

Fiscal Transparency Management in Theory and Practice: the Case of Kosovo

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Abstract

In the framework of reforms envisaged in the Public Administration Reform (PAR), Kosovo aims to provide a modern Public Finance Management (PFM) system, in line with international standards and best practices. This will enable the efficient and effective functioning of all phases of Public Finance Management. As part of the joint dialogue between the Government of Kosovo and the European Commission (EC), in the meetings of the Special Group for PAR (GVRAP), financial support was provided through Sector Budget Support (SBS) from the funds of the Instrument of the European Union (EU) Pre-Accession Assistance (IPA). Currently, a sectoral budget support agreement for the first two pillars of the PAR is expected to be signed under IPA 2016. While the second sectoral budget support is also expected to be finalized for the PFM sector under IPA 2017. Initially, with Decision no. 105/2015, in September 2015, a Responsible Team (EP) was established for the drafting of the Strategy, in the composition of which were appointed representatives of all relevant actors of Kosovo governmental institutions. The team, with the support and expertise provided by OECD / SIGMA, initially analyzed the relevant assessment documents in the area of PFM like PEFA, SIGMA, TADAT and 2015 Report of the Office of the Auditor General (OAG). Based on the findings, four pillars and 12 strategy priorities have been agreed. Despite the results achieved, this analysis identifies many shortcomings that are needed to be addressed in order to increase fiscal transparency. Transparency should increase, inter alia, through increasing the role of Parliament in the budgetary procedure. In this context, we emphasize the need to increase the role of the Parliament on the basis of the following factors: a) increasing the parliament's ability to access important budget documents; b) increasing the role of parliamentary committees in budget control; c) Increasing parliament's capacity and opportunity for budget research and analysis; and d) enhancing the dynamics of political parties

Keywords: Fiscal Transparency, Indices, Budget Procedures, Parliament.

Introduction

Currently, Western Balkan governments face enormous financial problems due to low employment rates, high levels of undeclared work, low financial discipline and a lack of equity and efficiency in tax matters. Consequently, these governments depend to a certain extent on the support of European and international financial institutions for setting their budgets. This situation is unsustainable in the long run.

The main purpose of this document is to review tax and budget policies in Europe from the point of view of equality, efficiency and sustainability. We will also consider how good governance in tax matters and the fight against tax fraud and tax evasion can help generate domestic revenue. Transparency has been and remains the subject of increased policy attention at national and international levels among such agencies such as the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD), and through NGOs and initiatives such as the International Budget Project that promotes the civil society's ability to analyze and influence the budget process and the her.

The significance of transparency came to the fore, especially in the 90s of the last century, after the difficult shocks experienced by different states and regions, such as the Mexican (1994) and Asian (1997) (L. Philipps, M. Stewart, 'Defining Fiscal Transparency: Transnational Norms, Domestic Laws and the Politics of Budget Accountability', 4 CLPE Research Paper 38 (2008)

These two crises in financial theory are recognized as turning points in the academic and institutional debate over transparency, raising concerns about possible negative impacts in the absence of transparency in general and fiscal transparency in particular.

According to the IMF, the lack of transparency was the main cause of the 1994-95 Mexican crisis and the new market crises of 1997-98 in Asia and Russia. (IMF, 'Increased Openness, Transparency is Key to Preventing Financial Crisis', in IMF, Survey Supplement Vol. 30 (2001)

In their view, inadequate economic data, hidden weaknesses in financial systems, and lack of clarity about government policies contributed to the loss of confidence, and this ultimately jeopardized the undermining of global stability.

Since the term transparency has a multi-dimensional application in politics, public finances, bureaucracy, etc., we mainly refer to fiscal / budget transparency and consequently some of its implications in a broader perspective.

International institutions are increasingly diverting their interest in advancing the relationship between good governance and increasing transparency to achieve the best economic and social results. In this regard, the IMF paved the way for the drafting of the Fiscal Transparency Good Practices Code of Practice - the Declaration of Principles - at its 50th meeting in Washington DC on April 16, 1998. (IMF (1998) Codes of Good Practices on Fiscal Transparency)

Meanwhile, other international institutions began promoting transparent policies among their member countries. Examples are the OECD with 'Best Practices for Budget Transparency' (OECD (2001) OECD Best Practices for Budget Transparency) compiled in 2001. Fiscal transparency has been advised by these institutions in many countries, including transition economies as a prerequisite for fiscal sustainability and good governance.

From empirical economic literature we learn that countries with low fiscal transparency tend to experience low levels of foreign direct investment (FDI), higher levels of corruption, slow growth rates and consequently lower levels of Gross Domestic Product (GDP) per capita.

Despite the transparency that has taken in the last decade, empirical studies on its importance are still very limited. Financial scientists and various international institutions have focused recent studies on the positive effects of fiscal transparency - such as improved access to international capital markets, attracting foreign direct investment, preventing financial crises and lowering rate differentials of interest

In contemporary budget theory and practice, budget transparency, ie budget procedure (the principle of budget publicity) is being given more and more importance. This is manifested by sanctioning the obligation of transparency throughout the budget procedure. Budget transparency makes it possible for taxpayers and all citizens to get acquainted with the type and size of budget entries and the purpose of their spending, respectively the financial activity of the state. The principle of transparency of budgetary procedure enables citizens to control all institutions participating in the budget process: parliament, government, bodies

administrative, budgetary control bodies etc, in all phases of the budget cycle, both for drafting and approving the budget, as well as for controlling its realization and for approving the final account.

The principle of transparency of the budgetary procedure when respected allows "academic researchers, non-governmental organizations and various groups to provide independent analysis of budget priorities." (ED Lazere, Improving the Transparency of the DC Budget (Fiscal Policy Institute 2002)

Budget transparency is necessary at all stages of budget procedure, both for the compilation phase, approval, execution, control as well as for the final account stage.

Transparency of the budget procedure is of vital importance, especially for transition societies, such as the case of Kosovo. Many states (Especially the SEE countries that are still in the transition process are: Albania, Macedonia, Montenegro, Serbia and Kosovo)

In their budget practices they do not meet the transparency standards of the budget procedure. In these states: executive bodies dominate throughout the budget procedure; Legislative bodies have limited powers in the budget debate as well as on recommendations through amendments; the availability of information on effective budget execution evaluation is limited; as well as the public has very little access to the budget procedure.

This paper is structured as follows: in the first part we have analyzed the meaning of fiscal transparency in budget theory. In this context we have analyzed the approaches to the definitions given on the concept of fiscal transparency. In the second part, we have examined the relevant literature on fiscal transparency. In this framework, apart from the literature, we have analyzed the measures and legal norms that directly or indirectly promote fiscal transparency. In the third part, we analyzed the impact of legal-political changes on public finance management, transparency and fiscal accountability in Kosovo after 1999. In the fourth section, we analyzed the role of parliaments in budgetary procedures as a powerful factor in developing fiscal transparency and the case of post-war Kosovo. An open, detailed and transparent parliamentary scrutiny is indirectly conditional on: a) the parliament's ability to access important budget documents; b) the role of parliamentary committees in budget control; c) Parliament's capacity and capabilities for budget research and analysis; and d) dynamics of political parties.

Accordingly, we have analyzed the role of the Kosovo Parliament vis-à-vis the budget procedure on the basis of the influence of the above four factors in order to point out the specifics of the role of the Kosovo Parliament in the budgetary procedure. As supporting criteria for assessing the role of the Parliament of Kosovo in the budgetary procedure, we have taken comparative analysis of the other authors⁷ made in other countries. We have also supported the research on secondary sources, analyzing all the legal documents on which the budget procedure is based and the reports of the Ministry of Economy and Finance. In the end we have presented the conclusions.

1. Understanding Fiscal Transparency

Sufficient tax revenue is needed to guarantee democracy, public order and the functioning of the legal system.

Modern taxation should be more than just a source of income for the functioning of the state: tax should also ensure that public authorities actively contribute to pursuing the goals of economic, social and environmental policies.

An adequate road network, an efficient public transport system, a modern healthcare service and hospitalization, an appropriate system of education policies, environmental protection and active employment, as well as vocational training, require injecting large amounts of public finance.

Also, tax is the important springboard for a redistribution of income to citizens. Ensuring solidarity and social cohesion in society requires great social transfers and tax needs to play an important role as well.

Further, taxation is an instrument for influencing people's behavior, for example in the environmental field or in relation to active aging (rewards at work).

Tax Principles

Tax policies must meet a number of important criteria.

First and foremost, taxes must be subject to agreement / deal with social partners at all levels, including at European level. In particular, in view of the heavy tax burden they face, workers want to have their say in determining tax policy.

Secondly, taxes should be properly conceived in order to guarantee tax equality. Currently, labor income is taxed much more in comparison to consumption and capital income.

Moreover, remunerated work is taxed more than self-employment as a result, in particular of a considerable freedom of action enjoyed by self-employed and members of professions in determining their taxable income.

Third, closely related to the issue of tax equality is the issue of tax efficiency. It is not enough for the tax system to be projected equally: it must also operate effectively and taxation should be guaranteed by procedures that work realistically.

Fourthly, the tax should be functional, that is, tax measures should be conceived in such a way as to lead to the achievement of the intended goals.

Fifthly, the tax system should be simple and transparent, easy to administer, allowing tax authorities to focus their efforts on the verification and control work. Transparency should be such as to enable taxpayers to understand logic and system mechanisms.

Sixthly, the tax system must be consistent with other policies implemented.

Seventh, tax should respect the principles of specificity and subsidiarity, that is to say, each of the different levels of government should be given its powers to impose taxes in accordance with their responsibilities and the nature of the problems. Taxes directly or indirectly affected by the conduct of other Member States shall be subject to the basic rules accepted at European and international level. Examples of these types of taxes are, for example, corporate taxes and income taxes from

Different perspectives have provided different definitions of transparency in general and fiscal transparency in particular.

At the beginning of the review of the relevant literature we begin with the definition of transparency in general by Drabek and Payne. They describe transparency as 'referring to the clarity and effectiveness of activities influencing public policy, while fiscal transparency as regards the policy goals of opening, formulating and implementing'. A more specific definition of transparency may arise if the definition is given in its relation to fiscal and budget policies. From this dimension Kopits and Craig described it as:

[H]eather to the general public about the structure and functions of government, fiscal policy goals, public sector accounts, and projections. It involves direct, credible, comprehensive, timely, comprehensible, and internationally comparable government activities [...] so that financial markets and the electorate can accurately estimate the government's financial position and the true cost of the activities and benefits of the government, including their present and future economic and social implications (Kopits, J. Craig, 'Transparency in Government Operations', 158 IMF Occasional Paper (1998)

Such a definition given by Kopits and Craig on fiscal transparency corresponds to the IMF Code of Fiscal Transparency (1999, 2007 revised). The IMF defines fiscal transparency as a public openness to the government's past, current and future fiscal activities, and about the structure and functions of the Government that determine fiscal policies and outcomes. The Code extends this definition into four fiscal areas: (1) clarity of roles and responsibilities; (2) open budget processes; (3) the availability of information to the public, and (4) the guarantee regarding the integrity of the information, including the requirement that fiscal information should be reviewed from the outside. In addition to the IMF, in agreement with Kopits and Craig is also Alta Folscher who, on the basis of preliminary studies, sees not only as a public opening but as a timely, accurate and relevant opening of information on the actions, rules, plans and processes.

In this context, the OECD defines budgetary transparency as 'complete disclosure of all information

Best Practices in Fiscal Transparency (2001) describes closer fiscal transparency. Transparency is described as related to opening policy, goals, formulation and implementation, extending this characteristic to (1) necessary reports in the budget process and their overall content, (2) providing specific disclosures in reports and (3) applying the necessary practices to ensure the integrity and quality of information in reports. In short, the OECD focuses on information that should be available to the public, timelines and quality standards.

Another specific definition of transparent budget reporting procedures was provided by Poterba and von Hagen

A transparent budget process is one that provides clear information in all aspects of fiscal policy. Budgets involving multiple accounts as separate and failing to consolidate all massive 'bottom line' fiscal activity are not transparent. Budgets that are readily available to public participants and the decision-making policy process in view of the current consolidated information are transparent.

While Lassen and Alt consider that "fiscal transparency enables voters, interest groups, and competitive political parties to better observe or conclude the causes and consequences of government fiscal policy either directly or through the media" (JE Alt, DD Lassen, 'Fiscal Transparency, Political Parties and Debt in OECD Countries' 50 European Economic Review (2006) 531.)

The Importance of Good Public Governance in Tax and Budgetary Matters

Successful design and implementation of a sustainable tax system requires stable and consolidated practices of public budget governance.

According to Alex Matheson (OECD) 1 good governance refers first and foremost to the frameworks within which public policies are set and executed, not public policies in themselves.

Effective public governance must offer

- coherence between the various policy objectives;
- an environment in which people are treated with justice and equality.

Good public governance in the field of public budgeting and financial management requires:

- a) fiscal transparency, implying an open fiscal process (for example, information on de-budgeting expenditures or mandates given to subgovernment governments) and information on the economic factors used for budget creation (often governments use calculations quite optimistic about economic development);
- b) responsibility, implying independent expenditure control, financial management and compliance with procedures (eg public procurement), in order to avoid abuse of power by individuals or groups; c) accountability, implying capacity to respond flexibly to unforeseen national or international changes (for example lower than expected economic growth);
- d) Future-oriented, implying taking full account of future costs (public debt, aging population) and recognizing the future fiscal implications of current policies (eg in the field of public employment) and behavior (eg degradation environmental protection) with a view to avoiding heavy burdens on future generations.

Good governance in the area of budget and tax policy - both at the political, institutional and bureaucratic level - can only function if there is a culture of behavior support in line with public-oriented rules.

Achieving this culture requires a long, continuous and gradual process of change in attitudes and values. In the absence of such a culture there will be no confidence in governments and it will be difficult to persuade citizens to pay the required fees.

2. Review of Relevant Literature

Based on many scientific articles, the concept of fiscal transparency in the last decade is gaining so much importance within the budget structure that has become an indicator of the quality of institutions and the credibility of states. Theoretical literature on the implications of fiscal transparency is not great, but is expanding rapidly.

Different financial authors have dealt with fiscal transparency in different dimensions. Some authors have studied the relationship between fiscal transparency and fiscal performance and / or other macroeconomic indicators, providing more explanation and theory

different than a unique and common response. (Erbash (2004) (S.N. Erbas, 'Ambiguity, Transparency and Institutional Strength', IMF Working Paper, No. WP / 04/115 (2004).

He has analyzed the relationship between the transparency and the level of investment a country can attract. It shows that return on investment is higher in the most transparent countries and that the uncertainty of possible outcomes is diminished. Therefore, these countries attract more capital investment than less transparent countries. Hamed (F. Hameed, 'Fiscal Transparency and Economic Outcomes', IMF Working Paper, WP / 05/225 (2005)

In its 2005 study, it states that countries with a high fiscal transparency index are characterized by the best fiscal discipline. Gleich (2003) 16 shows that budgetary procedures that reduced budget problems in eastern european countries have resulted in increased fiscal discipline in these countries. Milesi-Ferreti (2004) 17 studies the interaction between fiscal transparency and fiscal rules, focusing on the effects of the Maastricht Treaty in EU member states. Andreula, Chong and Guillén (2009) 18 have analyzed the interaction between fiscal transparency and institutional quality to conclude that good governance and institutional quality are constrained by fiscal transparency and vice versa. These three authors draw this conclusion on the basis of the analysis of the fiscal transparency indicators set out in the IMF Code on Good Practices of Fiscal Transparency as well as on the IMF's Report on Standards and Coherence Observations (ROSCs) of the year 2007. Haque and Neanidis (2009) have analyzed the impact of fiscal transparency on corruption to conclude that fiscal transparency has a negative impact on corruption. Their conclusions from this study reinforce rumors of the impact of fiscal transparency on curbing corruption.

IMF19, the World Bank and the OECD have developed comprehensive questionnaires and diagnostic tools to review fiscal transparency and budget practices and procedures. Fiscal transparency has become an integral part of public sector design so the IMF and the OECD have recently developed practice codes / indicators to guide countries to decision-making

processes on fiscal policy. Jarmuzek (2006) addresses the role of transparent fiscal policy in creating a better fiscal discipline in transition countries. The main question raised in the paper is therefore whether fiscal transparency has been an important element in creating a prudent fiscal policy in transition economies. This is the first analysis that refers to fiscal transparency in transition countries.

The results of this analysis suggest that fiscal transparency has not yet proved to be a very important factor for the formation of fiscal performance in transition economies. In fact, evidence from the records shows a weak negative relationship between fiscal transparency and debt accumulation. Fabrizio and Mody (2006) 21 follow Gleich (2003) but conclude that budget institutions are important even when politicians are representative but not disciplined, and even when long-term structural forces are not good

A. Empirical Research and Indexes on Fiscal Transparency

Empirical research on fiscal transparency is limited but also growing. In this framework, various indexes have been compiled to measure the different dimensions of fiscal transparency. Thus, Von Hagen²² has compiled a transparency index for eight European countries, while Hameed²³ has developed an index of fiscal transparency based on the IMF's Standards and Codes (ROSC) fiscal reports for a wide range of countries. This index is, however, the outcome of the assessment at different time periods published as ROSCs. Jarmuzek²⁴ has compiled an index for transition economies based on an independent assessment, also using local public resources. Alt and Lassen²⁵ was based on the Best OECD Budget Transparency Practices to build an index for the 19 OECD economies. Alt, Lassen and Skilling²⁶, produced a fiscal transparency index for US member states, empirically expressing the impact of government-wide transparency. This methodology was followed by Alt and Lassen²⁷, which provide a transparency index for the OECD countries-the review of fiscal relations. Undoubtedly, the leader of the development of reporting standards are the IMF and the OECD. In this framework, the IMF Code of Best Practices on Fiscal Transparency and the Fiscal Transparency Manual and the Best Practices for Budget Transparency developed by the OECD should be outlined. Country compliance with the IMF Code for Fiscal Transparency is done through Standards and Codes Observation Reports (ROSCs).

Empirical analysis of transition economies does not provide any strong statistical evidence on the importance of fiscal transparency. This may be a result of a lack of consensus among politicians to curb fiscal policies and / or there are no incentives for politicians to conceal fiscal nonsense. The other reason why fiscal transparency is not statistically important may be the result of difficulties in measuring fiscal transparency and relatively short space in time of rapid structural changes that have occurred in these countries. In Kosovo, no empirical studies have been conducted exclusively on fiscal transparency.

B. Theoretical and Empirical Research in Kosovo on Transparency in General and Fiscal Transparency in Particular

Even in the case of Kosovo, studies and theoretical analysis of transparency are generally few, but growing. While transparency in general has been the subject of scrutiny and analysis, only fiscal transparency lacks theoretical and empirical analysis. Fiscal transparency is addressed segmentally and indirectly by authors and institutions, which will be addressed in the following.

Tavakoli and Saneja²⁸ in their interesting study try to answer the questions: Firstly, how were the operations of Public Finance Management (PFM) in Kosovo affected by the challenges that were the result of the fragility of the state of Kosovo; and secondly, has the design and implementation of PFM reforms impacted on building a sustainable system of public finance management and state and peace building in Kosovo. After the analysis they come to the conclusion that 'full implementation of PFM systems remains a key challenge, especially with regard to activities that need (as!) Greater political involvement. Examples of these are: budget formulation and Medium Term Expenditure Framework (MTEF), Public Investment Program (PIP) and parliamentary scrutiny and oversight.²⁹ According to them, the main factors that hinder the establishment of a sustainable PFM system are: 'first, the low administrative capacity in the government, and secondly, the lack of political will to fully and consistently implement laws, administrative procedures and formal processes'.

PEFA - Public Expenditure Estimation and Financial Accountability is the first report based on a World Bank index in 2007.³¹ Given its importance and implementing that methodology, the Government of Kosovo established the Steering Committee and the Secretariat PEFA, within the MEF, to do so.

PFM report. The purpose of the Report is to provide a structured assessment of Kosovo PFM systems. This Report will serve and assist the MEF, the Office of the Prime Minister, the Assembly and the donor community in the preparation and implementation of the PFM strategy as an integral part of Kosovo's medium and long term development activities and the preparation of the MTEF, it. Moreover, this Report serves as the main source of input information for the preparation and implementation of the Public Finance Management Program and reforms in this sector.

The second report³² for PFM evaluation was published in 2009 and addresses the status of PFM systems and processes in Kosovo by March 2009. This publication is made in accordance with the PEFA methodology and is a work of the Working Group Government, led by the Ministry of Finance, published in May 2009. In the PFM report of 2009, comparison was made with the 2007 PEFA. In conclusion, out of the 31 identified indicators, 13 of them improved, while 7 of them were rated with weaker grades. Improvements in the assessment are the result of small managerial and administrative improvements. The most noticeable changes were those in the developments in the budget execution system through the Financial Management System, the Accounting Plan and the Treasury Single Account. Also, there were improvements in internal and external audit and control. On the other hand, the reduction of grades has been more pronounced in the preparation of the budget, where budget projections have not been consistent with those applied in practice, especially the timelines foreseen for project implementation, priority deviation, and dissemination of information. Decrease in grades has also occurred in the area of tax administration. The PFM report, as noted earlier, will be included in the Government Action Plan. However, this Report does not contain the measures and actions to be taken to eliminate the deficiencies. So, the report elaborates in detail the indicators and the grades with which these indicators are evaluated, but without explaining the concrete steps for improvement.

In 2011, the third report³³ for PFM evaluation was published on the basis of an index at municipal level for October 2010.

The FOL Movement in July 2010 published the report that for the subject of the research had been assessed on the basis of a questionnaire / index of 'functioning of the internal structures of public institutions and enterprises that are responsible for public communication and information issues, which a wide range of issues pertaining to communication and public information has been touched.³⁴

Analyzing theoretical and empirical approaches to fiscal transparency in Kosovo, it has been noticed that so far no studies and analyzes have been carried out focusing exclusively on fiscal transparency. They had the object of analyzing PFM and institutional transparency in general vis-à-vis the legal framework, and that fiscal transparency was addressed segmentally rather than as a blank theme. Therefore, this study is the first of its kind to be done in Kosovo and aims to analyze fiscal transparency by touching theoretically the indicators that contemporary financial theory has identified as decisive for the level of fiscal transparency in a count

3. Influence of Legal-Political Changes in Public Finance Management, Transparency and

Fiscal Accountability in Kosovo after the Year of 1999

Public funding in Kosovo during the development has followed the socio-political and legal-economic changes of Kosovo (initially as part of the federal system and later under the administration of the United Nations Mission in Kosovo (UNMIK). development has gone through four phases.³⁵ The first phase covered a long period of time, including the years from 1945 until the dissolution of the former Yugoslavia in the 1990s. The second phase included the period from the 1990s to the deployment of UNMIK in 1999. The third phase extends from 1999 until the declaration of independence on 17 February 2008.

The fourth phase begins with the declaration of independence and extends so far.

Within this section, the third and fourth phase of the development of public funding has been analyzed, focusing on fiscal transparency vis-à-vis legal-political changes in Kosovo in the respective periods as well as their impact on transparency and accountability. This stage coincides with the process of reforming budget systems in the context of socio-economic transition as a whole since the 1990s has involved the Balkan states.

Compared to other transition countries, ³⁶ in transition Kosovo began in very different circumstances. The transition process, which in the early 1990s involved many Southeast European states, found Kosovo initially in the position of the undeclared war that erupted in 1998 and ended with the Kumanovo Agreement of 10 June 1999.

On 10 June 1999, the Security Council adopted Resolution 1244, which established the United Nations Interim Administration Mission in Kosovo (UNMIK) 37, effectively suspending the sovereignty of the Federal Republic of Yugoslavia in Kosovo. Until the resolution of the final status of Kosovo, Resolution 1244 provided UNMIK with legislative, judicial and executive powers.³⁸ Accordingly, UNMIK established a legal system based on existing Kosovo and Yugoslav laws before 28 March 1989, existing Yugoslav laws non-discriminatory acts adopted after 1989, the UNMIK Regulations and the International Conventions on Human Rights.

Talks between UNMIK and Kosovo's political representatives in 2001 resulted in the adoption of the Constitutional Framework for Provisional Institutions of Self-Government (PISG) by creating a dual system of governance with joint executive and legislative powers between UNMIK and the PISG. The budget organizations of the PISG were managed by the Government of Kosovo and included: the Assembly, the Prime Minister's Office and the President, and the Ministries of Economy and Finance, Public Services, Agriculture, Trade and Industry, Transport and Communications, Health, Culture, Education, Labor and Social Welfare, Environment and Spatial Planning, Communities and Returns, Local Government, Energy and Mining, Interior, Justice, and some small organizations such as the Independent Procurement Commission and the Public Procurement Agency. "Reserved power organizations" were managed by UNMIK and included: Customs, Auditor General, Kosovo Protection Corps, Police Service, Courts System, Kosovo Trust Agency (including POEs and SOEs), People's Advocate, and a variety of small organizations.

So even after the promulgation of the Constitutional Framework, the SRSG remained with many powers passing the president's presidency in any presidential state. The SRSG's authorizations were very extensive, with particular emphasis on the SRSG's right to use the absolute right to veto the laws adopted by the Assembly of Kosovo and other self-government institutions, the right to discharge the Assembly of Kosovo, the ultimate authority of the SRSG to approve or not the Kosovo budget, etc. Such configuration of dualistic / hybrid power and frequent legal-political and socio-economic changes have directly affected the impossibility of creating a transparent and sustainable budget system. This was not only because the SRSG held responsibility for decisive executive functions, but also because the separation of power between UNMIK and the PISG was complex and fluid, characterized by overlapping and unclear mix of functions and responsibilities. Such an unclear governance structure weakened the development of transparency and budget accountability and is one of the reasons why the international community still has considerable influence on Kosovo's development.⁴⁰ Moreover, UNMIK's establishment of budget policy in Kosovo, has been done in very specific conditions compared to other countries. This was due to the fact that the budget policy was applied in the absence of the economic development strategy and in the absence of the definition and formulation of a consistent long-term budgetary policy. This lack was as a result of the non-determination of Kosovo's political status and UNMIK's sui generis administration model, which applied fiscal policy solely to the performance of fiscal goals.

Governance through the two powers continued until Kosovo's declaration of independence on February 17, 2008, when most of the central budget organizations were placed under the authority of the only Kosovo government. With the declaration of independence and the adoption of the Constitution on 8 April 2008, de jure created the legal and political prerequisites and legal framework for the Government and Assembly of Kosovo for better management of public finances and as a consequence the increase of transparency in general and transparency fiscal in particular. Despite many weaknesses that characterize the management of public finances in Kosovo, a number of reforms have been undertaken since 1999, whose performance by some authors is considered comparable with the countries of the region.⁴¹ From the size of sanctioning fiscal transparency through the legal framework and institutional measures Kosovo has made encouraging steps. The applicable legal framework includes legislation

framework and implementation - sub-legal acts, which establish and regulate the functioning of internal institutional / organizational structures and capacities

implementative for communication and public information. The basis of this legal framework is the relevant provisions of the Constitution of the Republic of Kosovo and the Law on Access to Official Documents. The Constitution of the Republic of Kosovo, in Article 41, provides that '[a] person has the right of access to official documents'. Further, it stipulates that '[t] ooms held by public institutions and state power bodies are public, except for information that is restricted by law due to privacy, commercial business secrets or security classification'.⁴² Apart from the Constitution, The Law on Access to Official Documents stipulates that its implementation aims to "enable citizens to participate more closely in the decision-making process of public institutions and to ensure that public institutions enjoy greater legitimacy and transparency, be more efficient and give more account to the citizens'

Through the reforms developed regarding the technical assistance and financial support of the IMF, World Bank, and bilateral donors, the Government of Kosovo has implemented a legal framework for fiscal transparency and accountability. The Law on Access to Official Documents (2003/12) regulates the public disclosure of revenues and expenditures of the Kosovo Consolidated Budget (KCB). Once the KCB has been approved by the Assembly, the budget becomes law and is published in the form of a book (available on request) at the Ministry of Finance and its website. Kosovo is committed to the implementation of fiscal transparency and accountability, and the laws and regulations regulating fiscal procedures are sufficient and fully implemented.

The legal framework for public finance management is regulated by the Law on Public Financial Management and Accountability (LPFMA) 44, which was amended in 2008 with the same name as the Law on Local Government Finance.⁴⁵ While the LPFMA provides the general management of public finances through laws, regulations and annual budget law, regulate specific legal-financial relations. LPFMA is supported by sub-legal acts in the form of financial rules.

For the public funding of each country, three documents are important: the long-term economic development strategy, the medium-term expenditure framework and the budget as a revenue and expenditure plan. Any effective government should work in a framework that extends to a future perspective, where all priorities on long-term and mid-term policies are defined, and where revenues and expenditures are allocated on the basis of policies and priorities to ensure a future better for the citizens. Despite several different efforts, Kosovo does not yet have a long-term economic development strategy and this is an obstacle to long-term and mid-term budgetary planning. Some efforts to create long-term economic development strategy have been made; a draft document has been created but has not yet been approved by the government, and it serves only as an information document. Thus, lack of long-term orientation is a fundamental weakness of public finance management in Kosovo. The Law on Public Financial Management and Accountability each year has foreseen a three-year budget perspective. The first effort to apply the Mid-Term Expenditure Framework (MTEF) was presented at the donors' conference in December 2005 and revised in 2006. This process was known by the government as "ongoing" and was not included in the budget formulation process by 2009. In the absence of this, the mid-term budget plan is included in the MTEF and the Public Investment Program (PIP). So even though Kosovo has been in the process of developing a long-term approach for years, the MTEF was introduced for the first time in the budget formulation process for 2009 and covered the period 2009-11.

A parallel process with the MTEF is the development of the Public Investment Program (PIP), which has been ongoing for years. PIP is a multi-year budgeting plan focused on identifying needs and finding funds for capital items that can attract investment and help build the economy or reduce unemployment or help in some other way to reach the main goals of the country.

MTEF is the driving force of reform in budget management and spending policies. MTEF application to date has been poor in content.⁴⁶ The MTEF is expected to be strengthened with the establishment of the Strategic Planning Unit in 2010, coordinating with the Prime Minister's Office and working together with the Budget and Finance Commission. The Office of the Auditor General (OAG) was established by UNMIK Regulation No. 2002/8, which sets forth the authorizations, responsibilities and general standards for public sector auditing. Under the new law. 03 / L-075 of 15 June 2008, the OAG has received more power and reports directly to the Kosovo Assembly.

In 2000, the Department of Internal Audit (DAB) was established in the Ministry of Finance. His task is internal auditing in Budget Organizations (BOs). LMFPP is the basis

internal audit legal. Regarding internal audit, LPFMA is heavily based on International Standards and Professional Practices on Internal Audit (SPPNAB).

4. The Role of Parliaments in Budget Procedures as a Powerful Development Indicator

Fiscal Transparency - The Case of Kosovo.

Since the day when the Ministry of Finance takes the initiative to draft the budget up to the final account stage many state institutions and bodies will undertake a series of legal-procedural actions. Expressed in a word all these actions are called budget procedures.

In the demoralizing countries, the rule is that 'elected parliaments, ie elected representatives have the power over money'.⁴⁷ However, the role of parliaments in the budgetary procedure throughout the world is not the same, but varies from one

country to another. The parliamentary role in the budget and budget procedure is directly related to the constitutional regulation of the relations between the legislative and executive bodies, the capacity of political parties and the technical capacities of parliaments to deal with budget issues. Usually, the right of legislative bodies to bring amendments to the draft budget, ie the right to influence parliament in the budget procedure is provided by the constitutions of several states, but this right can also be foreseen by conventions, ordinary legislation or is foreseen with parliamentary regulations. Depending on the influence of parliaments in the budgetary procedure, all parliaments in the world can be categorized into three groups: 48

Parliaments who make the budget (budget making legislatures). These parliaments have the ability, opportunities and capacities of changing and rejecting the government's draft budget as well as the ability to draft a supplementary draft budget according to personal choice. This group includes the parliaments of these states: USA, Czech Republic, Denmark, Hungary and Finland. Parliaments which to a certain extent affect the budget (budget influencing legislatures). These have the ability and the capacity to change or reject the approval of the government budget draft but lack the ability to draft the additional draft budget according to their own choice. This group includes the parliaments of these states: Austria, Germany, Iceland, Ireland, Italy, Korea, Mexico, France, Norway, Holland, Poland, Portugal, Spain, Sweden, Zicvra, Turkey.

Parliaments with little or no impact on the budget (legislative with little or no budgetary effect). These parliaments lack the capacity to change or reject the government's draft budget and lack the ability to draft a supplementary draft budget according to their own solution. The power of these parliaments is limited only to the approval of the government budget. This group includes, above all, Westminster-type parliaments, where the introduction of amendments to the draft budget is implicated as a mistrust of executive power by speeding up the government's resignation. This group includes the parliaments of these states: Australia, Canada, New Zealand, England and the two non-Westminster-type countries - Japan and Greece.

Thus, from the OECD survey, 63% of parliaments (17 out of 27) have only little influence on the budget procedure and budget policy. In this group as seen above enter the parliaments of the Nordic countries, most of the European countries and Korea.

The growth of the role of parliament and the development of parliamentarism in developing and transition countries has been growing and the budget and budget procedures have also been developed. The increase in the role of the parliaments in these states is a result of democracy and constitutional changes in these countries - processes that enabled the role of parliament to grow in their earlier political systems. One important factor that has contributed to increasing the role of parliament in the budgetary procedure, namely to increase budget transparency in these countries is the need of developing and transition countries to access international financial institutions in order to reduce poverty (PRSPs - Poverty Reduction Strategy Papers). Getting financial assistance from these international financial institutions is subject to certain obligations for developing and transition countries, of which the most important is the conduct of a qualitative and transparent budget procedure.

A. Format of Parliament Impact on Budget Transparency

Budgetary practice of countries at different stages has shown that the greater the impact of parliament on budgetary procedure, the greater the budgetary transparency. The development of budgetary procedure only on the line of executive bodies negatively affects many directions but above all makes the budget not transparent. In countries with transparency⁴⁹, the readiness and the desire of citizens to carry fiscal obligations is great, while in states without budgetary transparency the state is very difficult to gain citizens' confidence in reform and as a result there is fiscal evasion. Although from a juridical and constitutional point of view, the Parliament of Kosovo has unlimited right to make changes to the budget, de facto, the Parliament has a passive role in the budget and budget procedure. Given the new system of governance and authorizations provided by the Constitution, Parliament has the right to change the draft budget submitted by the Government, while the level of these amendments depends on the development and strengthening of the role of the Parliament and the Budget and Finance Committee in the segments presented below - which in the case of Kosovo are weak. Thus, the open, detailed and transparent scrutiny of the Kosovo Parliament is conditional on: a) the parliament's ability to have access to important budget documents; b) the role of parliamentary committees in budget control; c) Parliament's capacity and capabilities for budget research and analysis; d) dynamics of political parties.

B. Parliament's ability to have access to important budget documents

The conduct of parliamentary decisions should be based on accurate and inclusive information which should be provided by the executive and audit institutions. In this case the main role is the amount of supporting documentation that follows the draft budget in parliament. In many countries the budget contains a statement that briefly explains the tax and spending policy measures. Often the only source of additional information is just the introductory word on the budget. This, however, makes it difficult for parliament members to understand the budgetary policy on which the budget is based. Inclusive budget information is another concern that concerns contemporary parliaments. In developing countries, all the aids with which the costs are financed should be included in the budget.

In addition, budget information is often not clearly and comprehensively presented. Contemporary parliaments also pay close attention to information about the expenditure flow provided by the revision institutions.

The OECD has developed the so-called Best Practices for Budget Transparency⁵⁰ that deal with issues of budget information completeness, publication of specific budget requirements, and the integrity and responsibility of key budget institutions. The OECD recommends the preparation of these budget documents and their publication in order to meet the best transparency budget practices:

Comprehensive Budget: Includes all state revenues and expenditures by providing data on current state and medium-term projects.

Preliminary budget reporting: Indicates the long-term fiscal and economic policy objectives as well as medium and long-term fiscal and economic projections.

Monthly Reporting: Indicates progress in budget execution including explanations of the differences between the current and foreseen budget amount.

Semiannual Reporting: Provides comprehensive, accurate budget execution information, including mid-term budget execution projections.

Annual Report: Should revise the audit institution and publish it within six months from the end of the fiscal year.

Pre-election reporting: shows the state of the overall public finances before the elections.

Long-term reporting: contains estimates on the sustainability of government measures in the long run.

Reviewing and taking parliamentary decisions on the budget in Kosovo is made on the basis of documentation and budget information that are far from the standards set by the OECD for accurate and complete information provided by the executive branch on the LPFMA. The amount of additional documentation on the draft budget in Parliament is extremely formal and not harmonized and with insufficient knowledge of budget issues by most members of the Parliament. The number and format of the presentation to Parliament by the executive body are regulated by the LPFMA (Articles 45 and 46 of Law 2003/2).

According to this law, the Ministry of Finance (MoF) is responsible for preparing quarterly reports reviewed by the Government. These reports will be submitted to the Assembly within thirty days after each quarter. The final budget report shall be prepared no later than 31 March of each calendar year. MF will complete and submit to the Government for approval and

further presentation to the Assembly of a final summary report on the previous fiscal year and the other two previous fiscal years. This report includes income and expenditure statements, and presents comparative data for the years presented for reconsideration of real incomes and expenditures. Report Type Reporting Period Reporting Periods in Government and Assembly Report of the Auditor General
3 Monthly Reports 1 January - 31 March 1 April - 30 April
Monthly reports 1 January - 31 June 1 July - 30 July
9 Monthly Reports 1 January - 31 September 1 October - 30 October
Annual Report 1 January - 31 December 1 January - 31 March No later than 31 July (for the previous fiscal year)

5. Conclusions

Transparency in general and fiscal transparency in particular have been and continue to remain the subject of increased policy attention at national and international levels after the difficult shocks experienced by the various states and regions

in the 1990s. Theoretical and empirical studies about the multidimensional effects and the great importance of transparency for contemporary states are not large, but are growing.

Leaders in promoting and analyzing the effects of fiscal transparency have been and are the OECD and the IMF. Financial scientists have provided different definitions about transparency in general and fiscal transparency in particular. In this context, we have outlined the definition of transparency in general given by Drabek and Payne. They describe transparency as 'referring to the clarity and effectiveness of activities influencing public policy'.⁵⁷ While on fiscal transparency the full definition remains the one given by Kopits and Craig.⁵⁸

In addition to theoretical approaches, fiscal transparency has been the subject of many indices. In this framework, various indexes have been compiled to measure the different dimensions of fiscal transparency.

Fiscal transparency in Kosovo after 1999 was dictated by the legal-political changes that characterized Kosovo. This had direct effects on public finance management, transparency and accountability. Configuration of dualistic power composed of UNMIK and the PISG and frequent legal-political and socio-economic changes have directly affected the impossibility of creating a transparent and sustainable budget system. This was not only because the SRSG held responsibility for decisive executive functions, but also because the separation of power between UNMIK and the PISG was complex and fluid, characterized by overlapping and unclear mix of functions and responsibilities. Such an unclear governance structure weakened the development of budget transparency and accountability and is one of the reasons why the international community still has considerable influence on Kosovo's development. Moreover, UNMIK's creation of budget policy in Kosovo has been made in very specific conditions compared to other states. This was due to the fact that budget policy was applied in the absence of a strategy of economic development and in the absence of a definition and formulation of. Despite many weaknesses that characterize public finance management in Kosovo, a number of reforms have been undertaken since 1999, which are considered comparable with the countries in the region. Yet much work remains to be done. The budgetary practice of states at different stages has shown that the greater the impact of parliament on budgetary procedure, the greater the budgetary transparency. The development of budgetary procedure only on the line of executive bodies negatively affects many directions but above all makes the budget not transparent. In countries with budgetary transparency, the readiness and the desire of citizens to carry fiscal obligations is great, while in states without budgetary transparency the state is very difficult to gain citizens' confidence in the reforms and as a result there is fiscal evasion.

Despite the empowerment of Parliament's constitutional role after independence, the role of the Kosovo Parliament in the budgetary procedure is small, and consequently this has affected the lack of fiscal transparency. The open, detailed and transparent scrutiny of the Kosovo parliament is conditioned by the strengthening of Parliament's role in budget procedures based on the following segments: a) increasing the parliament's ability to access important budget documents; b) increasing the role of parliamentary committees in budget control; c) Increasing parliament's capacity and opportunity for budget research and analysis; and d) increasing the dynamics of political parties.

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