FISCAL CONSOLIDATION
AND DOING BUSINESS REFORM:
LESSONS FROM KOSOVO
PARTNERSHIPS FOR DEVELOPMENT

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
PARTNERSHIPS FOR DEVELOPMENT

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)

- Budget Expenditure
- Tax Revenue
- Non-Tax Revenue


Government Revenues and Expenditures
(in mil. of Euros)
PARTNERSHIPS FOR DEVELOPMENT

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:**

  - **Starting a business:** 42\textsuperscript{nd} to 13\textsuperscript{th}
  - **Paying Taxes:** 63\textsuperscript{rd} to 43\textsuperscript{rd}
  - **Trading Across Borders:** 118\textsuperscript{th} to 51\textsuperscript{st}

- 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?
WHAT’S NEXT FOR DOING BUSINESS REFORM IN KOSOVO?

A World Bank Group Flagship Report

Doing Business 2017

Equal Opportunity for All
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
THANK YOU

Questions & Answers