



## **SIGMA**

### **Support for Improvement in Governance and Management**

A joint initiative of the OECD and the European Union, principally financed by the EU

## **KOSOVO**

### **PUBLIC EXPENDITURE MANAGEMENT SYSTEM**

#### **ASSESSMENT MAY 2008**

#### **Introduction**

This report updates the 2007 public expenditure management assessment.

From 1999 to 2002 the Kosovo budget was characterised every year by growing revenue and expenditure and fiscal surpluses. During that period, surpluses occurred because revenue outcomes generally exceeded forecasts and because expenditure was appropriated on a commitment basis and was not fully disbursed by the end of the year. In 2004 a decision was made to move the budget to a cash basis. In the same year the growth in revenue began to slow down. As a result of these factors, the year 2004 showed the first budget deficit of approximately 138 million EUR (equivalent to about 5.5% of GDP).

Donor grants are not included in the consolidated budget. Since 1999, aid has leveled out and is currently at about 240 million EUR annually (commitments). The aid focus in Kosovo has evolved, beginning with emergency and relief aid initially, followed by reconstruction and development, and now aid is increasingly directed to the European agenda.

Total revenues of the Kosovo Consolidated Budget (KCB) for 2007 had been forecast to be approximately 682.8 million EUR, of which approximately 85% (578 million EUR) were to be derived from taxes (border taxes, representing about two-thirds of total revenue). Preliminary outcomes for 2007, in schedule 1 of the 2008 Kosovo General Budget, show that in total 891 million EUR in revenue were received, of which 712 million EUR were derived from taxes and 75 million EUR from unforeseen one-off revenues. The increase in tax revenue consisted of 50 million EUR more in domestic taxes and 96 million EUR more in border taxes.

Budget expenditures for 2007 were projected at 717 million EUR, of which 553 million EUR were central government expenditure and 164 million EUR the expenditure of municipalities, including 28 million EUR from municipal own-source revenues. The preliminary outcome for 2007 shows a total budget expenditure of 662 million EUR.

For the year 2007 the budget had been prepared with a foreseen deficit of 34.2 million EUR. The preliminary outcome for 2007 reveals, however, a budget surplus (primary balance) of 230 million EUR, leading to an accumulated Central Bank balance of 423 million EUR. Both the higher total budget revenue and the lower total budget expenditure (109 million EUR), due especially to under-spending of capital expenditure, are responsible for the growth of the balance of the Central Bank.

KCB revenues for 2008 are projected at 862 million EUR, which means a rise of 26% compared with the projections for 2007. This increase in estimations is related to tax revenues (domestic as well as border taxes).

Budget expenditures for 2008 are estimated at 1170 million EUR, of which 983 million EUR is central government expenditure and 187 million EUR the expenditure of municipalities, including 37.5 million EUR of own-source revenues. In comparison to the projections of the previous year, budget expenditures in 2008 will increase by approximately 63%, with the central government's budget increasing by almost 78% and the budget of municipalities increasing by 14%. The main difference is a prospected rise in central-level capital expenditure. This document has been produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union, and they do not necessarily reflect the views of the OECD and its member countries or of the beneficiary countries participating in the Sigma Programme.

expenditures from €167 to €405 million. [*pour memoire*, the KCB has foreseen 31 million EUR for “status costs expenditures” for 2008]

For the year 2008 the budget has been prepared with a foreseen deficit of 257 million EUR, leading to an accumulated Central Bank balance of 165 million EUR in 2008.

Kosovo’s budget is highly vulnerable to exogenous economic factors and this vulnerability will remain during the forthcoming period characterised by continuing negotiations on final status.

## 1. Legal Framework

Ultimate legal authority in Kosovo resides with the Special Representative of the UN Secretary General (SRSG), under the terms of United Nations Security Council Resolution (UNSCR) 1244 of 10 June 1999. A consequence of this resolution is that any decision of the Kosovo Assembly must be approved by the SRSG before it becomes operative. The SRSG can also reject or amend any law passed by the Assembly.

Since Kosovo is, legally speaking, part of Serbia under the UN Interim Administration Mission (UNMIK) in accordance with UNSCR 1244, it is not a separate country and does not have many of the prerogatives of sovereign states. However, the situation is evolving as, for example, Kosovo has now received its own international banking code.

According to sections 5.1 (a) and (b) of the Constitutional Framework for the Provisional Self-Government (UNMIK/REG/2001/9 – 15 May 2001), responsibility for economic and financial policy and for fiscal and budgetary issues is vested in the Provisional Institutions of Self-Government (PISG), while Section 8.1c of the Constitutional Framework stipulates that the SRSG has the final authority to set the financial and policy parameters for, and to approve, the Kosovo Consolidated Budget (KCB), acting on the advice of the Economic and Fiscal Council. Public expenditure management is regulated by the Law on Public Financial Management and Accountability 2003/2, amended at the end of 2003. The Assembly passed a new Law on Public Financial Management and Accountability in March 2008, the status of which is uncertain and which is not assessed in this report.

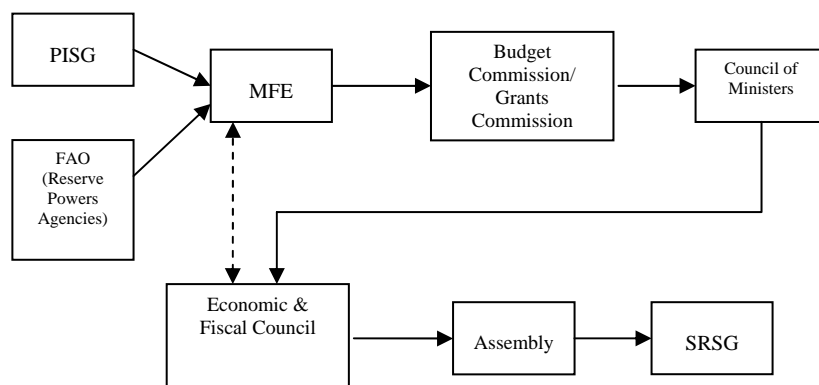
## 2. Institutional Framework

The Ministry of Finance and Economy (MFE) came into being following the abolition of the Central Fiscal Authority (CFA) at the end of 2002. The MFE prepares the budget based on budget bids submitted by ministries (in the case of the PISG), by the SRSG for those functions that are reserved power agencies and municipalities. These three elements form the Kosovo Consolidated Budget (KCB).

The senior management and staff of the MFE are largely Kosovar, although the number of foreign experts remains relatively high. A high proportion of staff exercise support functions (e.g. IT).

The Economic and Fiscal Council is also involved in budget preparation, acting as an advisory body to the SRSG and supported by a secretariat. In addition, the Fiscal Affairs Office (FAO) of UNMIK prepares budgetary submissions on behalf of the SRSG and analyses the draft budget prepared by the MFE. The Economic and Fiscal Council Secretariat and the FAO work in close co-operation. Both of these organisations still have a small number of international staff, together with several Kosovars.

There is a complex system for budget preparation and approval, although the MFE is responsible for budget development and preparation. The overall development process is shown below.



The constitutional framework establishes the Budget Commission, which is composed of the Budget Committee of the Assembly, two senior officials of UNMIK, and five ministers. The Budget Commission is responsible for reviewing all draft acts that are submitted to the Assembly. It also receives quarterly reports on budget execution.

The Economic and Fiscal Council is chaired by the Prime Minister and is comprised of three senior UNMIK officials, three ministers, and a representative of the President of the Assembly. The Council may return the draft budget to the MFE with a request to amend it. The SRSG may reject or amend the budget at any stage.

In 2007, the former budget department in the MFE was reorganised and divided into two departments – one dealing with central budget issues and the other with municipal budget issues. Previously, a single unit within the MFE had been responsible for budget development, preparation and management. Some foreign donor co-ordination has been assured to date by the Treasury and by the Office of the Prime Minister.

The MFE operates a single budget process for both transferred and reserved responsibilities. Also, the Grants Commission recommends to the MFE the amount for general operating grants to be included in the Kosovo Consolidated Budget (KCB). The Final approval of the KCB is the responsibility of the SRSG, who can also reject the draft budget at any stage or request its amendment.

## **2.1 Budget Process**

The budget preparation process is complex, which is partly due to the overall legislative framework and the status of Kosovo.

The Kosovo Consolidated Budget for the year 2008 was only approved on 29 February 2008 (Regulation No. 2008/13) due to November 2007 Kosovo-wide elections and the formation of the new government. Therefore on 31 December 2007, by means of an administrative direction (no. 2007/14) the fiscal year 2007 was extended by two months until 29 February 2008.

Given the high involvement of foreign experts in Kosovo in the past, it is unclear to what extent budget offices in line ministries have the capacity to participate in budgeting and in budget execution.

A Medium-Term Expenditure Framework (MTEF) was approved by the government for the first time in December 2005. This document, covering the period 2006-2008, provided an overview of recent fiscal trends, forecasted the macroeconomic outlook up to the year 2008, and included budget deficit, revenue and expenditure projections. The MTEF 2008-2010 was issued on 17 September 2007, and the Ministry of Finance and Economy (MFE) is now in the process of preparing an updated version of the MTEF, covering the period 2009-2011.

For the donor conference held in April 2008 in Brussels, a revision of the MTEF 2008-2010 was in preparation. For this conference the government issued a Statement of Government Policy Priorities.

The annual budget preparation process starts in April when, according to the Law on Public Financial Management and Accounting, the first budget circular is issued. The Initial Budget Circular provides instructions and requirements as well as a tentative timetable for the budget preparation process. Although the budget preparation process starts well in time, there is limited time for discussions at the parliamentary level as the budget is not submitted to the Assembly until 30 October.

The budget law is extremely detailed, setting limitations for each institution by department; the budget allocated to each department is divided into programmes, each of which is structured according to the economic classification of expenditures. Together with the annual budget, the number of employees for each department within an institution is also set, leaving basically no room for making necessary management decisions during the year (e.g. moving an employee from one department to another within a ministry). Section 7.3 of UNMIK Regulation no. 2008/13 on the approval of the KCB and the authorisation of expenditures for the period 1 January to 31 December 2008 nevertheless allows for an increase or decrease of employee positions at the request of the government. Section 9 of this regulation authorises a transfer of appropriated amounts following consultation with the government. Over 21% of the KCB 2008 is dedicated to the wages and allowances of the public administration, which is less than the 28% allocated for 2007. Further information on the public service is provided in the assessment report on Public Service and the Administrative Framework in Kosovo.

Even though annual budget expenditures are tightly controlled at a very detailed level, the budget scope is not comprehensive, and portions of revenues and of expenditures are left out of the process. According to section 10 of the Law on Public Financial Management and Accountability (which specifies what constitutes public money and indicates the sources of public revenue), one source of revenue is represented by grants

and gifts from international organisations and foreign governments, which in fact do not flow through the annual budget. The fact that these donor funds are not included in the annual budget decreases the transparency of public expenditure management in Kosovo. More importantly, it is an issue of whether donor funds will be rationally allocated and spent and whether relevant guaranteed national co-financing will take into account financial limitations within the budget framework. The related risks are also increased due to the fact that the lines of responsibility between the various institutions involved in monitoring and co-ordinating foreign aid are not clearly set. Aid in Kosovo has relatively low government ownership and is generally not well co-ordinated. It is characterised by unmanaged allocations between sectors, relatively high allocations for technical assistance (consultants and advisors), and low allocations for capital investment. Almost all aid is in the form of projects, which do not rely on government procedures and public financial management systems and are not reflected in government budgets.

There is an EU Assistance Co-ordination Unit in the Agency for European Integration (AEI) and since September 2006 a Donor Co-ordination Centre (DCC) in the Office of the Prime Minister, but the lines of responsibility between these two units have not been established and their staffing is limited. As the AEI is the final counterpart with the EU Liaison Office, there is a strong need for co-ordination between these two units. The AEI proposes, in the Plan on European Integration 2008-2010 (March 2008), to incorporate the DCC into the AEI. Such a step would in turn facilitate and increase co-ordination between the assistance provided by the European Union and the assistance provided by the rest of the international community.

The process of preparation of the European Partnership Action Plan (EPAP) 2008 is underway, led by the AEI and involving all relevant institutions. This agency within the Office of the Prime Minister is responsible for the preparation of the EPAP and for the monitoring of its implementation. The Instrument for Pre-Accession Assistance (IPA) section of AEI has a staff of three.

So far the Kosovo authorities have participated in the preparations of the Multi-annual Planning Document (MIPD), which provides the basis for the programming and implementation of the IPA Assistance 2007-2009. The first annual programme, IPA 2007, is ready. Kosovo/AEI and the European Agency for Reconstruction (EAR) were in a hurry when implementing the IPA envelope 2007, and ministries were not sufficiently involved. On 9 December 2007 the IPA Financial Framework Agreement was signed. The programming of the IPA 2008 programme has locally been completed. The co-ordination with EC-Liaison, EAR and ministries was better organised this time, in comparison with preparations for the 2007 IPA.

On 14 February 2007 a Steering Council for the Donor Co-ordination Centre (DCC), chaired by the Prime Minister and comprising all ministers, was formally established.

In June 2007 the DCC issued a discussion note on aid management in Kosovo. This note sets out clearly the shortcomings in aid management within Kosovo, both between the Kosovar authorities and the donors and between the donors.

## **2.2 Budget Execution**

Budget execution in Kosovo has been fairly low, mainly due to the limited use of funds planned for capital expenditures – approximately one-quarter of these funds were not used during the budget year 2006. As it was not permitted to carry any unused funds over to the budget year 2007, there was a potential incentive to undertake inefficient spending towards the end of the year. In addition, this situation necessitated estimating the funds that would be needed for an investment project that was being implemented but would not be completed by the end of the year 2006, and entering those figures into the budget for 2007. However, in recent years the capacities and procedures for public investment planning have been enhanced, and this progress should also improve the situation during the budget execution phase. It is expected that further improvements will include the authorisation to carry over unspent funds for investments into the next budget year. In line with this possible change, in 2007 funds for capital projects were authorised to be carried forward into 2008 if the contracts had been signed by 31 December 2007.

The reasons for capital budget under-spending do not stem from the existing legal and regulatory framework for public investment management and public procurement. Capacities to implement the specified procedures are limited and affect the planning, management and implementation of capital spending programmes. Other factors that contribute to capital budget under-spending are the single-year outlook in public investment management, including the operation of the Public Investment Programme (PIP) procedures, the budgeting of the capital spending programme, and the operation of public procurement procedures.

With respect to budget execution, the Treasury within the MFE is responsible for the performance of *ex ante* control of all payment orders – a function which demands considerable human resources without providing considerable added-value. Information about budget execution is produced monthly, quarterly and annually, but the reports are not used as inputs to the budget preparation process, as one of the main incentives for producing the reports is to comply with relevant international standards and good practices. The same situation applies to audit reports, which are produced but not used, and accordingly no decisions within the budgeting process take audit findings into account.

The Treasury is also responsible for the maintenance of financial software. The FreeBalance accounting system, which was installed with USAID assistance in the MFE and in all budget organisations, is currently operational.

### **2.3 Municipal Budgets**

The global budget in 2008 for municipalities of 188 million EUR is made up of the following components:

- 38.6 million EUR general grant covering administration, delegated education and health care, and fire-fighting responsibilities;
- 9 million EUR property tax-incentive grant;
- 18 million EUR health grant;
- 84.7 million EUR education grant;
- 37.5 million EUR in own -source revenue from fees, charges and property taxes.

The budget preparation and implementation procedures set out in the Law on Public Financial Management and Accountability are fully applicable to municipalities. Municipalities are therefore required to establish procedures that mirror the steps of central government budget procedures. However, there is a separate budget circular for municipalities, according to which the Grants Commission is to determine and approve the amount of inter-governmental transfers as well as the initial budget for each of the municipalities, according to complex criteria based on population, ethnicity, school enrolment, etc.

Funding for primary education and health care is routed through the MFE to municipalities and does not pass through the relevant ministries, whereas some capital expenditures (such as renovation/reconstruction of selected schools or health institutions) are reflected in the budgets of the respective ministries. Education and health grants are provided as block grants, without any specific conditionalities. However, municipalities are not allowed to use these funds for any other purpose, and improvements have also been made (through the establishment of relevant control and monitoring mechanisms at both central and municipal levels) to ensure that the funds will be used accordingly.

All municipalities now have access to the FreeBalance accounting system.

One of the recent developments is the transfer of the bank accounts of all municipalities to the Central Banking Authority of Kosovo (CBAK), with a view to ensuring effective cash management and increasing interest revenue. According to Administrative Instruction no. 2007/4 of March 2007, all municipal revenue since 1 May 2007 has had to be collected only in the bank accounts of the CBAK. Municipalities have also been obliged to close their accounts in commercial banks as from 1 May 2007, and without the prior authorisation of the Director of the Treasury no municipality may open a bank account.

## **3. Reform Agenda and Capacities**

Kosovo is a potential candidate under the Stabilisation and Association Process of the EU (SAP). In the framework of SAP, a Process Tracking Mechanism (STM) was created. The STM established a forum for political and technical discussions between UNMIK, the PISG and the EC. The STM contributes to institutional and administrative reform. Its main purpose is to support Kosovo in its EU-compatible structural reforms through advice and guidance.

The first European Partnership Action Plan (EPAP) for Kosovo was prepared in January 2005. On 30 January 2006 the Council of the EU adopted a new partnership with Kosovo, and Kosovar institutions were asked to develop a new action plan to address the implementation of European Partnership objectives and priorities. The Kosovo Government subsequently prepared the EPAP 2006, in which one of the key priorities is to strengthen the transparency and sustainability of public finances by ensuring consistency of the 2006 budget with the MTEF and by defining and applying macroeconomic and budget priorities. The EPAP 2006

was also to serve as a guiding framework for the planning of EU assistance through the Instrument for Pre-Accession and its related programmes. The Agency for European Integration (AEI) plays the primary role in co-ordinating and monitoring the implementation of the EPAP.

In March 2008, the AEI provided its Plan on European Integration 2008-2010, including the (draft) EPAP 2008. The strengthening of the Central Government Co-ordination Mechanism for Management of the Process of European Integration is one of its main components. In this context, a proposed working group for the economy (economic criteria) is to consider, among other issues, the capacity of the Public Revenue Office, economic policy, financial control, and financial and budgetary provisions.

Although not assessed in this report, a new draft law on Public Financial Management and Accountability, has been prepared and passed by the Assembly (17 February 2008). Before it enters into force (decision of SRSG), it could usefully be reviewed to see to what extent it corrects the important dysfunctions in the current legal framework of public expenditure management.

#### **4. Assessment**

The legal framework established in Kosovo for public expenditure management is quite sound as a result of the efforts of foreign experts, although may contain some inconsistencies (see below). The main problem, however, lies in implementation, mainly due to the lack of relevant administrative capacity, a poor understanding of the rule of law, and the one-year focus in budget preparation. Furthermore, it can still be said that in many areas the laws are ahead of the current real state of development, and therefore in many aspects the legislative framework is not understandable to the officials implementing the acts or to the public in general. This is a situation that could be foreseen to last for the coming years as well.

Another feature characterising the legal framework for public expenditure management in Kosovo is the fact that some legal acts are relatively strict and detailed. However, on the one hand – in part for the reasons mentioned above – these acts are not followed in practice, and on the other, some functions are performed without any legal basis. In other areas, legal acts and instructions are less detailed and are written in a more normative and less prescriptive way, and this may not be sufficient for staff who are accustomed to a strong, centralised system established on a firm, prescriptive legal basis.

It is clear that the international community has not sufficiently co-ordinated its efforts to ensure a coherent style throughout the Kosovar legal framework so as to make it comprehensive, consistent and transparent. Despite all previous problems, the legal tradition in Kosovo was based on continental European law; there is now a certain mixture of continental and common law institutions (commissions/agencies, etc.). This has – for certain institutions – resulted in a lack of real accountability and of real enforcement mechanisms due to incompatibility between the different legal systems. This situation could lead to the subjective interpretation of legislation, while leaving other necessary parts of the legal framework unregulated.

In overall terms, the capability of both preparing budget proposals and analysing these proposals is weak. Furthermore, proper impact analysis of new pieces of legislation or of amendments to existing legislation is lacking. This situation creates a risk that, once the legal act has been adopted, additional needs for financing will emerge, which had not been planned for in the budget or in the legal act; although such additional actions may be approved, they will not be implemented due to the lack of financial resources.

In the event that the status of Kosovo changes, additional budgetary pressures will emerge. The financial impact assessment of transition responsibilities has started. In the 2008 budget 30.6 million EUR are included to cover the costs related to any possible changes in Kosovo's status for 2008, 25 million EUR for 2009, and 25 million EUR for 2010. Whatever the status, it can be foreseen that substantial budgetary restructuring will have to be undertaken to maintain a solid fiscal position and to keep the budget deficit under control.

In general, the IT systems supporting various functions are well developed. However, due to the lack of administrative capability, all of the possible merits of these systems are not used, since the capability to analyse data on both the budget preparation phase and the execution phase is lacking.

The Medium-Term Expenditure Framework (MTEF) and the Public Investment Programme (PIP) initiatives are contributing to more transparent fiscal management. However, in recent years some drawbacks have been faced in this regard. It took a long time before the MTEF was updated. On September 2007 the MTEF 2008-2010 was issued as a key document for a donor conference to be organised shortly after status resolution. In April 2008, during the present assessment, the Ministry of Finance and Economy (MFE) was further adapting the MTEF 2008-2010, for the donor conference to be held in Brussels in April 2008. These

revisions of the MTEF 2008 for the donor conference underlined the fact that the main priority for the government is still to present the MTEF as a document showing to the donor community the budgetary needs of Kosovo in the main policy areas, based on the insufficiently developed Kosovo Development Strategy and Plan (KDSP) and the weak Public Investment Programme.

Strategic planning is in its very early stages, limiting the further development of the MTEF. There are also shortcomings in staff skills to analyse budget proposals during budget preparation. Furthermore, the information provided by audit reports and budget execution reports is not being used as input into budgetary decision-making. These shortcomings are mainly responsible for the long-lasting under-spending of the capital budget.

Since the establishment of the UNMIK administration in late 1999, public expenditure management in Kosovo was handled almost entirely by international experts. As noted above, the main influence to date has been from US sources rather than from European practice. In addition, the MFE is still heavily reliant on assistance from international organisations, although this assistance is being withdrawn.

EU assistance must be interlocked with Kosovo's development and action plan, e.g. the action plan for the implementation of the European Partnership priorities and Kosovo's Development Strategy and Plan (KDSP), including sectoral strategies and plans. Kosovo's IPA co-ordinator is responsible for the coherence and complementarity of IPA assistance internally and with other donors. The capacity of the EU Assistance Co-ordination Unit, with a staff of only three, is very limited. The planning and project preparation capacity of Kosovo's authorities has to be improved to increase local ownership of EU assistance.

The activities and capacities of both the Donor Co-ordination Centre (DCC) and the EU Assistance Co-ordination Unit in the Agency for European Integration (AEI) need special consideration and their mutual co-operation needs improvement in order to strengthen the processes of aid management in relation to the MTEF and to the annual budgetary processes.

## **5. Recommendations**

- The annual budgeting processes should start to use various reports as input information on budget execution in previous years. The same concerns the multi-year capital spending budgeting processes. Such an approach is one of the remedies for overcoming the existing single-year outlook in public spending and public investment management.
- Responsibilities within the budget preparation processes should be further simplified and processes streamlined. The responsibility lines between the central budget department and municipal budget departments should be clearly established.
- The Ministry of Finance and Economy (MFE) should further strengthen the linkages and alignment of the Public Investment Programme (PIP) and budget processes. The PIP procedures should be further developed to facilitate planning and management of a multi-year capital spending programme that is linked to (more) realistic MTEF forecasts. To enable the Medium-Term Expenditure Framework (MTEF) to fully work, the general principles for strategic planning should be worked out and regulated so as to ensure relevant competencies and the development of capacities. Before taking further steps along the lines of activity-based budgeting, staff skills to implement current legislative requirements should be improved, especially in line ministries and municipalities. These basic skills concern the budgeting process in general and capital spending programmes in particular, (policy) analysis, (policy) evaluation, (strategic) planning, programming, and the development and use of IT tools and applications.
- Further support to the MFE, other ministries and municipalities will therefore be required, especially in the area of strategic planning and its linkages to budget preparation. Support in capacity-building for budget analysis in the MFE and line ministries will also be needed as the level of international assistance decreases. Strategic planning is important for internal needs but also crucial for enabling the use of EU assistance. Increasing analytical capacity is, among other factors, critical in safeguarding the resources invested in IT systems, as the administration must be able to use the information acquired through these systems for the investments to be worthwhile. Attention should be given to the improvement of these basic skills through practical, on-the-job training and through the support of technical assistance.
- Steps should be taken to enhance budget coverage, especially in relation to donor funds. The two units responsible for donor co-ordination, the Agency for European Integration (AEI) and the

Donor Co-ordination Centre (DCC), should be adequately staffed and their remits properly defined to ensure that donor funds are effectively provided for the process of revision of the MTEF and for the annual preparation of the Kosovo Consolidated Budget (KCB).

## **6. External Assistance**

Assistance to Kosovo is being provided, on the basis of the European Partnership, through the Instrument for Pre-Accession Assistance (IPA) for the period 2007-2013. Kosovo is eligible for Component I, support for transition and institution-building, and for Component II, cross-border co-operation. The IPA requires the close involvement of the Government of Kosovo throughout the implementation process, starting at the stage of multi-annual programming. The European Commission and Kosovo concluded a Framework Agreement, which has supremacy over Kosovar legislation. The Framework Agreement is the basis for establishing the necessary institutions within Kosovo within the new Instrument for Pre-accession Assistance (IPA),<sup>1</sup> (National Fund, National Authorising Officer, National IPA Co-ordinator (NIPAC), audit authority, IPA joint monitoring committee, and a sectoral co-ordinator for the regional development and human resources components). Furthermore, the Framework Agreement lists the conditions for sound financial management of EU assistance, as well as obligations deriving from this assistance.

USAID has provided considerable assistance since late 1999 to the Central Fiscal Authority and to the Ministry of Finance and Economy (Budget Department, Treasury Department, Tax Administration and Macroeconomic Department). This assistance is gradually being withdrawn, and functions are being handed over to Kosovars.

The European Agency for Reconstruction (EAR) funded a project to assist the MFE in developing budget preparation. The project, which started in January 2005 and ended in January 2007, focused on capacity-building, mainly in relation to public investment planning. The EAR is also funding the second phase of the project, which will last for two years. The purpose of this second phase is to ensure that the Public Investment Programme process, including its performance budgeting component, will be incorporated into the annual budget process in a sustainable way.

The World Bank has also provided assistance in the public expenditure management area. A World Bank project, aimed at increasing the administrative capacity for budgeting, focused mainly on the MFE and four key budget organisations: Ministry of Labour and Social Welfare, Ministry of Health, Kosovo Trust Agency, and Ministry of Transport and Telecommunications.

In the Framework of the Plan on European Integration 2008-2010, the Agency for European Integration (AEI) compiled a Training Needs and Resource Assessment 2008-2010 and a Training Action Plan 2008. This Training Action Plan is to subsequently be extended to other projects (bilateral projects and projects funded by other international organisations) and to 2010.

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<sup>1</sup> Council Regulation (EC) No. 1085/2006 dated 17 July 2006; for the implementation of this regulation, a Commission Regulation (EC) No. 718/2007 was published on 12 June 2007.