

DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft
ZBW – Leibniz Information Centre for Economics

Peci, Bedri

Article

Fiscal transparency in theory and practice

Provided in Cooperation with:

International Institute of Social and Economic Sciences, Prague

Reference: Peci, Bedri (2016). Fiscal transparency in theory and practice.

This Version is available at:

<http://hdl.handle.net/11159/626>

Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/econis-archiv/>

Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.

<https://zbw.eu/econis-archiv/termsfuse>

Terms of use:

This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.

DOI: [10.20472/BM.2016.4.4.004](https://doi.org/10.20472/BM.2016.4.4.004)

FISCAL TRANSPARENCY IN THEORY AND PRACTICE: THE CASE OF KOSOVO

BEDRI PEÇI

Abstract:

The aim of this research is to analyze and find out the major issue of fiscal transparency in theory and practice and the case of Kosovo. In this analysis we have used the research method of case study. The results of research show that are given various definitions from different aspects of transparency in general and of fiscal transparency particularly in financial theory. Nowadays, transparency has been made an indicator of the quality of institutions and credibility of modern states. Frequent social and political changes in Kosovo from 1999 until the second half of 2008, and those that followed them have also had their effects on the management of public finances, budgetary procedure and fiscal transparency. With the declaration of independence of Kosovo and the entry into force of the constitution, de jure, the role of parliament in the budgetary procedure was increased. Despite the achieved results, this analysis points out a lot of deficiencies that are necessary to be addressed in order to increase fiscal transparency in Kosovo. Among other things, transparency should be increased by strengthening the role of parliament in the budgetary procedure.

Keywords:

Fiscal Transparency, Indexes, Budget procedure, Parliament.

JEL Classification: D72, E60, E62

Authors:

BEDRI PEÇI, FACULTY OF LAW, UNIVERSITY OF PRISTINE, , REPUBLIC OF KOSOVO, Email: bedri.peci@uni-pr.edu

Citation:

BEDRI PEÇI (2016). FISCAL TRANSPARENCY IN THEORY AND PRACTICE: THE CASE OF KOSOVO . International Journal of Business and Management, Vol. IV(4), pp. 78-91., [10.20472/BM.2016.4.4.004](https://doi.org/10.20472/BM.2016.4.4.004)

1 INTRODUCTION

Body of your article Transparency has always been and it will remain a continual object of attention of politics both in national and international degrees between agencies such as the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD), and through NGOs and initiatives such as Project of International Budget that promotes the ability of civil society to analyze and influence the budget process and its outcome.

The importance of transparency was highlighted, especially in the 90s of the last century, after the shock that was experienced by different states and regions, such as the Mexican crisis (1994) and Asian Crisis (1997) (Philips and Stewart, 2008). In financial theory these two crises are known as turning points in the academic and institutional debate on transparency, by raising concerns about the potential negative impacts of the absence of transparency in general and fiscal transparency in particular. According to the IMF, lack of transparency was the main cause of the Mexican crisis in 1994-95 and the emerging market crisis of the years 1997-98 in Asia and Russia. (IMF, 2001). They estimated that inadequate economic data, hidden weaknesses in financial systems, and lack of clarity about governmental policies contributed to the loss of confidence which eventually also risked undermining the global stability. Since the term transparency has a multidimensional application in politics, public finances, bureaucracy etc. we will especially refer to fiscal/ budget transparency and as a consequence some of its implications in a broader perspective as well.

International institutions finally shifted their interest more and more towards the advancement of the relationships between good governance and increasing transparency to achieve better economic and social results. In this aspect IMF opened the way with the drafting of the Code of Good Practices on Fiscal Transparency-Declaration for Principles on its 50th meeting in Washington DC on April 16, 1998 (IMF, 1998). Meanwhile, the other international institutions began to promote transparent policies among its member countries. Examples include OECD with "Best practices for budget transparency" compiled in 2001 (OECD, 2002). The greatest fiscal transparency has been advised by these institutions in many countries, including economies in transition, as a precondition for fiscal sustainability and good governance. From the empirical economic literature we learn that countries with low fiscal transparency tend to experience low levels of foreign direct investments (FDI), higher level of corruption, slow growth rates and as a consequence lower levels of GDP per capita, as well. Despite the attention that transparency has taken in the last decade, empirical studies on its importance are still limited. Recently, financial scientists and various international institutions have focused their studies on the positive effects of fiscal transparency, -such as different approaches to improve international capital markets, attraction of foreign direct investments, prevention of financial crisis and even the reduction of differences in interest.

In contemporary budgetary theory and practice budget transparency, respectively budgetary procedure transparency (Principle of budget publicity) is given more and more importance. This is manifested through the sanction of the obligation of transparency in the entire budgetary procedure. Budget transparency makes possible and ensures tax payers and all other citizens to

become familiarized with the type and amount of budget entries and the purpose of their spending, in other words with all the financial activity of the state.

When the principle of transparency in budgetary procedure is respected it makes possible for the academic researchers, non-governmental organizations and different other groups to provide independent analysis related to budgetary priorities. (Lazere, 2002, p.1) As mentioned earlier, budget transparency is essential for all the phases of budgetary procedure, as in the stage of compilation, approval, execution, control and also in the phase of final account. Fiscal transparency has been treated in a segmental and indirect way by authors and institutions. The aim of this analysis is highlighting some of basic specifics which characterize theory and practice of fiscal transparency in generally and progress achieved in assessment of fiscal transparency from different approaches.

While generally transparency has been object of discussion and analysis in many occasions in Kosovo, there is a lack of theoretical and empirical analysis on fiscal transparency in particular. In this paper we have analyzed a very specific attribute of the quality of government, that is, the extent to which Kosovo governments provide fiscal information to the public, respectively which is legal framework on fiscal transparency? Which are institutional measures taken for increasing fiscal transparency and which is the role of Kosovo parliament in budgetary procedure and through it in increasing fiscal transparency?. The role of Kosovo parliament in budgetary procedure is made examining the main factors from which the budget power of the parliament depends on, such as: 1) parliament's opportunity to have access on important documents on budget; 2) the role of parliamentary committees on budgetary control; c) parliament's capacity and possibilities for budget research and analysis, 3) the dynamics of political parties, and 4) the Assembly's technical capacity to conduct budget research and analysis. In this context this paper is structured as follows: in the third part we have analyzed definition of fiscal transparency and literature review on fiscal transparency. In this part we have analyzed different approaches of given definitions on the concept of fiscal transparency and we have reviewed the relevant literature on fiscal transparency which treats fiscal transparency from different dimensions. In this aspect, except the literature, we have also analyzed the legal norms and measures that directly or indirectly promote fiscal transparency. In fourth part we have analyzed fiscal transparency in Kosovo from legal and institutional perspective. At the end conclusions are given.

2. METHODOLOGY

In this analysis we have used the research method of case study. Research methodology is based on sources such as analyses, studies and scientific papers on fiscal transparency. Taking into account the fact that until now in Kosovo no such analyses have been conducted we have analyzing all legal documents based on which budgeting is developed as well as reports of the Ministry of Finance, laws and constitution of Kosovo. The paper method takes into account current efforts to measure transparency in institutions such as the Organization for Economic Cooperation and Development (OECD), International Monetary Fund (IMF) Code of Good Practices for Fiscal Transparency and financial theory on the role of legislature in budgetary procedure as precondition for increasing fiscal transparency. In writing the paper we attempted to reflect the full spectrum of opinion on fiscal transparency in Kosovo comparing with best standards and practices of fiscal transparency.

3. DEFINITION AND LITERATURE REVIEW ON FISCAL TRANSPARENCY

In financial theory different authors from different viewpoints have given various definitions of transparency in general and of fiscal transparency in particular.

In the beginning we start with the definition of transparency in general by Drabek and Payne (Drabek and Payne, 2001). They define transparency as “reference to the clarity and effectiveness of activities that have an impact on public policies, whereas fiscal transparency as a connection with the intentions of the policy of opening up, formulation and implementation.”

A more specific definition of transparency can derive if the definition is given in relation to fiscal and budgetary policies. From this dimension Kopits and Craig have described it as: “Openness to the general public in connection to the governmental structure and functions, intentions of fiscal policy, accounts of public sector and projections. It includes direct, reliable, complete, prompt, comprehensible, and internationally comparable access of government activities “, so that the financial markets and the electorate can examine accurately the financial position of the government and the real cost of government’s activities and benefits, including the current and future economic and social implications of them (Kopits and Craig, 1998:1).

Such a definition over fiscal transparency given by Kopits and Craig corresponds to the other definition of fiscal transparency of the IMF Code (1999, 2007 revised). Fiscal transparency is defined by IMF as public openness of the past of the government, the present and future of fiscal activities, and about the governmental structure and functions that determine fiscal policies and its outcomes. The code extends this definition in four areas: (1) the clarity of roles and responsibilities; (2) public budget processes; (3) the availability of information to the public; and (4) the guarantee regarding the integrity of information, including the request that fiscal information should be considered externally, too.

In addition to the IMF, Folscher has the same opinion as Kopits and Craig, too. Based on the prior studies she considers transparency not just as openness to the public, but as an openness of the prompt, precise and relevant information on the actions, rules, plans and processes. (Folscher, 2010:11).

In this context OECD defines budget transparency as “complete openness of all the relevant fiscal information on the appropriate time and in a systematic way” (OECD, 2002, p.7). Therefore, in the Best Practices for Fiscal Transparency, OECD describes fiscal transparency more specifically. Transparency is described as a connection with policy of openness, its intentions, formulations and implementation, expanding this characteristic at (1) required reports in the budgetary process and their general content, (2) the act of giving specific, necessary and explanatory information in those reports and (3) the application of the necessary practices in order to ensure the integrity and the quality of the information in those reports. In other words, the OECD focuses on the information that should be available to the public, the timelines and the standards of quality.

Another particular definition of transparent budgetary procedures is provided by Poterba and Von Hagen: “A transparent budgetary procedures is that one that provides clear information on all

aspects of the fiscal policy of the government. Budgets that include multiple accounts as special accounts and fail to consolidate all the fiscal activity to the degree 'bottom line' only; are not very transparent. Budgets that are easily available to the public participants and the process of decision making policies in function of the consolidated actual information are transparent " (Poterba and Von Hagen, 1999, p.3-4).

Based on many scientific articles the concept of fiscal transparency in the last decade is taking much more importance within the budget structure that it has become an indicator of the quality of institutions and the credibility of the states. Theoretical literature on the implications of fiscal transparency is not abundant, but it is expanding quickly. Various financial authors have treated fiscal transparency from different dimensions. Some authors have studied the relationships between fiscal transparency and fiscal performance and/or other macroeconomic indicators, offering better explanations and a variety of theories rather than a unique and common explanation.

Erbas has analyzed the relationship between the transparency and the investments' degree that a country may attract. He indicates that the return from the investment is much higher in those countries that are more transparent and the uncertainty of possible results is more reduced. As a consequence, those states attract much more capital investments that those countries that are less transparent (Erbas, 2004).

Hameed on his study concludes that states with a high index of fiscal transparency are characterized with a better fiscal discipline (Hammed, 2005).

Gleich indicates that budgetary procedures which reduced budget problems in the countries of Eastern Europe have resulted in increased fiscal discipline in these countries (Gleich, 2003).

Lasen and Alt consider that "fiscal transparency makes possible for the voters, interest groups and competitive political parties to observe and conclude better and more accurately the causes and consequences of the governmental fiscal policy, either directly or through the media" (Alt and Lassen, 2006,p.1406-1407).

Milesi-Ferretti studies the interaction between fiscal transparency and fiscal rules, focusing on the effects of the Treaty of Maastricht in the member states of the EU (Milesi-Ferretti, 2004).

Andreula, Chong and Guillen have analyzed the interaction between fiscal transparency and institutional quality, too, and they have concluded that good governance and institutional quality are connected with fiscal transparency and vice versa. These three authors arrived on this conclusion based on the analysis of fiscal transparency indicators provided by the IMF Code on the good practices of fiscal transparency and the IMF Report on the Observance of Standards and Codes (ROSCs) of the year 2007(Andreula, Chong and Guillen, 2009).

IMF World Bank and OECD have developed comprehensive questionnaires and diagnostic tools to examine fiscal transparency, as well as budgetary practices and procedures. Nowadays, fiscal transparency has become an integral part of the public sector planning; therefore IMF and OECD recently have developed codes/ indicators of practice to guide different countries towards the decision-making processes on fiscal policy (Petrie, 2003).

Jarmuzek, Poglar, Matousek and Holscher highlight the role of a transparent fiscal policy in the creation of a better fiscal discipline in those countries that are in transition. For this reason the

main question examined on this paper is whether fiscal policy has been a significant element in the creation of the right policy in transitional economies. This is the first analysis that is being referred to fiscal transparency in transitional countries. Results of this analysis suggest that fiscal transparency has not proven yet to be a very significant factor in the establishment of fiscal performance in transition economies. Actually, the evidence from the data shows a poor negative relationship between fiscal policy and debt accumulation (Jarmuzek, Poglar, Matousek and Holscher, 2006).

Fabrizio and Mody follow Gleich, but come to the conclusion that budgetary institutions are important even when the politicians are representative, but not disciplined, and even when the long-term structural forces are not good enough (Fabrizio and Mody, 2006).

Empirical researches on fiscal transparency are limited, but getting larger now. In this context there are compiled various indexes in order to measure a variety of dimensions of fiscal transparency.

Von Hagen has designed an index of transparency for eight European Countries (Von Hagen, 1992).

Hameed has developed an index of fiscal transparency based on the fiscal reports of IMF Standards and Codes (ROSC) for a wide range of countries. However, this index is the evaluation result of different periods of time published as ROSC (Hammed, 2005).

Jarmuzek Poglar, Matousek and Holscher has designed an index for those economies that are in transition as well, based on an independent study and even using public local sources (Jarmuzek, Poglar, Matousek and Holscher, 2006).

Alt, Lassen and Skilling, compiled an index of fiscal transparency for the member states of the USA expressing empirically the impact of transparency on governmental scale (Alt, Lassen and Skilling, 2002).

This methodology is followed by Alt and Lassen as well, who offer an index of transparency for OECD countries- examining on fiscal relationships. Alt and Lassen relied on The Best Practices of budget transparency of the OECD to design an index for the 19 economies of the OECD (Alt and Lassen, 2006).

IMF and *OECD* are definitely leaders of the development of reporting standards. In this context we must highlight the IMF Code of Best Practices on Fiscal Transparency, as well as the Manual on Fiscal Transparency, and also the Best Practices for Budget Transparency, too, compiled by the OECD. The assessment of the compatibility between different states and the Code of IMF on Fiscal Transparency is made through the Reports on the Observance of Standards and Codes (ROSC). Fiscal transparency has been advised by these institutions in many countries, including economies in transition, as a precondition for fiscal sustainability and good governance.

Empirical analysis of economies in transition does not provide any strong statistical evidence for the importance of fiscal transparency. This can be a result of the lack of consensus among politicians who constrain fiscal policies and/or there are not enough incentives for politicians to hide fiscal negligence. The other reason why fiscal transparency is not important statistically can be as a result of the difficulties encounters to measure fiscal transparency and the relatively short space of time of rapid structural changes that have occurred in these states.

4. FISCAL TRANSPARENCY IN KOSOVO

While generally transparency has been object of discussion and analysis, there is a lack of theoretical and empirical analysis on fiscal transparency in particular. Fiscal transparency has been treated in a segmental and indirect way by authors and institutions. From the analysis of theoretical and empirical treatments of fiscal transparency in Kosovo we can conclude that there are not made any analysis and studies so far, that have as their main concern and focus fiscal transparency in particular.

Kosovo's public financing, has followed Kosovo's social, political, economic and legal changes (initially as part of the federal system and later on as a country under the administration of the United Nations Mission in Kosovo (UNMIK).

In comparison with other countries in transition, the transition process in Kosovo started in quite different circumstances. The transition process, that included a lot of South-eastern European countries during the 90s, initially found Kosovo in a position of undeclared war which erupted in 1998 and ended with the Kumanovo Agreement of 10 June 1999. On June 10, 1999, the Security Council approved Resolution 1244, which established the temporary Mission of the United Nations in Kosovo (UNMIK), thus interrupting effectively the sovereignty of the Federal Republic of Yugoslavia in Kosovo. Until the resolution of Kosovo's final statute, UNMIK was granted with legislative, judicial and executive powers with the 1244 Resolution.

In 2001, negotiations between UNMIK and political representatives of Kosovo resulted in the ratification of the Constitutional Framework for the Provisional Institutions of Self-government (PISG), thus creating a dual system of government with executive and legislative powers shared between UNMIK and PISG (Peci, 2009:56). Budget organizations of PISG were managed by the government of Kosovo and included: the Parliament, Prime Minister and President offices, and the ministries. Even after the declaration of the Constitutional Framework, Special Representative of the Secretary-General (SRSG) had a lot of authority and competencies, which exceeded those of the president in every presidential state. The authority of the SRSG was in a large scale, with emphasis on the special right of his to use the right of veto on laws approved by the Parliament of Kosovo and other self-government institutions, the right to dissolve the parliament, and the main authority of SRSG to approve the budget of Kosovo or not, etc. Such a configuration of dual/hybrid power and frequent legal-political and socio-economic changes had a direct impact on the impossibility of creating a transparent and sustainable budget system. This was not only because the SRSG was responsible for executive key functions, but also because the separation of power between UNMIK and PISG was complex and fluid, and characterized from duality and unclear mixture of functions and responsibilities.

Governance via two authorities continued until the declaration of independence on February 17, 2008, when the majority of central budgetary organizations were set under the rule of Kosovo government. With the declaration of the independence and the approval of the Constitution on April 8, 2008, legal and political preconditions, legal framework for Government and the Assembly of Kosovo were created de jure for better management of public finances, and consequently the increase of transparency in general and fiscal transparency in particular, too. In spite of many

flaws that characterize the management of public finances, several reforms have been undertaken since 1999, whose performance is qualified by some authors as comparable with those of the countries in the region.

The legal framework dictates the nature of the budget process and the degree that governments advance transparency. From the context of fiscal transparency sanctioning through legal framework, Kosovo has made encouraging steps. The applicable legal framework includes legal framework and implementing framework-legal acts that establish and regulate the functioning of internal, institutional/organizational structures and implementing capacities for communication and public information.

The basis of this legal framework constitutes of the relevant provisions of the Kosovo's Constitution and Law on Access to Official Documents. The Constitution of the Republic of Kosovo, determines that "every person has the right of access to official documents". Furthermore, it determines that "Documents of public institutions and organs of state are public, except the information that is restricted by law due to privacy, trade secrets or security classification"(article 41 of Con.). Besides the Constitution, the Law on Access to Official Documents (LAOD, 2003/12) determines that its implementation intends "to enable citizens a closer participation in the decision-making process of public institutions and the insurance that public institutions have legitimacy and greater transparency, in order to be more efficient and explanatory for the citizens"

When Kosovo budget is approved by the Parliament, budget is prepared legally and is published in book form (available according to the request) at the Ministry of Finance and on its website on the internet. Kosovo is committed to implement fiscal transparency and accountability. In addition to the reforms which were developed concerning technical assistance and financial support from the IMF, World Bank, and bilateral donors, the Government of Kosovo has implemented a legal framework for fiscal transparency and accountability, too.

The legal framework for public finance management is regulated by the Law on Public Financial Management and Accountability (LPFMA), which was amended in 2008 with the same name, and the Law on Local Government Finance. While the general framework for the management of public finances is provided by LPFMA, specific, legal and financial relationships are ensured with laws, regulations and the annual budget law. LPFMA promotes transparency though obliging the publication of quarterly reports, as well as the national budget along with other explanatory documents in a comprehensive and understandable form.

There are three documents of great importance for the public financing of each state: long-term economic development strategy, mid-term expenditure framework, and budget as a plan of incomes and expenditures. In spite of many various efforts, there is not a long-term strategy of economic development in Kosovo, which is an obstacle for long-term and mid-term budgetary planning, too. Therefore, the lack of a long-term management is the fundamental weakness of public finance management in Kosovo. The Law on Public Financial Management and Accountability every year has provided a triennial budget perspective. The first attempt for the application of the Medium Term Expenditure Framework (MTEF) was presented at the Donor Conference in December 2005 and revised in 2006. This process was recognized as work in progresses by the government and was not included in the formulation process of budget until 2009. In the absence of this, the budgetary medium-term plan is included in the MTEF and in the

Public Investment Program (PIP). So, even Kosovo was in the process of developing a long-term approach for many years, for the first time, MTEF was introduced in the process of budget formulation of 2009 and covered the period 2009-11.

To increase the accountability and transparency of the budget, all budgets should be published, along with financial reports explaining the allocation and spending of the public money. The review and the process of making parliamentary decisions on the budget in Kosovo is based on budgetary documentation and information that are far from the standards set by OECD for accurate and complete information by the executive branch on the basis of LPFMA (article 45 and 46 of the Law 2003/2). According to this law Ministry of Finance (MF) is responsible for the preparation of three-month reports analyzed by the government. These reports will be presented to the parliament within thirty days after every three months. The final budget report will be prepared not later than March 31 of each calendar year. MF will complete and submit to the government for approval and presentation in the Assembly, a final summary report on the previous year and the two previous fiscal years, too.

Table1. Reporting deadlines

Reporting type	Reporting period	Reporting deadlines in the Government and Assembly	The Auditor General's Report
Three-month reports	January 1 – March 31	April 1 – April 30	
Six-month reports	January 1 – June 31	July 1 – July 30	
Nine –month reports	January 1 - September 31	October 1 – October 30	
Annual reports	January 1 – December 31	January 1 – March 31	Not later than July 31 (for the previous fiscal year)

Source: Article 45 and 46 of Law Nr. 03/L-048 Public Financial Management and Accountability

De facto executive's reports often were delayed and fail to be submitted within the required deadlines as overseen by law. Most of the key budget documents in Kosovo are available to the public, however these documents lack on comprehensiveness and machine-readable formats (i.e. Excel). A limited number of budget organizations have published their budget expenditures. Even those who publish these data do not use proper open or accessible formats, as well as the inclusiveness remains poor. From the total number of ministries in Kosovo in 2016, it turns out that only the Ministry of Justice publishes the budget expenditures in detail, and they are the only ones who provide an accessible format of these expenditures, for further reuse and processing.

Other ministries have not published their budget expenditures in any of the formats; few of them have published annual reports, which are included in the comprehensive report. The Ministry of Finance compiles the comprehensive report for submission to the Assembly (Riinvest, 2006:7). Despite key budget documents are accessible on the website of the Ministry of Finance; their format allows limited access to budget information. To increase the transparency of the budget, all budgets should be published, along with financial reports explaining the allocation and spending of the public money.

For promoting good governance and fiscal transparency, the legislature's active engagement in the budget process is essential. In democratic countries, it is applied the rule that 'elected

parliaments, respectively elected representatives have the power over money, too (Bratic, 2004:15). However, the role of parliaments in the budgetary procedure is not the same worldwide, but it varies from one country to another. The role of parliament in the budget and budgetary procedure is connected directly with the constitutional regulation of relations between legislative and executive bodies, the capacity of political parties and technical capacities of parliaments to deal with budget issues. Usually, the right of legislative bodies to amend the draft budget, in other words the right of the parliament to influence the budget procedure in some countries is provided by their constitutions, but this right can be provided with conventions or ordinary legislation too, as well as provided explicitly by the regulations of the parliament.

Development of the budget procedure only in the line of executive organs negatively influences in many aspects (Wehner, 2004:28); first of all, the basic principle of democracy, implying the rights of legislature to exercise the power over the purse is not being realized, respectively legislature fails to ensure citizens that revenues and expenditures provided in the budget are reasonable and best respond to their needs and that are spent in accordance with forecasts; second, no efficient control of the budget and balance between legislative and executive organs, as a main precondition of the "good public administration" may be realized. Besides this, budget practice of states in various phases has shown that bigger the influence of the parliament in the budgetary procedure the bigger the budget transparency or vice versa (Alesima and Perotti, 1999:25, Chrystal, 1981:32-59, Tanzi, 2000:151, Lazere, 2002:1-23). Let us remember that very important factor which impacted the need to increase the role of legislatures in budget procedure in all South-Eastern countries, respectively increasing of the budget transparency in these countries is the need of countries in development and those in transition to have access to international financial institutions in order decrease poverty. Receiving financial assistance from international financial institutions is conditioned with certain obligations for the developing and countries in transition, out of which most important is having a qualitative and transparent budget procedure (Wehner, 2004:27). With declaration of independence the legal basis for more active role of the Assembly in budget procedure has been created. After the Declaration of Independence and the Constitution the role of the Assembly in budget procedure de jure has improved a lot. While de facto its role is still small and symbolic. The increase of the parliament's role and progress of parliamentary in developing countries and those in transition has been increasing and this has resulted in the development of the budget and budgetary procedure, too. The increase of the parliament's role in these states is a result of democracy and constitutional changes-processes that enabled the increase of the parliament's role in their political systems previously closed.

The development of budgetary procedure only in the line of executive bodies affects negatively many aspects, but most of all it makes the budget nontransparent. The willingness and wish of citizens to fulfill fiscal obligations is bigger in those countries with budget transparency, whereas in those countries with budget non-transparency it is very difficult to win the trust of citizens for reforms and as a result there is tax evasion. Although, from the legal and constitutional viewpoint Kosovo's parliament has the unlimited right to make changes in the budget, de facto, the parliament has a passive role in the budget and budgetary procedure. Apart from the availability of information (as discussed above) four further factors influence the effectiveness of parliament's participation in the budget: 1) parliament's opportunity to have access on important documents on budget; 2) the role of parliamentary committees on budgetary control; c) parliament's capacity

and possibilities for budget research and analysis, 3) the dynamics of political parties, and 4) the Assembly's technical capacity to conduct budget research and analysis (Peci, 2013:21).

1) The amount of supplementary documentation following-up the draft-budget in the Assembly is exceedingly formal and inconsonant with the deficient cognition of budgetary issues by the most of the members of the Assembly. Anyhow, this presents a nuisance for the members of the Assembly for understanding budgetary policies on which the budget rests. Moreover, the budgetary information is not presented clearly and understandably.

2) It is often thought that the existence of a strong system for the Assembly operational committees is a guarantee for an increase of Legislature's role on the decision-taking (Leloup, 2004:52). In Kosovo, although the government is built upon bi-partisan coalition, the role of Budget and Finance Committee in informing the Assembly and the citizens on the budget issues remains minor because of the committee's inability to have timely and constant access on the records on budget executions (Peci, 2013:24).

3) Budgetary theory and practice leads us to understand that if one parliament is constituted of several political parties and none of them have the majority of seats than the executive power (government) has to put a lot of efforts on granting the majority for approval of the draft-budget (Wehner, 2004:38). In such cases the debate over the budget is overwhelming and in scope of critical scrutiny of the draft-budget – coverage which indirectly contributes to budget transparency. Party discipline in countries with fragile democracies is the main cause that leads house representatives to build up their opinions on budget issues and this has a negative effect on the budget transparency. Unfortunately, in such cases the representatives “are more loyal to party setting than their calling” (Silk, 1987:12). At this picture, budgetary procedure in Kosovo is a classic expression of the political proportion that does take account in. Shortage of open, detailed and transparent review in the Assembly remained and still is indirectly preconditioned by the deficiency of the dynamic of the political parties on the budget issues during process over budget. In principle majority in the parliament is a prime indicator for the voting results on the budget. During all mandates, the budget endorsement was taken in absentia of the political parties dynamics, represented in the Assembly. Each of the governments being safeguarded with the majority in the Assembly had no doubt for the budget approval. In the other side, the opposition shrunk from the awareness with the power of the government's majority in the Assembly thus the draft-budget would be approved through the voting machine. Those colorless debates did not take place for improvements in the budget proposals but only for instant political calculations. Formation of such practices steers not only towards absence of qualified and vital debate on the budget during its oversight and approval, but also in cases of the control of the budget execution (Peci, 2013:25).

4) Budgetary practices teach us that the Assemblies with active input on budget procedures possess own research capacities. Congressional Budget Office of the U.S. Congress with its 245 employees academically degreed in the field of budget heads on the chart list. The Philippine's the Planning and Budget Department employs around 50 people. Some other Assemblies have smaller specialized units for budgetary issues such is e.g. Poland. In other countries, such as German Bundestag, there are General Research Units that bring studies and research over the budget (Johnson and Stapenhurst ,2008). Other countries have no specialized employees for supporting the Budget and Finance Committee while the above-mentioned houses of

representatives have employed hundreds of chefs (Wehner 2004:39). After the scrutiny of the circumstances in the Assembly of Kosovo and comparing it with the parliament's capacities over the world regarding the budgetary issues the following emerges: that the Kosovo's Assembly does not have any office for budget studies or domestic permanent expert for professional expertise on the budget. Nor the Assembly nor the Budget and Finance Committee were funded by the budget for trainings in the budget field of expertise. External professional assistance was given solely from USAID, OSCE, NDI, etc. The absence of technical power directly impacted and continues to hinder the representatives on their quality performance of their job as the representatives in the Assembly and in their responsibility towards their body of voters.

5. CONCLUSION

Transparency generally and fiscal transparency particularly have been and continue to remain object of attention of the developing policy in national and international level, after real difficulties that were experienced by the various countries and regions in the '90s. Theoretical and empirical studies about the multidimensional effects and the great importance of transparency in modern states are not abundant, but they are in progress now. Leaders of the promotion and analysis of the effects of fiscal transparency have been and still are OECD and IMF. Different financial researchers have given different definitions of transparency in general and fiscal transparency in particular. However, the best definition of fiscal transparency remains that one given by Kopits and Craig

After 1999 fiscal transparency in Kosovo has been dictated by legal and political changes that characterized it.

Despite many weaknesses that characterize transparency and management of public finances in Kosovo, there have been made a series of reforms since 1999 which are regarded as similar to those of the regional countries. However, there is still a lot of work to be done for meeting the reporting standards that foresees IMF and OECD. Budget documents which are available to the public should be published in comprehensive and machine-readable formats.

In spite of the strengthening of the constitutional role of parliament after the independence, Kosovo parliament's de facto role in the budgetary procedure is minor, and as a consequence it has affected the lack of fiscal transparency. Open, detailed and transparent review in the parliament of Kosovo is conditioned by the strengthening of the parliament's role in the budgetary procedure. In this direction we shall emphasize: 1) increasing of the role of the Assembly in accordance with constitutional authorizations in the budget procedure, 2) increasing of the technical capacities of the Assembly to conduct research and analysis of the budget, specifically: a) establishment of an office for the budget analysis would be in hand to providing professional expertise for the members of the assembly on budgetary issues, b) budget funding for the Budget and Finance Committee for engagement of experts and parallel to that, widen the job responsibilities of the Budget and Finance Committee, c) funding the training for representatives in the field of budget and budgetary procedures and publication of different guidance regarding the budget, and 3) undertaking steps on facilitation the communication between MEF-Government-Assembly-the Budget and Finance Committee.

REFERENCES

- Alesina, A. and Perotti R., 1999. "Budget Deficits and Budget Institutions" ed. by Poterba, J. and Von Hagen, J. *Fiscal Institutions and Fiscal Performance*. Chicago and London: University of Chicago Press, 13 – 37.
- Alt, J.E. Lassen, D.D., (2006). Fiscal Transparency, Political parties, and Debt in OECD countries, *European Economic Review* 50, 1403–1439.
- Alt and J.E., Lassen D.D., Skilling D., (2002). Fiscal Transparency, Gubernatorial popularity, and the Scale of Government: Evidence from the States', 2 *State Politics and Policy Quarterly*, 230-250.
- Andreula, N. Chong, A. Guillen. J.,(2009). Institutional Quality and Fiscal Transparency WP, *Inter-American Development Bank Working Paper Series*, 125 , 1-29. Retrieved from <https://core.ac.uk/download/files/153/6441796.pdf2-3>.
- Bratić, (2004). Uloga parlamenta u proračunskom procesu: primjer Hrvatskog sabora. *Financijska teorija i praksa* 28 (1) pp. 7-23.
- Constitution of Kosovo, Retrieved from <http://www.kuvendikosoves.org/common/docs/Constitution.pdf>
- Chrystal, A., 1981. "Electoral Cycle, budget controls, and public expenditure", *Journal of Public Policy*, 1:32-59.
- Drabek, Z. Payne, W.,(2001). The impact of Transparency on Foreign Direct Investments, *Staff Working Paper* No. ERAD-99-02.
- Erbas, S.N., (2004). Ambiguity, Transparency and Institutional Strength", *IMF Working Paper*, WP/04/ 115.
- Folscher.A., (2010).Budget Transparency: New Frontiers in transparency and accountability,(*Transparency Accountability Initiative*, 1-58. Retrieved from http://www.transparency-initiative.org/wp-content/uploads/2011/05/budget_transparency_final1.pdf
- Fabrizio, S. Mody, A., (2006). Can Budget Institutions Counteract Political Discipline?, *IMF Working Paper*, WP06/123, 1-53. Retrieved from <https://www.imf.org/external/pubs/ft/wp/2006/wp06123.pdf>
- Gleich,H.,(2003). Budget Institutions and fiscal performance in Central and Eastern European countries', European Central Bank, *Working Paper Series* no. 215,1-45. Retrieved from <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp215.pdf?425d8640715ca66b405491c24226b233>
- Hameed, F., (2005). Fiscal Transparency and Economic Outcomes', *IMF Working Paper*, WP/05/225,1 43.
- IMF, (2001). 'Increased Openness, Transparency is Key to preventing financial crises, in IMF, *Survey Supplement* Vol.30, 7-8.
- IMF, (1998). Code of Good Practices on Fiscal Transparency – declaration on principles. Retrieved from <https://www.imf.org/external/pubs/ft/history/2012/pdf/4d.pdf>
- Johnson, J. K. and Stapenhurst., R., (2008). *The Legislative Budget Offices: International Experience "In: Legislative Oversight and Budgeting: A World Perspective*. R. Stapenhurst, R. Pelizzo, D.M. Olson and L. Von Trapp. Washington, D.C., World Bank: 141-158.
- Jarmuzek. M, E. K. Pogljar,R. Matousek and Holscher, J.,(2006).Does Fiscal Transparency Matter? *The Evidence from Transition Economies*, CASE, 328, 1-16, (2006)
- Kopits,G. Craig,J., (1998). 'Transparency in Government Operations', 158 *IMF Occasional Paper*, 1-50. Retrieved from <https://www.imf.org/external/pubs/ft/op/158/op158.pdf>
- Law No. 03/L-048 on Public Financial Management and Accountability and Accountability. Law No. 2003/2 on Public Financial Management and Accountability announced with Regulation no. 2003 /17 on the promulgation of a law adopted by the assembly of Kosovo on public financial management and accountability.
- LeLoup, T,L., (2004). "Uloga parlamenata u određivanju proračuna u Mađarskoj i Sloveniji" (online *Financijska teorija i praksa* 28 (1) str. 49-72. Retrieved from <http://www.ijf.hr/FTP/2004/1/loulou.pdf>.
- Lazere, E., 2002. "Improving the transparency of the DC budget" Washington: District of Columbia, Fiscal Policy Institute.
- Milesi-Ferretti,G.M., (2004). Good, Bad or Ugly? On the effects of Fiscal Rules with Creative Accounting' 88 *Journal of Public Economics*, 377-394.
- OECD, (2002). OECD Best Practices for Budget Transparency. Retrieved from <https://www.oecd.org/gov/budgeting/Best%20Practices%20Budget%20Transparency%20-%20complete%20with%20cover%20page.pdf>

- OECD Best Practices for Budget Transparency (2001) 3.
- Poterba, J. Von Hagen, J., *Fiscal Institutions and Fiscal Performance* (Chicago UP 1999) 3-4
Retrieved:///C:/Users/Laptop/Downloads/328%20(2).pdf
- Philips, L. Stewart, M., (2008). 'Defining Fiscal Transparency: Transitional Norms, *Domestic Laws and the Politics of Budget Accountability*', 4 CPLE Research Paper 38, 1.
- Petrie. M., (2003). Promoting Fiscal Transparency: The Complementary Roles of the IMF, Financial Markets, and Civil Society', IMF Working Paper, 03/199, 1-44.
- Peci, B., (2001). Kosovo Tax System – Tradition and Challenges, 1 *Kosovo & Balkan Observer*, (2001) 111-129.
- Peci, B., (2009). Tax Reforms in the Balkan Countries – Kosovo case, *Thesis Kosovo – International Research Review*, AAB Riinvest PPHE, No. 2, 39-69.
- Peci, B., (2013). The role of legislature in budgetary procedure – the case of Kosovo, *Iliria International Review* -1, 1-28.
- Riinvest, (2016). Budget transparency and citizens budget, Policy Brief, 1-12.
- Tanzi, V., and Schuknecht L., 2000. *Fiscal rules and Institutions*, p. 151-169, in *Public Spending in the 20th Century*: Cambridge University Press.
- Silk, Paul. 1987. *How Parliament Works*. London, New York: Longman.
- Wehner, J., (2004). Povratak s margine? Redefinisanje doprinosa parlamenta proračunskom ciklusu" (online) *Financijska Teorija i Praksa* 28 (1) str. 7-23. Retrieved from <http://www.ijf.hr/FTP/2004/1/wehner.pdf>