



USAID/Kosovo Newsletter

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In this Issue:

Financing the Future

Kosovo's budgets - both central and municipal budgets - reflect the priorities set by Kosovars. It's not an easy process, but one that is critical as Kosovo builds for the future. The 2004 central budget is 619 million Euros, a big responsibility for all involved.

This process of budgeting involves more than just officials - it involves and affects all Kosovars. Because of the critical importance of budgeting and taxation, USAID has been involved since 1999 in providing support in fiscal policy development and implementation. Technical assistance to the Ministry of Finance and Economy is continuing, helping the ministry to enhance its ability to function as a central finance entity and to assist in the institutionalization of sound fiscal functions, including improved macroeconomic analysis, budget and tax policy and administration. Assistance is provided in all areas by a group of economists and fiscal specialists, through USAID's partner BearingPoint. This program also supports municipal governments in their ability to manage fiscal responsibilities. ❄

A SPECIAL MESSAGE IN LIGHT OF RECENT EVENTS

The recent outbreak of violence on March 17 is on everyone's minds, and impacts Kosovo, USAID's work, and the business environment in Kosovo. To present some perspective from USAID/Kosovo, Dale Pfeiffer, Mission Director, offers these thoughts:

"Kosovo witnessed something that people thought would never occur again -- one group of people attacked another based on their ethnicity. Despite five years of relative peace and efforts to repair the damage of the 1999 war and meld together a population of various ethnic backgrounds, events converged to spark extensive violence: too many people died, too many were injured, and too many homes, churches and monasteries were burned by angry mobs. The damage was severe in wiping out the efforts of Kosovars and international community partners to give hope for a new future. The people of Kosovo are again traumatized, wondering where the future is for their children.



Dale Pfeiffer

"All are now engaged in trying to recover from this catastrophic situation. Relief for families who had to flee their homes was quickly marshaled. The Provisional Institutions of Self-Government of Kosovo (PISG) have committed themselves to rebuilding burned homes and religious buildings.

"Everyone is doing some soul-searching, looking for the best way forward. The events have galvanized people and organizations to try to do better. USAID, like other organizations, will be engaged in the coming months to find ways to better stimulate economic growth and promote ethnic harmony. It is evident from the reactions to last week's events that these are key areas of concern to all Kosovars." ❄

BUILDING THE 2004 KOSOVO BUDGET

As Kosovo continues the process of transition and its economy grows, citizens will have more opportunities for making choices and decisions about their government - what the government should do, and how much money should be spent on them. However, with those opportunities, especially under a democratic form of government, comes the responsibility for making good choices.

"Kosovo has to be extremely wise in using its budgetary resources," says USAID Mission Director Dale Pfeiffer. "It does not now have the option to utilize soft loans from the international finance institutions and is entirely reliant upon locally generated revenues. It must, therefore, use these revenues with the maximum of efficiency and apply them to most critical needs. This discipline means resisting the temptations which face all governments since they are led by politicians to spend budgetary resources for purposes intended to gain political support from one group or another. Kosovo is doing well thus far in applying such discipline. It needs to continue."

"The wisest choices that people can make are decisions which help to build a strong future for themselves and for their families," says Agim Krasniqi, Director of the General Budget Department of the Ministry of Finance and Economy (MFE).

The 2004 Kosovo General Budget, which was carefully developed over the course of many months during 2003, is a well-developed budget, believes Krasniqi. The budget for 2004:

--Is the first budget that is based on revenues that are generated 100% by Kosovo and not on donated funds.

--Is the largest budget that Kosovo has had since starting the transition process in 1999. This recognizes the growing size of the economy and the Government's increasing ability to meet the needs of the people.

--Was developed according to international standards of transparency, and all PISG ministries, Reserved Power organizations, and municipalities had a chance to request and justify funds,

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Building the Kosovo 2004 Budget

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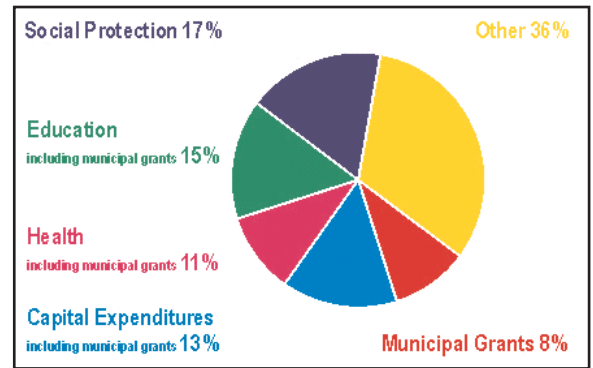
under a standard budget process. Civil society had opportunities to provide their opinions to local and central government.

For 2004, Kosovo expects to take in 619.3 million Euros in revenue. The 2004 budget includes the following major sectors at central and municipal level (increases from the amounts in the budget for 2003 noted):

- Health -- 67.6 million (increase of 13.5%)
- Education -- 92.9 million (increase of 18.5%)
- Social protection -- 104.8 million (increase of 26.9%)
- Infrastructure (capital projects) --123.5 million (increase of 57.7%)
- Other areas -- 230.5 (including an increase of 30.6% for municipal grants)

What the money will be spent on is clear, reports the Ministry. The 2004 budget provides:

- 276.0 million euros for PISG budget organizations
- 154.5 million euros for Reserved Power budget organizations
- 188.8 million euros for Municipalities.



The revenues for the budget will come from customs fees, taxes, non-tax revenues and municipals' own source revenues. A "budget surplus" occurs at the end of the year, when a government has not spent all of the money that it has taken in during the year. This has happened in the last two years in Kosovo, mostly because the PISG is still evolving and learning how to budget and spend efficiently and responsibly.

Ministry of Finance and Economy experts believe that the surplus situation will disappear in the next 2 years, as the needs of the population continue to demand more from the budget, and as the government spends money more efficiently. As a result, the Government seeks to spend the surplus only on emergency needs and on things that will help to create jobs and to strengthen the economy. Interested citizens who want to learn more about the budget can contact their local Municipal officials for more information or the Ministry of Finance and Economy for more information about the 2004 Kosovo Budget. ☼

HOW YOUR MUNICIPAL BUDGET WORKS

In August 2000, UNMIK Regulation 2000/45 was issued, creating 30 local governments or municipalities in Kosovo with responsibility for a wide range of public services including:

- Managing municipal property;
- Urban and rural planning;
- Licensing and regulating building and other economic development activities;
- Protecting the environment, providing public utilities, infrastructure and emergency services; and
- Providing social services, housing, pre-primary, primary and secondary education and primary health services.

By the beginning of 2001, freely elected municipal governments were established in all municipalities, and a Policy and Finance Committee was established in each Assembly. It has the responsibility for proposing the budget and formulating and researching the future strategic direction of the municipality, explains Hasan Isufaj, Director of Municipal Budgets for the Ministry of Finance and Economy. The Municipal Assembly appoints a Board of Directors, comprised of the heads of the municipal departments (eg education, health, budget, finance) and a Chief Executive Officer. This Board implements all decisions of the municipality and, along with its staff comprise the municipal civil service.

The municipal budget is supported by a two-part revenue system for municipalities. This includes a system of intergovernmental transfers (from the central budget) and a system of own-source revenues (such as property taxes and locally assessed fees).

Municipalities are subject to the same budget process as the central budget organizations, explains Isufaj. The two key differences are that their budgets must be approved by the Municipal Assembly before they are submitted to the MFE and the key body that makes recommendations is the Grants Commission (compared with the Budget Commission for the central Government).



Municipalities are subject to the same budget process as the central budget organizations, explains Hasan Isufaj, Director of Municipal Budgets for the Ministry of Finance and Economy.

The Law on Public Financial Management and Accountability (UNMIK Regulation 2003/17, effective 12 May 2003) is the organic budget law that provides the legislative framework for financial management for both the ministries and municipalities in Kosovo. In addition, each year an annual budget regulation is also established to give legal effect to the annual appropriations and to provide the operating framework for the appropriations within that year.

The budget process entails the MFE evaluating the size of the budget pie in the first quarter to determine "budget ceilings" for all the ministries and municipalities. In the second quarter, ministries and municipalities submit their budgets based on these ceilings. During the third quarter, budget hearings are conducted for ministries and municipalities to justify their requests. During the fourth quarter

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THOUGHTS ON THE BUDGET

Agim Krasniqi, Director of the Consolidated Budget Department of the Ministry of Finance and Economy (MFE), is responsible for overseeing many elements of the Kosovo Consolidated Budget, a position he assumed in July 2003.

"The job is challenging - there are so many needs and ideas that must be taken into consideration, but I hope I can make the Kosovo Consolidated Budget one that serves the people of Kosovo, today and in the future," says Krasniqi.



Agim Krasniqi

He brings extensive experience to this job, starting his life in public service in 1993 at the Finance Municipality Council of Pristina, and later working at the Regional Office for Education in Pristina, then the Central Fiscal Authority budget office, and in November 2002, joining the MFE.

"I've seen the Kosovo budget change, growing from 217 million euro in 2002,

to 619 million euros in 2004," Krasniqi says. What is the most difficult task? "It's hard to see the wonderful ideas that exist - but we do not yet have the budget to accomplish all of them," he says. He notes that over 12 meetings were held with NGOs and the public to develop the budget. "This input shows that people are taking responsibility and interest in their government, and that is very positive."

Agim Krasniqi is one of many hard-working members of the Kosovo Provisional Institutions of Self-Government, who strive to improve the lives of all the citizens of Kosovo. ☼

How Your Municipal Budget Works

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ter, the ministries and municipalities recalculate the cost of programs and activities. Having analyzed these requests, the MFE presents its recommendations to the Grants Commission, Economic Fiscal Council, Government and Assembly of Kosovo and to the SRSG. After approval by the Assembly of Kosovo, SRSG gives overall approval. This reflects the two-tier system of Government that exists in Kosovo - that of the Provisional Institutions of Self-Government (PISG) and the Reserved Powers of the SRSG.

In 2004, the central government plans to transfer up to 154.9 million euros to the municipalities which represents over 25% of the total Kosovo General Budget, explains Isufaj. A Property Tax Matching Grant of 6.4 million has also been provided as an incentive for municipalities to establish and expand a property tax system. Municipalities are expected to raise 34 million in own source revenues to supplement this amount.

If you want to know more detailed information about the Kosovo budget, you can find it in the 2003 budget book on www.unmikonline.org. On this site you can also find the 2004 budget (UNMIK Regulation 2003/41) and the other regulations mentioned in this article. ☼

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A MUNICIPALITY'S BUDGET PRIORITY

One example of a successful project funded by the local budget of one municipality is the construction of a dressing facility in the Gjakovë/Djakovica sports stadium. Other municipalities face similar choices when preparing their local budgets and deciding, with input from residents, on their budget priorities.

Gani Rama, the head of finance for the Gjakovë/Djakovica Municipal Assembly, explains how the budget process worked for this project at the sport stadium:

"Being faced on one side with a limited budget compared to increasing needs in all areas, and on the other side with a number of emergency needs to the municipality, we have decided to invest in sports infrastructure, concretely in the city stadium project." Funding for the project came not only from the municipality's budget but also from the Ministry of Culture, Youth and Sports.

He believes the project was worthwhile, as it serves all citizens. "Sport is a mirror for the town -- sport activities cover political reconciliation -- this project is not a matter of one dimension's interest (to one political party or group), but it is of general interest and for all."

Another official of the Municipal Assembly supports the project. Himself a sportsman, Bedri Cahani, Director of Department for Culture, Youth and Sports for Gjakovë/Djakovica, says, "The project is necessary, useful and successful to all citizens regardless of age, living standard, profession, etc. I love youth, I work for youth, and therefore I am planning to accomplish few more projects."

One person who makes use of the sports facility agrees with the value of the project. Fatmir Rraci, 60-years-old, from Gjakovë/Djakovica, says, "There was no place to sit and dress for forty years. This project was needed more than any other and I can tell you that I am very satisfied with this new facility. Now this facility is used by four football clubs, and every match is attended by more than 2000 viewers." He adds his thanks to the municipality and ministry for the addition, and says, "Such projects encourage citizens to pay obligations and taxes to the Municipality." ☼



Gani Rama, in evaluating the project's utility, says that "Sport is a mirror for the town."



(inset photo: new dressing facility)

THE BUSINESS ENVIRONMENT: REVIEWING RISK

The business environment in Kosovo is one critical facet of Kosovo's economy that was affected by recent events. Debra Wahlberg, writing about risk in a weekly business column in Koha Ditore, wrote this from the perspective of Kosovo Business Support, a USAID-supported program implemented by Chemonics International that provides outreach and networking activities to enhance the development of small and medium private enterprises in Kosovo. Here is an excerpt:

"One of the considerations an investor makes in deciding whether to make an investment in a foreign country is the level of political risk. The likelihood of civil unrest is one of these factors. Though political risk insurance may be available, investors do not want to constantly worry that their investment may be in danger. Investors also know that their primary job is to be able

to work, and supply their customers with products.

"Kosovo competes against a number of places in its efforts to attract foreign investment, both within southeast Europe, and the rest of the world. Investors will assess a potential investment in Kosovo against other locations for investment. One of the factors they consider is whether there is stability within the location for investment.

"Disruption and closures of business due to civil unrest, and the impact that this will have on the ability of a business to operate is a strong consideration for foreign investors. Kosovo's economy could certainly benefit from new foreign investment. Civil unrest does not promote foreign investment and the benefits it can offer - it only hurts. The entire economy suffers as a result."

MUNICIPAL BUDGET ALLOCATION 2004 BY MUNICIPALITY

Municipality	Municipal Budget Allocation in Euros	Municipal Financial Director Phone Number	E-Mail Address
Glogovc/Glogovac	4,738,000	038 584 100	
Fushë Kosovë/Kosovo Polje	3,262,000	038 244 205:206	f.krasniqi58@hotmail.com
Lipjan/Lipljan	5,558,000	038 581 061	halitgashi@yahoo.com
Obiliq/Obiliq	2,110,000	038 561 536	
Podujevë/Podujevo	7,999,000	038 570 830	
Prishtinë/Priština	26,230,000	038 244 612	d_amosaj@hotmail.com
Shtime/Štimlje	2,284,000	038 589 009	
Dragash/Dragaš	2,681,000	029 81 005	
Prizren/Prizren	17,587,000	029 44 322	
Rahovec/Orahovac	4,843,000	029 76 943	
Suharekë/Suva Reka	5,750,000	029 71 020	
Malishevë/Mališevo	4,589,000	038 569 003	
Deçan/Deçani	3,633,000	0390 61 229	agron_ecco@yahoo.com
Gjakovë/Djakovica	9,232,000	0390 30 074	
Istog/Istok	3,567,000	039 51 223	osmansa2002@yahoo.com
Klinë/Klina	3,676,000	039 71 119	m_krasniqi57@hotmail.com
Pejë/Peë	9,300,000	039 32 859	
Leposaviq/Leposaviq	1,418,000	028 83 869	
Mitrovicë/Mitrovica	8,662,000	028 32 827	tefik_ujkani@hotmail.com
Skenderaj/Srbica	4,499,000	028 82 136	
Vushtrri/Vuèitri	5,768,000	028 71 018	
Zubin Potok/Zubin Potok	1,192,000	028 460 068	
Zveçan/Zveëan	1,041,000	028 664 728	
Gjilan/Gnjilane	11,730,000	0280 24 219	zijadin_maliqi@hotmail.com
Kaçanik/Kaçanik	3,438,000	038 502 376	fikriu_2003@yahoo.com
Kamenicë/Kamenica	4,195,000	028 71 658	naim_canaj@yahoo.com
Novobërdë/Novo Brdo	637,000	038 504 604 --7760	
Shtërpçë/Štrpce	1,386,000	0290 84 106	
Ferizaj/Uroševac	10,417,000	0290 21 315	
Viti/Vitina	4,360,000	0280 81 723	beqiri_h@hotmail.com

All figures have been rounded to the nearest 1000 euros. Figures exclude 6,370,000 Euros available as a property tax matching grant and 6,700,000 as a municipal capital investment fund.

This money is for the improvement of the life of the people of Kosovo – Contact your municipal government today, and ask them what their plans are for spending this money.

"These budgets represent a critical step forward for all the people of Kosovo. With the monies which are included in these budgets, the PISG and the governments of the Municipalities of Kosovo will be empowered to take significant steps forward to improving the quality of our economy, education, health care, security and infrastructure. This will be a significant step towards meeting the Standards required of Kosovo."

The Provisional Institutions of Self-Government of Kosovo & The Ministry of Finance and Economy