whose function is the funding of certain economic development programs. In indirect manner, through the promotion of export or import by economic branches and areas.

The Republic of Kosovo at the end of the war in June 1999 coped with serious challenges but had to overcome it. After the war, from 1999 to 2008, Kosovo has been administered by UNMIK. With the declaration of independence in 2008, the Republic of Kosovo assumed all responsibilities in the management of public finances, where State activities concerning the collection of public incomes and public outcomes coverage are governed and managed by the Ministry of Finance within the State Government.

Research Methodology

The study was conducted on the basis of research in the field of incomes and public expenditures in Kosovo during 1999 - 2017, as well as the applicable rules on incomes and expenditures during this period. During this research, I have used secondary data from the Ministry of Finance, Kosovo Agency of Statistics, Tax Administration and other relevant institutions. In the assessment of public expenditures, are applied almost the same methods and techniques which are also applied to other areas of economic analysis, such as the selection method (cost-benefit analysis and cost-effectiveness analysis), the optimization method (linear programming method and other research methods). Subjected to the specific problems related to public expenditure, the most appropriate methods for assessing public expenditure are the Cost-Benefit method and the Cost-Effectiveness method (cost-effectiveness analysis - economic analysis).

Incomes and Expenditures in Kosovo during 1999 - 2017 - comparative analysis

When it comes to generating incomes in the new Kosovo tax system, the circumstances imposed to start building a simple tax system. The devastated economic and public infrastructure, the devastated businesses and the poor social situation of the population that Kosovo inherited in the post-war period, did not provide realistic opportunities for quick building of internal governance structures and consolidation of the economic base and self-funding of budget needs. Based on this, in the first post-war phase after 1999, UNMIK mission focused mainly on external donations, as the only sources available for financing budget needs for the functioning of public administration, public sector, reconstruction and maintenance of infrastructure and public services. Initially it was based on sales tax, at a rate of 15%, which was replaced by VAT on 1 July 2001, which has also the rate of 15% and applies to all imports and domestic products to gross turnover over € 100,000; presumptive tax at a rate of 3% in gross turnover; service tax at 10% rate and customs rate of 10%. Moreover, excises are applied to various goods, where fuel, cigarettes, alcoholic beverages, refreshments, etc. prevail. Starting from 1 April 2002, starts the application of profit tax, while from 1 April 2002, starts the application of the tax on salaries and pension contributions. Public incomes in Kosovo are collected by: Value Added Tax (VAT); Personal Income Tax; Corporate Income Tax; Withholding taxes; Pension Contributions; Issuing licenses for gambling; Excise; Customs; and other income.

The government may decrease the taxes without reducing government expenditures, or may increase government expenditures by keeping unchanged taxes, or may use both government expenditures increases and tax cuts. When the government reduces taxes, individuals and firms have more revenues in their disposal and over this basis, they increase expenditures on consumption and investment that prompt growth in production and the economy enters in the growth phase.

Table no. 1, Total Income and Expenditures 1999-2007, in millions of Euros (000 €)

Description	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Incomes	-	-	-	-	584	619	641	656	682
Tax Income	-	-	-	-	512	533	544	551	618

Nontaxable income	-	-	-	-	44	52	56	50	40
Donor grants	-	-	-	-	69	13	94.9	43	46
General Expenditures	62	214	250	269	653.8	632	736	700	717
Current expenditures	50	139	155	165	495.7	336	329	332	326
Capital Expenditures	-	-	10	19	28	129	174	176	182
Expenditure on subsidies and transfers	12	68	79	71	192	273	172	174	164

Source: Kosovo budget 1999 -2007

Table no. 2, Total Income and Expenditures 2008-2017, in millions of Euros (000 €)

Description	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Incomes	862	956	1,106	1,264	1,384	1,423	1,345	1,470	1,634	1,725
Tax Income	752	841	890	1,060	1,128	1,182	1,162	1,269	1,410	1,512
Nontaxable income	54	58	130	159	170	208	171	188	212	201
General Expenditures	1,119	1,095	1,256	1,434	1,524	1,586	1,480	1,564	1,732	2,001
Current expenditures	375	444	507	590	637	687	1,058	1,149	1,221	1,273
Capital Expenditures	405	410	495	572	614	616	411	404	500	723
Expenditure on subsidies and transfers	194	220	248	272	282	303	11	13	12	12
Primary balances	(257)	(137)	(220)	(170)	(140)	(162)	(136)	(94)	(98)	(276)

Source: Kosovo budget 2008 -2017

Public expenditures serve to finance, respectively, meeting the public needs of the state. They enable and ensure implementation of tasks from state competence and its organs, defined by the constitution, law and other provisions. Public expenditure permeate these two characteristics: public expenditure serves to meet social needs and public interests, and public expenditures are converted into money.

Public expenditures are money expenditures, expended by the state and other public-law entities to meet general needs and public interests.

Public expenditures are closely connected to public incomes because public incomes are the source of public outcomes funding. Public needs, in historical perspective, have always increased with the increase of state functions.

Through public expenditures are met following needs:

1. general social needs (state administration needs, state representative bodies, maintaining embassies and foreign representation, internal and external insurance, as well as other needs funded by the budget).

2. common or collective needs (needs for education, culture, science, social insurance, pension health and disability insurance, as well as other common needs);

3. needs of state economic nature (state intervention in economy, international economic relations, investment in infrastructure etc.)

Human life is built in such a way that culture, wealth and civilization are transferred from one generation to the next. The older generation is born, grows, educates and transmits everything that is good and positive to the new generation. All this activity is well-organized and is implemented through the structures of responsible state institutions. For this purpose, there are education and educational institutions: schools, universities, academies of science, cultural and cultural institutions, information media, etc. States have duty to look after, above all, for the lives and health of people and community members.

The wellbeing of a community depends on the well-being of individuals in a community. Governments work on the principle of Pareto: if at least one individual is in better condition from the venture of a particular policy, and no other individual is worse than it was, then the community as a whole is better, and which this policy must be applied.

The state should become a guarantor in the application of three golden rules, which are the unchanged basis and the point of reference for the functioning of any means of communication between the state and community members. These rules are:

•Every member of a community must have equal and unrestricted access to benefit public goods, which are defined by the level of development and civilization of any country where there exist a community;

•Anyone who benefits a public good must financially contribute with a payment in favor of the state, which holds the burden of responsibility and its guarantee;

• Individuals which earn more revenues, which spend more or which own more assets, they contribute more in the favor of the state budget.

The cost-benefit analysis is oriented on minimizing the investment of means, time, talent and energy (input) to best accomplish, in the shortest possible time and at the lowest possible expense, the goal that is to be achieved with the expenditure of public income, respectively to maximize the output from public expenditures at the respective expense

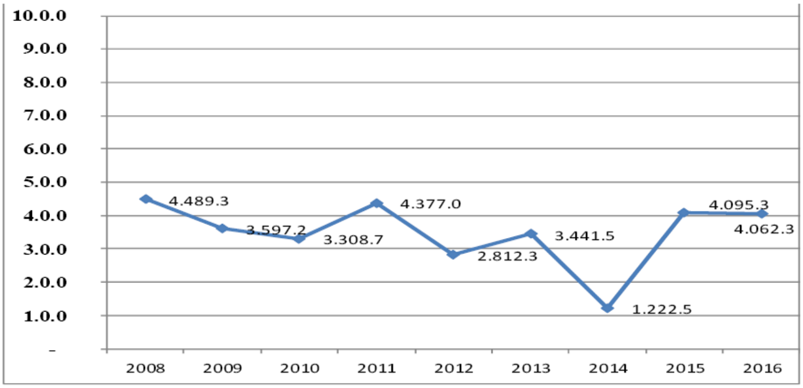
Government expenditures occupy a significant part of the country's gross domestic product. Public-sector expenditures can be grouped into three main areas: transfers, current government expenditures and capital expenditures.

Table no. 3, Turnover of goods in foreign trade, in millions of Euros (000 €)

Years	Exports (FOB)	Imports (CIF)	Trade balance	Percentage of coverage
1	2	3	4=2-3	5=2/3
2001	10.559	684.500	-673.941	1.5
2002	27.599	854.758	-827.159	3.2
2003	35.621	973.265	-937.644	3.7
2004	56.567	1.063.347	-1.006.780	5.3
2005	56.283	1.157.492	-1.101.209	4.9
2006	110.774	1.305.879	-1.195.105	8.5
2007	165.112	1.576.186	-1.411.074	10.5
2008	198.463	1.928.236	-1.729.773	10.3
2009	165.328	1.937.539	-1.772.211	8.5
2010	295.957	2.157.725	-1.861.769	13.7
2011	319.165	2.492.348	-2.173.184	12.8
2012	276.100	2.507.609	-2.231.509	11.0
2013	293.842	2.449.064	-2.155.221	12.0
2014	324.543	2.538.337	-2.213.794	12.8
2015	325.294	2.634.693	-2.309.399	12.3
2016	309.627	2.789.491	-2.479.864	11.1
2017	378.010	3.047.207	-2.669.196	12.4

Source: Kosovo Agency of Statistics, January 2018

Figure 1, Real growth rate 2008 – 2016



Source: Kosovo Agency of Statistics, GDP 2008 - 2016, October 2017.

Budgeting process

Why is the budget process important? Decisions on the manner that how our money will be collected and spent are taken during the preparation and approval of the budget. This is a sufficient reason for us to know that who are the main participants in the budget process and what is their role?

The budget is state financial instrument, which derived under certain socio-economic and political conditions. The basic instrument for funding public expenditures in all contemporary states is the budget. The budget is a financial statement of incomes and outcomes of the state for a specified period, respectively for a budget year. There are three objectives of economic policy, which are implemented through the budget such as in the following:

1. Determination of public goods (services) for citizens. Since the market does not function perfectly, some of the goods and services are obtained as public services. These are, for instance, protection, construction of highways, public order services, etc. For this reason, a considerable amount of money should be taken by the private sector on behalf of the state, in order to enable the latter to generate these public goods by choosing the best combination from them, where there's more and where less.

2. Redistribution of wealth/ income. Given that we live in the same social milieu, the redistribution of wealth among different regions of the country from a more developed region to a less developed one (through various subsidies and grants) should be performed; from younger ages to the elderly (through the payment of pensions) and from the rich ones to the poor (through social services).

3. Sustainability. This is a continuous state obligation to ensure that the desired level of employment is combined with the low level of inflation.

The most important institutions involved in the process of preparing and approving the national budget are: Assembly (Legislative), Government (Executive), Ministry of Finance and other budget beneficiaries.

The Assembly is the highest representative institution of citizens, which controls the executive (government) and legal institutions in the country. The Assembly elects from its members the standing committee, and may also appoint special committee whenever necessary. Among the standing committee, we mention the Law Committee, the Economy and Finance Committee, etc. Through the work of committees and debates in plenary session, the Assembly analyzes the fiscal policy proposed by the government.

The Government implements policies approved by the Assembly. The role of government in the budget process is to propose fiscal policy and to define state budget policies based on economic, political and social objectives. The duty of the government is to determine all the necessary measures to collect revenues and make proposals about distribution and allocation of the budget money for particular purposes and priorities.

Ministry of Finance. Also, the Ministry of Finance is responsible for proposals and advice related to macroeconomic and fiscal policy strategies and also for the forecast of revenue flows and other contributions to the national budget.

By intending better management and use of resources, the Ministry of Finance is responsible for as in the following:

• determination of public expenditure for the coming year;

• proposal to road budget beneficiaries, on cutting the expenditure if their requirements exceed the number of resources available to budget;

• providing expertise regarding capital investments of beneficiaries;

• drafting budget documents;

• controlling the implementation of the state budget;

• summary of expenditure planning and analysis of revenue, expenditure, borrowing information, and so on;

• control of all budget (actions) transactions (its borrowing and payment) related to public debt.

Beneficiaries of the national budget are all institutions, ministries, government agencies and companies which are funded from the budget. This group sums up the Assembly, the President, the Government and the Ministry of Finance, which are also the main institutions on drafting the budget. Budget beneficiaries should use their budget resources for the purposes and objectives for which they are created (Ministry of Transport for the construction of roads). Continuous control of the use of budgetary funds is performed through plan, which indicates the programs for which budgetary funds are used.

The budget goes into three phases: The first phase is the budget preparation phase, during which phase budget revenues and expenditures are planned. This phase lasts approximately six months. The second phase is the debate and the approval in the Assembly. Months of debate: November - December. The third phase is the execution of the budget - which includes implementation, supervision and control. Implementation includes the period from January to December and supervision includes the same period, while budget execution control includes the following year.

Significant issues of financing health and insurance health, as well as social and pension insurance

It should be emphasized at the beginning the complexity of the problem of financing of health, social insurance, disability and pension insurance etc. From the aspect of interest to these services we distinguish citizens who seek services, employment service center or institutions as provider of services and the state as a subject which ensures the institutional form of exercising these activities.

The basic system is the main massive and protection system, also most consolidated system of social insurance. As such, it is supported and guaranteed to function properly by respecting and applying some basic principles: 1) Universality, 2) Uniformity (equality), 3) Complexity, 4) Adequacy, 5) Guarantee, and 6) Citizen Participation in Basic Security.

Social insurance compulsorily protects all economically active citizens who reduce or lose revenues as a result of incapability to work, maternity, retirement, disability, and loss of family custody. Of course, nothing in life is free. In one way or another, benefits should be paid.

By law, the state must regulate the problem of institutional organization of these activities, the rights and obligations of institutions or employment service center, as well as the rights and obligations of citizens who seek such public services. By law and legal norms must also be defined state rights and obligations related to health financing, pension and disability insurance etc. Even the Health sector, as well as other areas of social activity, should exercise activity based on the economic laws as well, respectively in the law of supply and demand. It should be mentioned that in modern states, health in principle is not funded by the budget but by health insurance. This does not mean that this manner eliminates state participation. The role of the state in funding health and social insurance is major, especially when it comes to the means allocated for the protection against infections, the minimum subsistence level, the financing of any long-term research program in the field of health, or for funding programs of national interest.

Another part of the tools should be provided by employers, such as the question is, for the forms of disasters at work, etc. The majority of health care means should be provided by citizens themselves in the form of compulsory and voluntary contributions, or in some other forms of participation or humanitarian aid. In practice, must be applied the principle of combined insurance, which implies citizens' assurance in participation, the principle of solidarity and reciprocal dependence applied in contemporary states.

The government plays an important role in providing economic insurance to individuals and families. Social insurance programs are developed first as a response to the need of the society for certain types of insurance that neither the individual itself nor the private insurance companies can provide. Compulsory social insurance relies on the principle "Pay as you go". The social insurance system comprises of: Compulsory social insurance, Voluntary social insurance, Supplementary social insurance and special state Pensions.

Rights and obligations of health and social insurance and etc, should be implemented on the basis of norms of international conventions. International conventions also set the minimum insurance rates and rights for health insurance, pension, disability and child protection insurance etc.

However, this is essentially a long-term issue, since it is difficult to predict the payment of unemployment benefits on the basis of contributions.

Conclusion

According to the analysis of revenues and expenditures flow in the Republic of Kosovo which are presented in this study, in the following we will make some conclusions, which we consider to be of assistance in the further growth and improvement of management of public revenues, as well as the public expenditures, that will have an impact on the country's economic growth.

In the absence of monetary policy instruments, fiscal policy remains the only tool available to the Government of the Republic of Kosovo to promote private sector investment. Therefore, a sound and prudent fiscal policy is required, which is of crucial importance for maintaining macroeconomic stability, especially considering that fiscal policy in Kosovo is the main instrument of economic policy.

The tax system in Kosovo is known as a relatively simple and low tax system. In this context, it will continued with the implementation of this tax simplicity by focusing on the preparation of fiscal policies oriented towards promotion of investments and domestic production and also building up an attractive environment for foreign investment. At the same time, the Government is oriented to maintain macro-fiscal stability by being careful concerning social requirements, public sector wages and expenditures on goods and services.

The adequate tax system and favorable business environment are the most important pillars for the sustainable development of the private sector in the country. In this regard, fiscal policy reforms include VAT escalation, reducing the VAT threshold, VAT exemption of production lines and machinery, VAT exemption, and customs liability on key inputs of sectors with competitive advantage, and functionalization of industrial and technological parks in the framework which it is foreseen the provision of various tax incentives.

General revenues during the medium term in the coming years are planned to be increased at an average annual rate of 3% to 5%. The largest contribution to income growth is from tax revenues, respectively incomes collected domestically, while the increase in total income is foreseen to be stopped from one-off revenues because most of the enterprises are privatized, the Post in the near future is expected to be privatized and in the current situation it seems that there is no good performance of incomes.

Planning is required to be timely and as much as possible accurate on the budget incomes and budget expenditures to be planned with greater precision. Budget expenditure planning should be decreased to the level of detailed planning of the programs, sub-programs and within them as well as project planning. Good timely planning enables a great rationalization of the means, the realization of a larger number of investment projects and consequently greater economic growth. The Medium-Term Expenditure Framework (MTEF), drafted by the Ministry of Finance, should be as accurate as possible in the evaluation of investment projects of spending agencies and updated every year. Orientation of public expenditure on financing capital projects that have rationality and future expectations to return the investment made, it influences the development of the economy. From the participation of the funds for capital projects in the budget, we have growth trends from year to year with the planning of the budget for 2019 to reach the amount of € 810 million which is a much larger amount compared to the previous years.

There is a need to improve the database of macroeconomic indicators, as well as of those fiscal. There are still no sufficient macroeconomic indicators that are estimated to be prepared by the Macroeconomic Department at the Ministry of Finance and the same should be updated in monthly, quarterly, six-monthly, and annual periods and to be published on the Ministry of Finance website.

It should have fiscal facilities in primary agricultural production, processing, storage and marketing of agricultural products as well as incentive and subsidizing incentives and improvement of public infrastructure. It should have also, gradually increase of the fund for subsidies and grants; cooperation with development partners for the development of the agricultural sector. Small and medium-sized enterprises shall also set up a mechanism to eliminate legal barriers and reduce bureaucracy and impose a mechanism to guarantee loans.

Implementation (execution) of the budget in Kosovo needs to be improved. This can be done by improving at least two of the most important activities: a) increase the control on expenditure; and b) increase the efficiency of public expenditure. Therefore, regarding the budget execution, care should focus in particular on: timely allowance of funds; cash planning shall be done in accordance with budget authorizations, taking into consideration the following budget commitments; Effective control of expenditures at each phase of the budget cycle (ex-ante control, intern and exterior control, etc.); adequate budget monitoring at each phase of the expenditure cycle (commitment, verification and payment); strengthening of the internal control system (internal audit) in expenditure agencies.

In the framework of social policies, social welfare, and inter-societal solidarity, the Government is committed on strengthening the market economy and economic development as a key tool for mitigating poverty and unemployment, also by providing cross-social solidarity through economic redistributive economic policies. Social policies shall ensure the financial stability and sustainability of the mandatory contributions scheme.

Bibliography

[1] Bundo, SH., (2011): Teoritë Finaciare, Cikël Leksionesh, Tiranë.
[2] Bundo, SH., (2012): Financë, Tiranë.
[3] Bundo, SH., (2012): Fiskalitete, Tiranë.
[4] Hilmia, S., Angjeli, A., (1994): Financat Publike, Tiranë.
[5] Hogye, M, (2000): Local and Regional Tax Administration in Transition Countries, Budapest.
[6] Kadriu, S., (2002): Financimi Publik me Vështrim të Posaçëm në Kosovë, Prishtinë.
[7] Komoni, S., (2008): Financat Publike, Prishtinë.
[8] Kristo, I., (2004): Biznesi Nderkombetar, botimi i dytë, Tiranë.
[9] Limani, M., (2013): Makroekonomia, Prishtinë.
[10] Mayo, B., H., (2012): Bazat e Financës, Tiranë.
[11] MF, (2015): Korniza Afatmesme e shpenzimeve, Prishtinë.
[12] Mings, T., (1993): Studimi i Ekonomisë, Tiranë.
[13] OECD, (2000): Fiscal design across levels of government year 2000 survey.
[14] RIINVEST, (2002): Report on the Progress of Building Taxation and Tax Policy in Kosovo, Prishtina.
[15] RIINVEST, (2003): Ecuria e ndërtimit të politikës së tatimeve dhe taksave në Kosovë, Prishtinë.
[16] RIINVEST, (2003): Sistemi buxhetor i Kosovës-Politikat dhe qëndrushmëria, Prishtinë.
[17] RIINVEST, (2015): State and Budget, Prishtina.
[18] Rosen, S., H., (2010): Financa Publike, Tiranë.
[19] Sharku, G., Leka, B., Bajrami, E., (2017): Financa, Cikël leksionesh, Tiranë.
[20] Stamp, J., (2009): The Fundamental Principles of Taxation in the Light of Modern Developments.