

Management of financial recourses in the MAFRD of the agriculture sector in Kosovo

*Albanë Gashi**

Abstract

The agricultural sector in Kosovo is of great importance regarding economic development of the country as it can considerably contribute to the overall employment, as well as to the growth of Gross Domestic Product. However, despite the importance of this sector in the development of the country and improvement of the current situation, investments in this sector and the exploitation of its potential remain at an unsatisfactory level. In the development of this sector, an important role also belongs to the commitment of local bodies and institutions, in particular to the Ministry of Agriculture, Forestry and Rural Development.

This scientific paper aims to provide a general overview of the current situation of the agriculture sector and its role in the development of the country, as well as to present and analyse on a scientific basis the management of financial resources by local institutions, in particular of the aforementioned Ministry in the development of this sector.

The scientific paper is based on data analysis presented in various financial reports and local strategic documents, laws and regulations in force, interviews with responsible officials as well as other relevant scientific sources in this field. The analysis will be accompanied by tabular and graphical presentation.

Keywords: Agriculture sector, MAFRD, management, financial recourse, Kosovo.

* MA. Albanë Gashi, University "Kadri Zeka", Gjilan, gashi.albana@outlook.com

Challenges in agriculture sector development in Kosovo

From the overall area of Kosovo, it is estimated that the majority of the land is agricultural land. Therefore, the development of the agricultural sector is considered to be an important impetus for the country's economic development, as it participates to the overall employment in Kosovo with over 25%, contributing to 13% to Gross Domestic Product (hereinafter GDP), while agricultural production accounts for about 16% of total export value.²⁷In Kosovo, around 62% of the population live in rural areas, so the agricultural sector plays an important role in improving life in rural areas by providing employment opportunities and income generation for residents living in these areas.²⁸

Based on the above mentioned highlighting the importance of this sector, and given that domestic production is the essential part of economic development and human resource activation, the Government of Kosovo has continued to keep the agriculture sector in the focus of its priorities by providing subsidies to farmers. Given the fact that Kosovo continues to remain in such a situation with a high trade deficit, high unemployment rate and low welfare level of its citizens, more and more efforts are being made to transform the agriculture sector into a factor of economic recovery of the country through the advancement of technology, rational use of agro-ecological conditions and biological and environmental diversity.

It should be noted that many challenges remain for the economy of our country in general and the agricultural sector in particular. Statistical data show that the continuing trade deficit clearly indicates a poor production base and poor international

²⁷ Ministria e Financave, *Korniza Afatmesme e Shpenzimeve 2015-2017*, April 2014, p.55.

²⁸ *Ibid.*

competitiveness. Low investment and high remittance support (13% of GDP in 2015) as well as the informal economy impair employment, resulting in high unemployment rates, especially among young people with a special emphasis on women.²⁹ Thus, the real GDP growth in 2015 compared to 2014 was 4.1%, however the economic activity of agriculture, hunting, forestry and fishing declined by (-4.1%).³⁰

Sustained economic growth in Kosovo cannot depend on only one sector or only on agriculture, however this sector is considered to have the greatest potential for improving the country's economic situation, even though it still remains the sector with very few investment. The causes for an unsatisfactory performance of Kosovar agriculture are numerous and diverse.

Kosovo in 2007 has become a member of the Central European Free Trade Agreement (CEFTA), which allows free trade between non EU countries. Despite the advantages that Kosovo has benefited from free trade, on the other side it seems that the trade agreement has contributed to the deterioration of trade balance. The trade deficit shows that the trade agreement has impacted on the growth of imported goods consumption. Considering facilities that other countries have in the production of their own goods, Kosovo producers are losing against imported goods. Given that our market faces the lack of domestic production, it is important that before thinking about export, to pay attention to domestic trade, thus replacing the import at the same time. In addition, the improvement of fiscal policies in favour of domestic producers in relation to external ones would

²⁹ European Commission, *Kosovo* 2016*, Brussels, 9.11.2016, p. 35.

³⁰ Agjencia e Statistikave të Kosovës, <https://ask.rks-gov.net/sq/agjencia-e-statistikave-te-kosoves/add-news/bruto-produkti-vendor-bpv-sipas-aktiviteteve-ekonomike-dhe-me-qasjen-e-shpenzimeve-2015>

contribute on improving the trade balance (30.4% of GDP in 2015) by reducing import.³¹

Another challenge Kosovo agriculture sector faces is the large number of small-sized farms. The average size of arable land in Kosovo turns out to be 1.6 ha.³² This indicates that the average size of Agricultural Economies in Kosovo in terms of arable land is evidently much lower than in most EU countries (8 times lower than the EU average), however that is similar to the neighbour states.³³ Kosovo due to the small size of farms has many difficulties in facing the circumstances that the free market offers. While larger farm size implies higher levels of production through achieving economies of scale, utilization of contemporary technology, scientific advancements etc., Kosovo has only 5.45% farms with size ranging from 5 to more than 30 ha of Agricultural Economies.³⁴ This points out the need for the establishment of agricultural cooperatives by further supporting the land consolidation that is addressed by the Agriculture and Rural Development Plan.³⁵ Although this process is long and time consuming, the necessity to implement it is inevitable.

Other remaining difficulties regarding agriculture and rural development sector are as follows:

Low quality of agricultural products and poor food quality and control;

Low income available to households;

³¹ European Commission, *Kosovo* 2016*, Brussels, 9.11.2016, p. 35.

³² Agjencia e Statistikave të Kosovës, *Regjistrimi i Bujqësisë në Republikën e Kosovës 2014*, p. 46.

³³ *Ibid.* p. 63.

³⁴ Ministria e Bujqësisë, Pylltarisë dhe Zhvillimit Rural, *Raporti i Gjellbër 2015*, dhjetor 2015, p. 30.

³⁵ For more about cooperatives see: Ministria e Bujqësisë, Pylltarisë dhe Zhvillimit Rural, *Raporti i Gjellbër 2015*, dhjetor 2015, p. 31.

Low level of education among farmers and inadequate rural counselling services, as well as a consistent lack of delivery of technical advice;

Not sufficient attention has been paid to sustainable forest management (one of the issues set out in the Progress Report for Kosovo 2016, where it is explicitly stated that the volume of illegal logging is still very high);

Poor and limited irrigation system in reference to coverage and technology;

Low standard of living in rural areas, in terms of physical and social infrastructure;

Rural infrastructure: poor quality roads (but improving), limited access to drinking water and poor waste disposal, limited telephone networks, IT and electricity;

Unfavorable commercial and microfinance loans (difficulties in access to necessary financing);

Limited marketing and insufficient number of places for collecting all items of widespread use;

Poor administration at central and municipal level.³⁶

Although many challenges remain to be addressed, the allocated amounts of the national budget for the agriculture sector are insufficient. It is expected that as long as Kosovo will not benefit from the right to absorb funds from the Instrument for Pre-Accession for Rural Development (IPARD) ³⁷ of the EU, the national budget will not have the capacity to address the current difficulties in this sector. In this case, the solution of this issue depends on the successful implementation of integration policies with the EU that lead to the development of the

³⁶ Ministria e Bujqësisë, Pylltarisë dhe Zhvillimit Rural, *Plani për Bujqësi dhe Zhvillim Rural 2010-13*, shtator 2010, p. 62-63.

³⁷ IPARD – Instrument for Pre-Accession for Rural Development which objectives are (i) assistance in implementing the Acquis in terms of Common Agricultural Policy (ii) sustainable development of the agriculture and rural development sector in the candidate countries.

agricultural sector and increased competitiveness. In the following section we will focus more on the efficiency of Ministry of Agriculture, Forestry and Rural Development (hereinafter MAFRD) in the planning and management of its available budget towards the satisfaction of needs in this sector, while at the same time towards economic development.

Role of MAFRD in the development of agricultural sector

MAFRD plays an important role in making and implementing policies and programs towards balanced economic development, social and cultural environment, enhancement of welfare in rural areas of Kosovo, by simultaneously contributing to the acceleration of EU integration.³⁸ Owing to the importance of the agriculture sector in the country's economic development, the Government, namely MAFRD has continued to support it in various forms, including providing subsidies to farmers. In accordance with the legal provisions in force, this Ministry is responsible for the implementation of subsidies, respectively measures within the national scheme for agriculture and rural development. These subsidies so far have covered subsidy per head, payments per area for various agricultural crops and subsidy for beekeeping, horticulture projects, greenhouses, meat and dairy processing.³⁹ In addition, MAFRD has supported investment in the irrigation system and the construction of storage facilities for the collection, sorting and storage of agricultural products.⁴⁰ These investments have contributed to

³⁸ Ministria e Financave, *Korniza Afatmesme e Shpenzimeve 2015-2017*, prill 2014, p. 55.

³⁹ Ibid.

⁴⁰ Ibid.

increase the attractiveness of the agricultural sector, especially in rural areas for the cultivation of agricultural products.

This sector is set as a priority of the Government and is seen as a strategic sector, therefore, its budgeting has increased over time (financial analysis follows in the coming section of this paper). However, despite this, the available budget for this sector remains low. For many reasons, mainly in the absence of financial means, agriculture sector in Kosovo remains at an unsatisfactory degree addressed by local institutions. As a consequence of Kosovo's poor budget, the main challenge of MAFRD remains an adequate budget management, i.e. spending the financial resources as allocated and that contribute to the fulfilment of priorities as defined. Based on past experience, it is expected that due to depending on national budget funds, Kosovo will continue to face difficulties in terms of additional funding to cover needs for investment in agricultural sector. Therefore, the support of international financial institutions and other donors (providing financial and technical support) in this area is needed to continue the trend of institutional capacity building.

It is well known that the aim of any government is normal functioning and achievement of defined goals, therefore for the orderly execution of its tasks and realization of its activities, it shall adequately distribute and use allocated financial resources, in an efficient and effective manner.⁴¹ A challenge of all spending units for an efficient budget management remains the profound linkage of planning and spending. Meanwhile, for the establishment of a stable and sound budget system as well as for the effective management of the budget, including budget for agriculture sector, according to

⁴¹ Artan Nimani, *Menaxhimi i Financave Publike*, Instituti i Statistikës “Rahmil Nuhiu”, Prishtinë, 2007, p. 87.

the author Isa Mustafa certain actions should be undertaken as follows:

Ensure a strategy that is related to overall priorities and sectoral analysis;

Provide necessary and sufficient funding for the implementation of plans;

Build institutions in such a way that they have the capacity needed and are accountable, in order to transform these funds into qualitative services;

Accompany budget management and execution process with analyses and information on the spending process of funds as a result of continuous monitoring and evaluation.⁴²

Consequently, it is obvious that management of budget execution represents an important element of public finances. Very much so, the focus on the following part will be more about the scope and capacities of MAFRD as a central level institution in budget execution and its orientation towards the development of the agriculture sector as well as obstacles in the implementation of financial means in accordance with agricultural policies.

Scope of responsibilities of MAFRD

MAFRD is the main body of the country's administration that provides public services to the agricultural sector and carries its competences under the Constitution and law. MAFRD is responsible for developing policies and implementing laws for the development and management of agricultural, forestry and rural development activities at national level such as the establishment and implementation of the law on (i) irrigation of

⁴² Isa Mustafa, *Sistemi buxhetor i Kosovës - Politikat dhe Qëndrueshmëria (punim hulumtues)*, Riinvest, 2003, p. 23, available on: <http://www.riinvestinstitute.org>.

agriculture land (ii) sustainable use of agricultural land, its protection and regulation (iii) setting up standards for production and plant protection, organic agriculture and promotion of agricultural (iv) as well as provision of advisory to farmers in the field of production, processing and marketing.⁴³ Moreover, this Ministry in cooperation with other institutions oversees the health standards related to the agricultural sector and enforces quality control of food for the purpose of customer care.

MAFRD within its scope has also drafted the National Agriculture and Rural Development Plan (hereinafter ARDP) which contains the Agriculture and Rural Development Strategy and as such is approved by the Kosovo Assembly for a period of 7 years. ⁴⁴ MAFRD with support from its partners, has recently prepared a draft strategy of ARDP 2014-2020. This plan outlines in detail steps that Kosovo should follow to restructure its agro-rural sector towards fulfilling the obligations it is expected to face as a pre-candidate/candidate country and afterwards as an EU member. The Kosovo Rural Development Policy 2014-2020 will be oriented according to the new strategic directions of EU Rural Development Policies, taking into consideration the experience gained during the implementation of the ARDP 2007-2013. The objectives stated in ARDP 2014-2020 are based on IPA II strategic objectives that reflect also country's strategic objectives for development and specific needs of the agro-food sector, forestry and rural areas of Kosovo.⁴⁵

⁴³ For more see: *Regulation no. 02/2011 on the areas of administrative responsibility of the office of the Prime Minister and Ministries*, appendix 14, approved by the Government of the Republic of Kosovo, date 22.03.2011.

⁴⁴ See: *Law no. 03/L-098 for Agriculture and Rural Development*, Official Gazette of the Republic of Kosovo, no. 56, Prishtinë, 2009, article 5.

⁴⁵ Tina, Volk, Emil, Erjavec, Kaj, Mortensen (editors), *Politika Bujqësore dhe Integrimi Evropian në Evropën Juglindore* (translated into albanian), published by Food and Agriculture Organization of the United Nations (FAO), Budapest 2015, p. 129.

How aspiring is ARDP 2014-2020, is demonstrated by the priorities set for agro-rural development in Kosovo, which are:

Stimulation of transfer of knowledge in innovation in agriculture, forestry and rural areas;

Increasing competition in all forms of agriculture activities and increasing farm sustainability;

Encourage food chain arrangement and risk management in agriculture;

Restoration, conservation and growth of ecosystems that depend on agriculture and forests;

Promotion of resource efficiency and support of shift to a low-carbon and climate-friendly economy in the sector of agriculture, food and forestry;

Encourage social inclusion, poverty alleviation and economic development in rural areas.⁴⁶

MAFRD on annual basis also prepares the Program for Agriculture and Rural Development that sets out schemes and measures for financial support for direct payments and rural development measures. This program is prepared in line with the National Agriculture and Rural Development Plan.

Internal organization and mission of MAFRD

Pursuant to the Regulation (GRK) No.37 / 2013 on Internal Organization and Systematization of Jobs in the Ministry of Agriculture, Forestry and Rural Development,⁴⁷ MAFRD has established its organizational structure consisting of: Cabinet of Minister, Office of Secretary General, Departments and Divisions within the departments.

⁴⁶ Ibid.

⁴⁷This regulation has been approved by the Government of the Republic of Kosovo and has started to be implemented in 2014.

Ministry of Agriculture, Forestry and Rural Development under its umbrella has two subordinate Agencies (Kosovo Forestry Agency and Agriculture Development Agency),⁴⁸ as main bodies holding the power of executive agencies.

The Agriculture Development Agency (hereinafter ADA) is responsible for the implementation of agricultural and rural development policies drafted by the Managing Authority in MAFRD, and carries out a number of other functions for administration of funds for direct payments and rural development measures.⁴⁹

MAFRD is in the process of restructuring and reforming its administration in terms of establishing its organizational structure in line with the Common Agricultural Policy,⁵⁰ so it will become competent in implementing the pre-accession support (IPARD) within the framework of European integration process. This would imply the full independence of ADA in the execution of funds for direct payments and rural development measures, as the execution of these payments is still carried out by the central finance office placed in MAFRD. It is worth mentioning that ADA will form the main part of the institutional structure for absorbing IPARD funds. However, despite the relevance of MAFRD restructuring process for the development of agriculture sector, this process is complex and is being associated with challenges such as in ability or difficulty in hiring new staff for the required positions, insufficient budget etc.

⁴⁸ *Regulation (GRK) No.37 / 2013 on Internal Organization and Systematization of Jobs in the Ministry of Agriculture, Forestry and Rural Development*, Official Gazette of Republic of Kosovo, no.12, Prishtinë, 2014, article 50.

⁴⁹ *Law no. 04/L-090 on Amending and Supplementing the Law No. 03/L-098 on Agriculture and Rural Development*, Official Gazette, no.28, Prishtinë 2012, article 11.

⁵⁰ The Common Agricultural Policy is an EU system of agricultural aids and programs aimed at (i) increasing the incomes of the rural population (ii) increasing production (iii) market stability (iv) protecting and preserving the environment and (v) poverty alleviation.

Budget performance analysis in MAFRD during the period 2012-2015

The following part of this paper will present the analysis on the performance of the budget execution for MAFRD and its subordinate Agencies. On this account the actual expenditures will be compared with the initial budget and the final budget (the revised budget at the end of each year) with the aim to present an overview to what extent the objectives set for this sector have been achieved. The analysis will cover the financial period 2012-2015 (occasionally 2011 based on the available data). The data presented in this paper are taken from the Budget Laws, MAFRD annual financial reports, and budget summary reports through Free Balance as well as audit reports of the Office of Auditor General as a result of budget implementation at MAFRD.

The following table no.1 of this paper presents an overview of the overall performance of MAFRD budget implementation over the 2012-2015 financial period. The table consists of five columns for each year. The columns are labelled as (i) A - overview of the approved budget (ii) B - overview of revised budget at the end of the year ⁵¹ (iii) C - overview of actual expenditure (iv) D - ratio between actual expenditure and revised budget (C/B) expressed in% and (v) E - ratio between actual expenditure and planned budget (C/A) expressed in % according to sources of financing, economic categories and capital investments within MAFRD.

⁵¹ Ministry of Finance with its guidelines enables all budget organizations, including MAFRD, to review their budget so that they can assess the performance of expenditures by that point of the year. In this case, MAFRD evaluates the activities and expenditures realized as well as other expenses that are planned for spending until the end of the fiscal year.

Table 1. Execution of allocated budget for MAFRD over the financial period 2012-2015.

MAFRD	2012 ⁵²				
('000 EUR)	A	B	C	D	E
Total	21,409	26,160	22,424	86%	105%
Kosovo Consolidated Fund	21,409	26,160	22,424	86%	105%
Central Grants	21,100	22,613	20,615	91%	98%
Own source revenues	309	356	204	58%	66%
Loan	-	3,192	1,605	50%	-
Donator Grants	-	0.065	-	0%	-
Total economic categories	21,409	26,160	22,424	86%	105%
Wages and Salaries	1,939	2,145	1,607	75%	83%
Goods and Services	3,024	3,968	2,248	57%	74%
Utilities	128	128	98	76%	77%
Subsidies and Transfers	8,400	18,223	17,015	93%	203%
Capital Investments	7,919	1,696	1,455	86%	18%

⁵²The numerical data for year 2012 are provided by the 2012 budget summary report for MAFRD taken from KFMIS, budget table 3.1. and table 3.2 of central level capital projects, approved by Law no. 04 - L - 079 on the Budget of the Republic of Kosovo for year 2012 (Official Gazette of the Republic of Kosovo, no. 30, Prishtinë 2011). The data are further processed by the author.

MAFRD	2013 ⁵³				
('000 EUR)	A	B	C	D	E
Total	23,359	23,534	22,471	96%	96%
Kosovo Consolidated Fund	23,359	23,534	22,471	96%	96%
Central Grants	23,117	17,938	17,232	96%	75%
Own source revenues	242	391	211	54%	87%
Loan	0	5,205	5,028	97%	-
Donator Grants	-	443	0	0%	-
Total economic categories	23,359	23,534	22,471	96%	96%
Wages and Salaries	1,939	1,889	1,599	85%	83%
Goods and Services	3,024	3,131	2,678	86%	89%
Utilities	128	128	94	74%	73%
Subsidies and Transfers	9,400	16,499	16,428	100%	175%
Capital Investments	8,869	1,887	1,672	89%	19%

⁵³ The numerical data for year 2013 are provided by the 2013 budget summary report for MAFRD taken from KFMIS, budget table 3.1. and table 3.2 of central level capital projects, approved by Law no. 04/L-165 on the Budget of the Republic of Kosovo for year 2013 (Official Gazette of the Republic of Kosovo, no. 36, Prishtinë 2012). The data are further processed by the author.

MAFRD	2014 ⁵⁴				
('000 EUR)	A	B	C	D	E
Total	27,170	28,269	24,159	85%	89%
Kosovo Consolidated Fund	27,170	28,269	24,159	85%	89%
Central Grants	22,362	19,385	17,965	93%	80%
Own source revenues	259	391	258	66%	100%
Loan	4,550	4,550	2,886	63%	63%
Donator Grants	-	3,943	3,049	77%	-
Total economic categories	27,170	28,269	24,159	85%	89%
Wages and Salaries	1,939	1,991	1,782	90%	92%
Goods and Services	3,304	3,538	3,218	91%	97%
Utilities	128	118	95	81%	75%
Subsidies and Transfers	11,810	20,402	18,338	90%	155%
Capital Investments	9,989	2,220	726	33%	7%

⁵⁴ The numerical data for year 2014 are provided by the 2014 budget summary report for MAFRD taken from KFMIS, budget table 3.1. and table 3.2 of central level capital projects, approved by Law no. 04/L-233 on the Budget of the Republic of Kosovo for year 2014 (Official Gazette of the Republic of Kosovo, no. 1, Prishtinë 2014). The data are further processed by the author.

MAFRD	2015 ⁵⁵				
('000 EUR)	A	B	C	D	E
Total	60,153	58,801	57,521	98%	96%
Kosovo Consolidated Fund	60,153	58,801	57,521	98%	96%
Central Grants	58,602	53,544	52,643	98%	90%
Own source revenues	229	329	228	69%	100%
Loan	1,322	1,322	1,207	91%	91%
Donator Grants	-	3,606	3,443	95%	-
Total economic categories	60,153	58,801	57,521	98%	96%
Wages and Salaries	2,292	2,014	1,957	97%	85%
Goods and Services	2,808	3,990	3,692	93%	131%
Utilities	109	119	98	83%	90%
Subsidies and Transfers	53,574	51,555	50,724	98%	95%
Capital Investments	1,370	1,123	1,050	93%	77%

⁵⁵ Audit Report on the Financial Statement of the Ministry of Agriculture, Forestry and Rural Development for the year ended on 31st of December 2015, Office of the Auditor General, p. 17 as well as table 3.2. for capital projects, approved by Law no. 05 / L-001 on the Budget of the Republic of Kosovo for year 2015.

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Total Capital Investments	7,919	1,696	1,456	86%	18%
Rehabilitation of irrigation system in Kosovo	4,157	526	476	91%	11%
Establishment of vineyard cadastre and Kosovo wine industry	250	250	250	100%	100%
Construction of Markets and landfills for collection, preservation and classification of agricultural production	2,592	-	-	0%	0%
Forestation of treeless surfaces	500	500	484	97%	97%
Development of management plans	200	200	200	100%	100%
Purchase of cars	50	50	46	-	91%
Purchase of cars	-	-	-	-	-
Aero photography of the country territory	-	-	-	-	-
Laboratory Capacity Building in AIK	-	-	-	-	-
Renovation of the AIK Facilities - Administration Building	-	170	-	-	-
Construction of the dam over Popoc river	-	-	-	-	-
Purchase of cars (WB)	-	-	-	-	-
Pre commercial thinning	-	-	-	-	-
Building of experimental grove	30	-	-	-	-
Enabling of IBK farm surface	140	-	-	-	-
Research and manufacturing capacity building of agricultural properties AIK	-	-	-	-	-

Total Capital Investments	8,869	1,886	1,671	89%	19%
Rehabilitation of irrigation system in Kosovo	3,874	21	0	0%	0%
Establishment of vineyard cadastre and Kosovo wine industry	250	250	250	100%	100%
Construction of Markets and landfills for collection, preservation and classification of agricultural production	3,510	0	0	0%	0%
Forestation of treeless surfaces	550	550	457	83%	83%
Development of management plans	300	300	300	100%	100%
Purchase of cars	50	50	50	100%	100%
Purchase of cars	0	4	4	100%	
Aero photography of the country territory	65	65	65	100%	100%
Laboratory Capacity Building in AIK	180	166	166	100%	92%
Renovation of the AIK Facilities - Administration Building	90	138	129	94%	143%
Construction of the dam over Popoc river	0	32	0	0%	-
Purchase of cars (WB)	0	310	250	73%	-
Precommercial thinning	-	-	-	-	-
Building of experimental grove	-	-	-	-	-
Enabling of IBK farm surface	-	-	-	-	-
Research and manufacturing capacity building of agricultural properties AIK	-	-	-	-	-

Management of financial recourses in the MAFRD of the agriculture sector in Kosovo

Total Capital Investments	9,989	2,220	727	33%	7.3%
Rehabilitation of irrigation system in Kosovo	4,659	-	-	-	-
Establishment of vineyard cadastre and Kosovo wine industry	250	250	245	98%	98%
Construction of Markets and landfills for collection, preservation and classification of agricultural production	3,510	0%	0%	-	-
Forestation of treeless surfaces	450	450	44	10%	10%
Development of management plans	250	250	151	61%	61%
Purchase of cars	200	200	0	0%	0%
Purchase of cars	-	-	-	-	-
Aero photography of the country territory	-	-	-	-	-
Laboratory Capacity Building in AIK	180	180	180	100%	100%
Renovation of the AIK Facilities - Administration Building	300	300	7	2%	2%
Construction of the dam over Popoc river	-	-	-	-	-
Purchase of cars (WB)					-
Pre commercial thinning	-	400	0	0%	-
Building of experimental grove	-	-	-	-	-
Enabling of IBK farm surface	-	-	-	-	-
Research and manufacturing capacity building of agricultural properties AIK	190	190	100	52%	52%

Total Capital Investments	1,370	0	0	0	0
Rehabilitation of irrigation system in Kosovo	-	n/a	n/a	n/a	n/a
Establishment of vineyard cadastre and Kosovo wine industry	-	n/a	n/a	n/a	n/a
Construction of Markets and landfills for collection, preservation and classification of agricultural production	-	n/a	n/a	n/a	n/a
Forestation of treeless surfaces	450	n/a	n/a	n/a	n/a
Development of management plans	250	n/a	n/a	n/a	n/a
Purchase of cars	-	n/a	n/a	n/a	n/a
Purchase of cars	-	n/a	n/a	n/a	n/a
Aero photography of the country territory	-	n/a	n/a	n/a	n/a
Laboratory Capacity Building in AIK	230	n/a	n/a	n/a	n/a
Renovation of the AIK Facilities - Administration Building	350	n/a	n/a	n/a	n/a
Construction of the dam over Popoc river	-	n/a	n/a	n/a	n/a
Purchase of cars (WB)	-	n/a	n/a	n/a	n/a
Pre commercial thinning	-	n/a	n/a	n/a	n/a
Building of experimental grove	-	n/a	n/a	n/a	n/a
Enabling of IBK farm surface	-	n/a	n/a	n/a	n/a
Research and manufacturing capacity building of agricultural properties AIK	90	n/a	n/a	n/a	n/a

From table no. 1 as presented above, it can be observed that the rate of budget execution in relation to the revised budget has not changed significantly over the years, marking an increase in 2013, whereas 2014 is seen as the year with the worst performance of budget implementation, however in 2015 it has increased to an execution rate of 98%. The highest budget execution rate was actualized in 'subsidies and transfers' category, which concurrently has the highest participation in the overall budget of the Ministry in each year. In relation to planning, the rate of budget spent in this category is significantly higher, where in 2012 it has surpassed it by 203%. If we observe at capital investments in relation to planning, we notice a large execution margin of 7.3% in 2014, thus contributing to a very low implementation rate (18% at a general level in 2012, 19% in 2013, proceeding with 7.3% in 2014). Despite the importance of the capital project "Rehabilitation of the irrigation system in Kosovo" in creating a sustainable agro-rural sector and friendly to environment, it has continued to be implemented at a relatively low rate, where in 2012 it was executed only 11%, while in 2013 and 2014 with 0%.⁵⁶

On the other hand, the relevance of the capital project "Construction of markets and landfills for collection, preservation and classification of agricultural production" is seen in the closer linkage of production with the domestic market and the agro-processing industry, by promoting exports and functioning of many capacity for investment in production, thus affecting the job creation and savings from import.⁵⁷ Furthermore, "... as one of the main goals of Kosovo agricultural policies is to increase the quantity and quality of agricultural products, it is essential that

⁵⁶ Ministria e Bujqësisë, Pylltarisë dhe Zhvillimit Rural, *Plani për Bujqësi dhe Zhvillim Rural*, Prishtinë, 2010, p. 107.

⁵⁷ Ministria e Bujqësisë, Pylltarisë dhe Zhvillimit Rural, *Raporti i Gjelbër 2015*, dhjetor 2015, p. 20.

MAFRD further supports the investment in the setup of product collection points, where not only collection will take place, but also control, classification, packaging, labelling and offering of domestic products to the market for a longer period of time".⁵⁸ Apart from this, table 1 shows that this capital project has continued to be implemented at a rate of 0% during this time period.

The significant deviation between planning and expenditure in this category derives mainly from the transfer of financial means from this category to 'subsidies and transfers', for the reason of insufficient funds. Other reasons for underspending of capital investments include delays in procurement procedures, which raises the need for improved public procurement. As a result of all this the agriculture sector is harmed considering that capital investments are direct and long-term developers of this sector.

From the table above, we can notice that the category 'wages and salaries' is not fully executed for the fact of unrealized job vacancies as approved with budget for various reasons. Although very much needed, MAFRD seems to have faced difficulties in hiring new staff. The need for recruitment of additional staff is accentuated by a reorganization process of MAFRD, and even more by the accreditation process of ADA for the implementation of IPARD funds.

Also, from the data presented in this table, we can clearly see that for economic categories 'utilities' and 'goods and services' the execution rate did not mark any significant change except in 2012 where 'goods and services' experienced a significant drop in a rate of 56.7%.

As a conclusion, we can come to an end that the performance of budget execution at the Ministry level for the period

⁵⁸ Ibid.

concerned is considered to be good, although with the possibility of further improvement. However, it should be considered that the spending of the budget during this period of time is not fully oriented as planned. Therefore, further attempts need to be done in the future towards capacity building to bring budget planning in line with agricultural policies.

Annual expenditure increase in MAFRD

Based on the data presented in the annual budget laws for the period 2011-2015 we can conclude that the participation of the total expenditures of MAFRD in relation to national budget has increased slightly over time. This can be observed from the data that show the annual increase of expenditures in nominal terms of this Ministry as presented in table no.2.

Table 2. Annual expenditure increase in nominal terms MAFRD 2011-2015.⁵⁹

(000' Euro)	Expenditure 2011	Expenditure 2012	Expenditure 2013	Expenditure 2014	Expenditure 2015
Ministry of Agriculture, Forestry and Rural Development	12,688	22,424	22,471	24,159	57,521
Wages and Salaries	1,466	1,607	1,599	1,782	1,957
Goods and Services	1,644	2,248	2,678	3,218	3,692
Utilities	89	98	94	95	98
Subsidies and Transfers	7,806	17,015	16,428	18,338	50,724
Capital Investments	1,684	1,455	1,672	726	1,050
Liabilities	183	492	12,024	18,724	n/a
Annual nominal increase of budget expenses	-	77%	0%	8%	138%
Annual nominal increase of operating expenses	-	91%	-1%	13%	141%

⁵⁹ Based on data from Annual Budget Laws (2011-2015). MAFRD actual expenditure divided by the overall Government budget.

(000' Euro)	Expenditure 2011	Expenditure 2012	Expenditure 2013	Expenditure 2014	Expenditure 2015
Annual nominal increase in capital expenditures	-	-14%	15%	-57%	45%
Annual nominal increase in liabilities	-	169%	2344%	55,7%	-
Overall expenditure as a percentage of national budget	1%	2%	1%	2%	4%

The data presented in table 2 show that the annual increase of budget expenditures in nominal terms at the general level of this Ministry is positive. The highest increase was recorded in 2012, where actual expenditure is 77% higher compared to the previous year, and has continued to be relatively constant for the coming years with an exception in 2015, which is significantly higher. This was impacted to a certain extent by a decision of the Government that allowed an increase of 138% in the budget allocated for category 'subsidies and transfers' in 2015 compared to 2014 budget appropriations. Meanwhile, it should be noted that the annual increase of capital expenditures does not appear to be satisfactory, reaching the worst performance at a rate of -57% in 2014.

On the other hand, simultaneously with increasing expenditures, liabilities (unpaid obligations) have also increased. The highest amount of debts is accumulated in 2013 and 2014. If we compare 2012 and 2013 budgets we see a substantial increase in the total of unpaid obligations. With the total amount of 12 million Euros liabilities at the end of the fiscal year 2013, MAFRD actually ended the year with a budget debt or deficit of 53.4%. These liabilities were carried forward in 2014, which year was ended with a budget deficit of 77.5%. This can be clearly observed from the data presented in table no.3.

Table 3. MAFRD liabilities for the period 2011-2015 by economic categories.⁶⁰

Amounts in 000' Euro	2011	2012	2013	2014	2015	Total 2011-2014
Total	183	492	12,024	18,724	n/a	31,423
Wages and Salaries	-	-	-	-	n/a	-
Goods and Services		44	50	430	n/a	612
Utilities	5	6	5	8	n/a	24
Subsidies and Transfers	90	377	11,966	12,285	n/a	24,718
Capital Investments	-	65	2	2	n/a	67

Table 3 clearly indicated that MAFRD has created obligations in all categories except wages and salaries. The largest amounts of debt created are in the category 'subsidies and transfers'. This is because the number of farmers applying for subsidies and who have met the criteria has far exceeded the planned number. In this case MAFRD is obligated to provide subsidies to farmers who have fulfilled the criteria as long as there are legal requirements requiring such. Consequently, MAFRD has transferred financial means from 'capital investments' to 'subsidies and transfers', leaving some capital projects lack behind in the implementation. Unpaid obligations were carried forward from year to year, which have been a priority over other expenses. Based on all this, I consider that the reason for the accumulation of debt was mainly the lack of financial means.

Meanwhile, if we observe expenditures of the Ministry according to economic categories, we can notice that the largest share of expenditures is destined for the economic category

⁶⁰ Data from Annual Financial Reports of the Ministry of Agriculture, Forestry and Rural Development for the years ended on 31st of December 2011-2014.

'subsidies and transfers'. Expenditures by economic categories are presented in figure no. 1 as below.

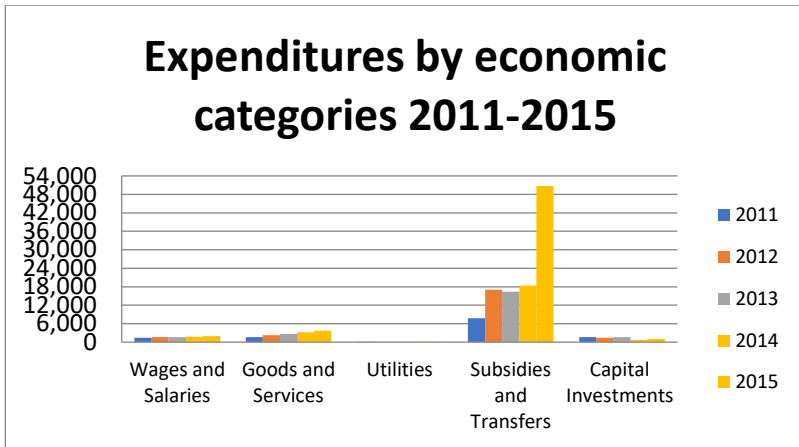


Figure 1. Expenditures by economic categories MAFRD 2011-2015

Figure 1 shows large differences in the share of expenditures by economic categories. Thus largest part of the expenditures for this time period were destined for the economic category 'subsidies and transfers' which has continued to mark an upward trend, slightly affecting the development of agriculture sector and economic development of Kosovo in general, while capital investments have marked a decline with time.

Goods and services have slightly increased, while wages and salaries and utilities have been relatively constant over the years due to the fact that these levels are preliminarily defined, are generally invariable from activity level and are charged to the Ministry on a regular basis.

Conclusion

Agriculture in Kosovo is of great importance, although with this modest budget, it is impossible to address and solve all the challenges. Budget support for agriculture is anticipated to gradually change with EU integration and the acquisition of the right to utilize Pre-Accession funds for Rural Development (IPARD). The ADA, which already is in the process of its independence in accordance with IPARD rules and procedures, in addition to the implementation of measures under the national scheme will also be responsible for the implementation of EU funds. This Agency is in the process of consolidating its organizational structure, which implies that full decentralization of financial functions has not yet taken place. As a consequence, the execution of payments for rural development grants and direct payments has and continues to be carried out by the finance office in the Ministry, thus resulting in delays in payments and the overload of administrative work for the ADA. Moreover, this contributes to stagnation in the agricultural development process because the independence of ADA in the management, monitoring and control of subsidies is a prerequisite to benefit from EU funds that are destined for the development of agriculture with the aim of achieving sustainability in agriculture and rural development. An efficient public administration is very important for the functioning of the Common Agricultural Policy, so it is important for ADA to consolidate its organizational structure and to fully decentralize its financial and audit functions. EU support for the agriculture sector would solve the problem of financial inefficiency.

Another area requiring special attention is the revision of expenditure financial control. Budget execution requires improvements, with more attention to the category of capital investments that shows a significant deviation with initial

planning. This requires undertaking actions in terms of more realistic planning regarding 'capital investments' and 'subsidies and transfers'. A strict budget assessment and planning process should be ensured which would enable the Ministry to meet its objectives and avoid accumulation of unpaid obligations and budget deficit, as well as unplanned surplus from under-spending of the budget. The Budget surplus is also related to insufficient human capacities, especially in ADA for the proper management of allocated funds.

In this context, due to the inability to increase funding, it is suggested to take into account the impact of the Program for Agriculture and Rural Development during the annual and medium-term budget formulation. It is also recommended to enable changes in the monetary values set for the measures and sub-measures in this Program in proportion to the number of farmers who meet certain criteria in order to avoid exceeding of approved amounts and thus avoid obligations.

As per capital investments, considering their relevance there is an increasing need for their financing, especially for the most essential ones (rehabilitation of irrigation, land consolidation, construction of markets and landfills for collecting, storing and classifying agricultural products). The importance of implementing these capital projects lies in standardizing agricultural products and certifying their quality, boosting production capacities and increasing productivity, promoting use of production factors in a more efficient manner (productivity in the country is below the EU average due to high fragmentation of farms), in the creation of new jobs and at the same time in increasing of export and farmers' income.

Strengthening the administrative capacity of the agricultural administration, in particular in the area of agricultural policy formulation, analysis, implementation, monitoring, reporting and control, enables the provision of

efficient public services and agricultural policy management. Improving the quality of reporting by involving Key Performance Indicators that facilitate the decision making process and enable results-oriented budgeting would significantly impact on the overall effective management of expenditures and would increase transparency in the work of MAFRD.

In terms of institutional capacity building, in the absence of transparency, the European Commission has repeatedly recommended to take actions to improve budget transparency. Currently, MAFRD budget structure, being the highest instance in the agricultural sector, does not enable a linkage of long-term policies with the budget. From the observation of the current budget programme structure in the agricultural sector, it is noted that main programs consist of the same sub-programs. This structure does not provide a clear view of the budget, therefore, according to the best practices it is preferable to apply a new approach of program classification that would bring long-term policies and budget to a closer linkage. The aim is to establish a scheme that would contribute to an improved budget assessment, reporting and transparency. Currently in the agricultural sector there are different classifications for the long-term, mid-term (MTEF) and short-term (annual financial plan) period. For this reason, technical assistance has been provided, and work is being done towards the implementation of the recommendations provided by this assistance.

To address the difficulties and challenges in the agricultural sector, and at the same time in the economic development of the country, a closer inter-governmental cooperation and coordination is essential. The role of subsidies for farmers and the importance of capital investment in agriculture would increase with the improvement of fiscal and customs policies for local market development and penetration into foreign markets.

Moreover, improvements in rural infrastructure are also necessary to support business development as well as investments to improve the quality of education and training of farmers

Despite the current situation, the agriculture sector is expected to be placed in a more favorable position in the future. With the increase of budget allocated for this sector the number of grant beneficiaries and of subsidies will increase, the support for the sectors that have been supported in the past years will continue and it will expand to other sectors as well. By benefiting from EU funds, there is expected to be a major development in the agriculture sector, which would have positive effects on the overall economic development of the country. It is therefore the duty of local institutions to work intensively towards addressing the difficulties related to the agriculture sector.

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