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Qeveria e Republikës së Kosovës
Vlada Republike Kosova
Government of the Republic of Kosovo

FISCAL CONSOLIDATION AND DOING BUSINESS REFORM: LESSONS FROM KOSOVO

USAID PARTNERSHIPS FOR DEVELOPMENT AND
GOVERNMENT OF THE REPUBLIC OF KOSOVO
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Speakers



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KOSOVO

- Located in Southeast Europe
- Area = 4,200 sq mi
- Population = 1.895 m
- Capital: Pristina
- **USAID Partnerships for Development Kosovo**



KOSOVO'S ECONOMY

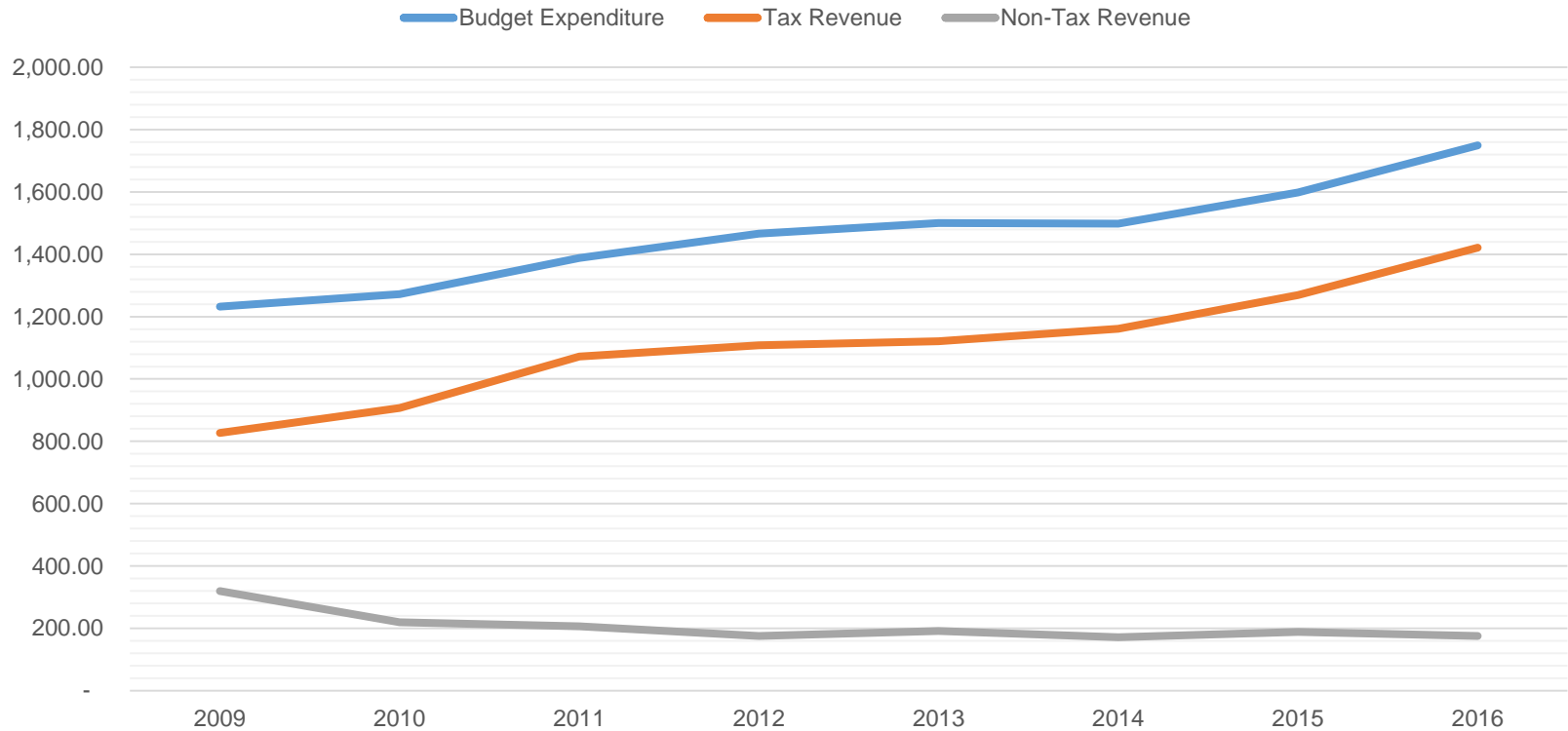
- Euro-ized, no monetary policy
- 3.5% average historical real GDP growth
- Trade – key value added activity
- High level of trade deficit (exc. 30% of GDP), and dependent on remittances to sustain current account deficits
- As a result, hard constraints on fiscal policy

FISCAL POLICY

- Limited access to foreign debt markets – mostly through debt from Intl. Financial Institutions (20% Debt/GDP)
- Border tax collection – main source of tax revenue
- Non-tax revenues – 12% of total budget revenues
- Dominant domestic paradigm: increased budget spending is an indicator of successful fiscal policy
- As a result, high sensitivity of spending to revenue and reluctance to support reforms perceived to be associated with revenue loss

FISCAL POLICY

Government Revenues and Expenditures (in mil. of Euros)



A NOVEL APPROACH

- **USAID Partnerships for Development – how to overcome business enabling environment (BEE) reform reluctance from the MoF?**
 - Step 1: Support fiscal consolidation – adequate fiscal buffers
 - Step 2: Integrate PFM reforms with business environment improvement reforms centered around the World Bank Doing Business (WBDB) Report
- **Effect:**
 - Aligns incentives from both reform agendas
 - Challenges the dominant paradigm – a larger budget is not necessarily a better one – by utilizing the political capital/recognition WBDB offers

THE LEVERS FOR ADVANCING BEE REFORM

A) Fiscal Consolidation Creates Room for Maneuver

- Work with the Government to tailor and take greater ownership over IMF policy reform programs
- Build appropriate fiscal buffers (reserves) to reduce sensitivity of spending to revenues
- Focus on building a rules-based fiscal framework
- Enhance evidence-based fiscal analysis capacities
- Multi-annual fiscal planning

THE LEVERS FOR ADVANCING BEE REFORM

B) PFM-BEE Reform Integration:

- **Use the WBDB Report Methodology:** Provide structure + opportunity for political recognition
- **Leverage EU Indicators:** Link PFM reforms to EU-supported goals; strengthened by EU-driven PFM reforms
- **Establish Reform Governance:** Bring together high level political representatives and technical level experts and create a structured monitoring system

INTEGRATED PFM/BEE REFORMS:

- Risk based customs inspections adopted
- Electronic filing of tax returns fully enabled
- Eliminated tax administration controls upon the registration of a business

INTEGRATED PFM/BEE REFORMS

- Deadline for processing all tax refund applications reduced for more than 50% (from 60 to 30 days)
- Requirement for an import/export certificate to trade eliminated
- Full expensing of business staff training costs recognized
- Business registration fees significantly reduced and streamlined

DOING BUSINESS RESULTS:

- Improved World Bank Doing Business (WBDB) Report Ranking (2014 to 2016):
 - **Starting a business:** 42nd to 13th
 - **Paying Taxes:** 63rd to 43rd
 - **Trading Across Borders:** 118th to 51st
- Other Results (2015-2016)
 - 58% increase in the number of LLCs registered
 - Tax declarations declared online increased by 15%
 - Share of tax and non-tax revenues increased from 25% to 27% of GDP

REFORM GOVERNANCE: THE DOING BUSINESS TASK FORCE

- The Kosovo Business Registration Agency (KBRA)
- The role of the Doing Business Task Force (Led by MTI/KBRA)
- Utilizing the National Council for Economic Development (High level political representation)

REFORM GOVERNANCE: THE DOING BUSINESS TASK FORCE

- Applying WBDB methodology to structure reforms
- Aligning incentives with the Ministry of Finance
- What is next for DB reform in Kosovo?



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WHAT'S NEXT FOR DOING BUSINESS REFORM IN KOSOVO?



LESSONS LEARNED

- **For donors and government officials:**

- Fiscal consolidation is a precondition for successful doing business reform
- Consider not treating PFM and business enabling environment reforms as separate topics, but linking the incentives (through program design)
- Utilize WBDB methodology to structure reforms
- Foster ownership through capacity enhancement in IMF program implementation

- **For implementers:**

- Establish the advocacy role within a local entity or partner (KBRA, or the task force) that carries out the work
- Recognize political constraints and incentives; implement interventions around these paradigms



**PARTNERSHIPS FOR
DEVELOPMENT**

THANK YOU

Questions & Answers