

**PUBLIC FINANCES – THE CASE OF KOSOVO**

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**ABSTRACT**

The aim of this paper is to present a comprehensive scientific analysis on the topic of *Public Finances – the Case of Kosovo*. The term “finance” derives from the Latin word “finantio”, which has to do with payments. In today’s use, it originates from the French word “finance”, which means “financing”. In general terms, public finances are defined as state activities related to the collection of public revenues, in order to cover the state expenditures. Specifically, finances include the cash owned by the state, its condition, turnover, and usage. In Kosovo, as in all countries around the world, public finances are built, developed, and reformed in line with changes occurring in the political and economic systems. Taking into consideration the role of state in the economy and the fiscal system development in general, it can be understood that the state and its fiscal system are functionally interdependent with each other. Aiming to gain a better understanding of the public finances, as well as their role and function in the economy, I will analyze and clarify their correlation with state enterprises. Within the scope of this study, I will present a clear and concise analysis on *Public Finances - the Case of Kosovo*. In order to properly address this topic, the research will be done through analytical and synthetic methods. The final paper will include arguments found during the research process. In addition, I will analyze and compare existing scientific publications that cover this issue. Finally, I will deliver my authorial interpretations, which will be combined with different research/scientific tactics. Within the possible extent, my aim is to fill the existing gap with a focused study on the work of renowned economists in the field of public finances. My scientific commitment is a continuation of efforts to cover this topic. Accordingly, the aim of this paper is to present a scientific and authentic viewpoint on the topic of *Public Finances – the Case of Kosovo*, with a strong determination to remain objective in my analysis.

**Keywords:** The Republic of Kosovo, Public Finances, Function of Finances, Managements, State Enterprises.

**INTRODUCTION**

In this paper, the author tries to place Public Finance (the case of Kosovo) in the context of development, functioning and the role of the public finance management, using the case of Kosovo as an illustration. In Kosovo, as in all other countries in the world, public finance is built, developed and reformed in congruence with the changes in the political and economic system. In Kosovo, taking into account the transitional period which is still ongoing, the fundamental reforms of the public finance, that would be of benefit to the country, are not yet undertaken. Therefore, the main argument of the author is that: the essence of studying the issue of development, management and functioning of finances, as much as it is complex, it is also an important phenomenon which was studied by many economists, early scholars and financiers and their descendents who continue to study the public finance sphere in general. Public finance is a scientific branch of economy which studies the problems of finances of a country, the methods, system and the policy of securing budget revenues, state spending financing system, as well as development of instruments of public finance, public debt and other financial instruments.

Hereupon, no doubt it can be said that development of the public finance is a very important and fundamental factor which advances the economic processes, that proves the economic and financial potential of a country, its citizens, businesses, financing of state, economic and social activities. In other words without development of public finance, there is not bright future of a state in any sphere, be it economic, social or political.

Public finance is a preoccupation of all governments at international level, independent of their political and economic systems and level of economic development. This paper tries to research and scientifically elaborate the issue of public finance, its development and functioning, public finance management, with particular focus on the Republic of Kosovo.

## **PUBLIC FINANCE, ITS DEVELOPMENT AND FUNCTIONING**

Finance is an art/science of manipulation with money. In other words, public finance is a science which studies the phenomena, relations and institutions regarding the collection, distribution, spending and management of monetary means in relation to meeting general and common social needs. According to the Albanian dictionary *Financë*, means; “*Monetary means of the country, their status, turnover and the activities performed with those means*”<sup>1</sup>. Hereupon, on one side, finance is part of the economic activity of a country which includes monetary means and the activities they finance and on the other side it is a state administration branch which administers with these monetary means and activities. “*Public finance is nothing else than a sophisticated debate on the link between the individual and the state. There is no better school than public finance*”<sup>2</sup> said the Czech Prime Minister, Vaclav Klaus, who emphasizes the importance of the public finance.

In general, it is well known that the origin of finance is based on presenting the commodities to the market and commodity-money relationship. The science of finance as a social discipline is closely linked to money, existence of a state and its functioning and development. Public finance has to do with social sciences and studies the phenomenon of public finance in its entirety: revenues, spending, treasury, budgetary and bookkeeping procedures, budgetary policies, etc., whose main actors are the state, public enterprises, as well as social and international organisms. In the framework of general finance, the public finance includes financing, budget and compatibility.

Finance functions in various forms. According to Refik Kryeziu, “*Public finance functions in the form of monetary fund in all countries which have the denomination of public finance*”<sup>3</sup> Prior to discussing the meaning of public finance, an explanation and distinction between public finance, company finance and personal finance<sup>4</sup> as Pano names them, will be made. Therefore, in the national economy, besides public finance, there is also company finance called corporate finance and household finance or individual finance. In general, finances are distinguished based on their specificities and characteristics. In this line, finances are distinguished based on the ownership, usage, functioning and the role that they have in terms of management and functions. Moreover, finances also fulfil different daily needs.

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<sup>1</sup> *Contemporary Albanian Dictionary*, Academy of Sciences of Albania (Institute of language and literature), Tirana, 1984, p. 84.

<sup>2</sup> *General Economics 1*, University Publishing House, Tirana, 2012, p. 6.

<sup>3</sup> Refik Kryeziu, *Development of public finances in the Republic of Kosovo*, Tiranë, no publishing year. p. 9.

<sup>4</sup> Aristotel Pano, *Economic-financial dictionary*, Albino, Tirana, 2002, p. 170.

In order to better understand the public finance it is necessary to have a more accurate grip of the finance that can be defined also as the following: Finance is the science of cash flow management and its direction and administration.

According to the famous economists Bundo and Cane, public finance “*includes the entire process that is related to creation, usage, administration and transfer of money among individuals, businesses, financial institutions, banking institutions, markets and governments, separately or in relation to each other*”<sup>5</sup>

Famous scholars who studied public finance, they treat, review and analyse the public finance in two main meanings; the broader and narrow meaning of the word. According to them, *in a broader meaning* of the word the financial system includes the money, credit and banks on one side and financial markets which are closely linked to money on the other side. In short, this financial system can be called also monetary economy<sup>6</sup>. *In the more narrow meaning* of the word, public finance system, respectively fiscal system, includes the revenues, their characteristics, types of revenues, including revenues from duties, taxes, contributions, emission of primary money, public debt, as well as other revenues which in general enter the revenues or incomes of the state<sup>7</sup>.

World economists have defined the public finance based on three points of view:

1. From the economic point of view, definition of public finance includes financial operations of public persons that include budgetary activities such as revenues, spending as well as treasury activities, such as loans and public debt management.
2. From the legal point of view, public finance is an integral part of the public law which studies the rules applicable to operations related to public money.
3. From the law point of view, public finance is a branch of the Public Law<sup>8</sup>

As a discipline, public finance studies the rules and processes related to public money. This includes also the processes which are used by the state and public bodies to administer the cash flow. It is an area that is interlinked with the fiscal law, constitutional law as well as public accounting.

Moreover, according to Kryeziu “*development of public finance is a very important factor, which advances economic processes and proves the economic and financial potential of the state, citizens, businesses, financing of state, economic and social activities*”<sup>9</sup>. While management policy, harmonization of financing the needs and requests of citizens and the state, determines their effects.

## **PUBLIC FINANCE MANAGEMENT IN KOSOVO**

Public finance management (PFM), in essence, deals with all aspects of mobilization of resources and management of government spending. Financial management is a critical function in any organization. Similarly public finance management is an essential part of governance.

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<sup>5</sup> Sherif Bundo & Gentiana Cane, *Finance*, SHB Alb PAPER, Tirana, 2003, p. 2.

<sup>6</sup> Public Finance: *Essay for the Encyclopedia of Public Choice* by Harvey S. Rosen, Princeton University CEPS Working Paper No. 80, March, 2002.

<sup>7</sup> Ibidem.

<sup>8</sup> Sabah Hilmi & Anastas Angjeli, *Public Finance* (First element of public finance), Tirana, 1994, p. 14.

<sup>9</sup> Refik Kryeziu, *Development of public finances in the Republic of Kosovo*, Tiranë, no publishing year. p. 7.

Public finance management includes mobilization of resources, prioritizing of programs, budgetary process, efficient management of resources and control. Increase and aspirations of the population shall be focused in such a way that their requests are based on financial means. At the same time, the focus of the citizens is at the value for money, this way making the public finance management vital. The sub sections below form the content of the public finance.

A very large part of public means is spent through public procurement that unfortunately in Kosovo remains one of the most corrupted areas. The expert of economics Bedri Selmanaj says that: *“Public means are spent through tenders. Tenders are the main problem which was faced by all the countries in transition, thus also Kosovo is facing with this problem and phenomenon that has grown to a so called tendermania. In this case we have tremendous problems. In the area of public procurement we face with increasing bribery and corruption”*<sup>10</sup> On the other side, according to monitoring of civil society it results that misuse of public money is present in most of public institutions.

Merita Mustafa, manager of the program Transparency and Anti-Corruption in Kosovo, Democratic Institute (KDI) says that *“Based on continuous KDI monitoring in Kosovo institutions on management of public money, in particular in public procurement sector, we have noticed that there are suitable circumstances and conditions for misuse of public money, in particular corruption, due to the lack of people who are willing to fight corruption and to better manage the public money”*<sup>11</sup>

Therefore, due to misuse of public money, Kosovo did not manage to absorb the funds and donations from international financial mechanisms. While the Law on Public Finance Management and Responsibilities regulates that each budgetary organization and public enterprise which receives public money shall be subject to the independent auditing process which is provided by the Office of the Auditor General<sup>12</sup>. Office of the Auditor General is a constitutional independent institution for economic and financial control of public institutions, which reports only to the Assembly of the Republic of Kosovo<sup>13</sup>.

## FUNCTIONING OF PUBLIC FINANCE IN KOSOVO

Public finance is an integral part of the financial system for overall financing of the state, state and socially owned institutions, bodies and different agencies, which have the function of development and serving the citizens. According to economists, three fundamental functions of public finance are:

- a) Allocation;
- b) Distribution, and;
- c) Stability

It is very important to emphasize that these three (3) functions of public finance must be performed in parallel in the same budgetary process. One function cannot be separated from the other. Hereupon, fiscal policy measures shall be well coordinated as well as timely and carefully selected. This is a necessary precondition in order to have an efficient fiscal and economic policy as a whole.

<sup>10</sup> Bedri Selmanaj, *Public money is being misused*, Prishtina, 2015, p. 12.

<sup>11</sup> Merita Mustafa, *Weak management of public finances*, KDI Prishtina, 2014, p. 59.

<sup>12</sup> See article 47 and 48 of the Law on Establishment of the Kosovo Office of Auditor General, No. 03/L- 075.

<sup>13</sup> Law on Establishment of the Kosovo Office of Auditor General, No. 03/L- 075.

According to Kryeziu, “*In general, financing of vital segments of different economic and social systems is accomplished through public finance*”<sup>14</sup>. Therefore, in different countries, independent of the territory or size, besides the central level where the state budget is administered, there are lower levels of administration of budget as well, like canton, municipal and territorial administrative unit levels. Even the lower level administrative units have their competences in organization, functioning and governance of their public finances<sup>15</sup>.

Upon freedom and independence of Kosovo from the Serb regime and upon solving the political status – independent state and internationally recognized – in order to have a functioning political and economic state, under the frame of the public finance system, state bodies shall adopt laws, decisions, regulations and other law provisions related to fiscal issues. Public finance in the Republic of Kosovo has functioned under the circumstances of occupation and war and only after its freedom has started to create a more advanced system, currently having developed the capacities that can be compared with international countries with a long tradition in this regard<sup>16</sup>. Right after the freedom of the country, the citizens were organized in building state institutions with a great support of the international community. An important event in the context of the stabilisation of the political, economic and institutional course is the adoption of the Resolution 1244 of the Security Council of 10 June 1999, which launched the mission of United Nations Organization in Kosovo. After adoption of this Resolution, on 12 June 1999, the military troops of North Atlantic Treaty Organization (NATO) entered Kosovo under a provisional mission.

According to its authorization and taking into account the Regulation No. 1999/1 of the Provisional Administration of the United Nations in Kosovo on the Provisional Administration Authority, on 25 July 1999, it has established the Central Fiscal Authority that enabled the commencement of financial institutions building and creation of public finance operating mechanism. Independent of what was discussed above, in the last seven years of existence Kosovo Assembly has not managed to build appropriate and sustainable bodies and systems which would oversee spending of public funds. While Kosovo Assembly has been praised for institutional development, at the same time it has been criticised for the fact that it has not provided a forum for parliamentary public debate, oversight and control. “*Oversight of public finance by the Kosovo Assembly is carried out through the Committee on Budget and Finances. Its role as a guardian of public money is symbolic and superficial*”<sup>17</sup>.

## CONCLUSION

The discussion in this paper proves that the public finance as a scientific discipline and a scientific branch of finance has a tremendous importance in functioning of the state and economy. Due to the importance of the public finance for a country, economy and citizens, the author has dealt with this sphere for a long time, therefore is of the opinion that the paper in this area is a good contribution to this matter.

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<sup>14</sup> Refik Kryeziu, *Development of public finances in the Republic of Kosovo*, Tiranë, no publishing year. p. 83.

<sup>15</sup> Refik Kryeziu, *Policy of public finances system in the Republic of Kosovo, function and development opportunities*, Prishtina, 1997, p. 80-83

<sup>16</sup> Refik Kryeziu, *Development of public finances in the Republic of Kosovo*, Tiranë, no publishing year. p. 83.

<sup>17</sup> Kosovo Institute for Policy Research and Development (KIPRED), *Oversight of public finance in Kosovo*, Prishtina, 2009, p 4



Moreover, the public finance science deals with the institutions and their actions towards collection of the financial means, budget spending and saving of state funds in compliance with the financial policy headed by the Government. The discussion and analyses of this topic in this paper does not pretend that the results are exhaustive. This is imposed by the very nature of this topic which as such is very independent and is in a dynamic interaction with different approaches towards this topic on time and space.

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