



**Republika e Kosovës**  
**Republika Kosova - Republic of Kosovo**  
*Qeveria - Vlada - Government*  
*Ministria e Financave*  
*Ministarstvo za Finansije - Ministry of Finance*

*Zyra e Ministrit / Kancelarija Ministra / Cabinet of the Minister*

DATË/A:					
PËR/ZA/TO:		Ministers Heads of Budget Organisations Officials of Budget Organizations			
		Milaim Aliu, Acting Director of Budget Department, MoF			
NGA/OD/FROM:		Avdullah Hoti, Minister in MoF			
TEMA/SUBJEKAT/SUBJECT:		Budget Circular 2016/02			
Nr. i zyrës: Br. kancelarije: Room No.:		Lokacioni: Kucni: Extension:	Lokacioni: Kucni: Extension:	Data: Datum: Date:	04.08.2015

**Honoured Ministers,  
Honoured Heads of Budget Organisations**

Attached to this memo, please find attached Budget Circular 2016/02 for Ministries and Independent Agencies and REGULATORY Authorities of Central Level. Through this circular we would like to inform you about the structure of expenditures by economic categories for 2016 and projections for the years 2017-2018.

Circular 2016/02 is issued pursuant to the legal competences of the Ministry of Finance under Article 20 of the LPFMA. The instructions given are in accordance with the terms of the agreement reached with the International Monetary Fund (Letter of Intent) setting the level and structure of revenues and expenditures within the overall budget of the Republic of Kosovo. These conditions are reflected in budget review process 2015, budget planning for 2016, and medium-term projections 2017 - 2018.

In addition to the expenditure structure, the circular also provides additional clarification on budget process, budget calendar providing also instructions on improving budget classification codes as a prerequisite for more advanced strategic planning.

Please refer to the instructions given in this circular when preparing draft budget for your Organisation

For further information or assistance regarding any element of this circular, please contact the respective analyst within Budget Department of the Ministry of Finance.

Sincerely,

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Avdullah Hoti  
Minister of Finance



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**Budget Circular 2016/2**

**Honoured Ministers,  
Honoured Budget Heads and Officials,**

Within this memo, please find attached Budget Circular 2016/02 Central Level Budget Organisations. Given the obligation to implement Article 20 of the LPFMA, dated 15<sup>th</sup> of May, 2015, I have sent the first Budget Circular 2016/01, whereby I have given instructions how to prepare the Kosovo Budget for 2016 and estimates for 2017-2018. Indicative budget ceilings and budget drafting timetable are attached to this budget document. Further on, this circular emphasises that the additional circuit may follow if necessary.

The Ministry of Finance received budget requests from Budget Organizations according to ceilings given in the given BDMS and PIP systems, as well as a considerable number of additional requests on budget ceilings.

**I. Purpose**

Producing the second Budget Circular initially intends to advance the process of drafting the budget for 2016 and estimates for 2017- 2018, inclusion of new government policies following the release of the first budget circular and implementation of the Agreement (Letter of Intent) signed between the Government of the Republic of Kosovo and the International Monetary Fund (IMF). In this regard, first budget submissions should be supplemented with additional information to complete the reasoning of your requests and at the same time take into consideration the changes that could occur during the budget execution so far for 2015, which also affects 2016 budget and the budgets of the following years.

Allow me to inform you that overall expenditure ceilings presented under second Circular will vary from the ceilings given under the first Budget Circular since macro-fiscal part of budget revenues is affected (decreased) and therefore there will be changes in operating expenses that will affect the overall level of budget expenditures. This means that Budget Organizations should make budget cuts in existing programs in order to plan any new initiative.

Drafting the budget for 2016 and subsequent years is a continuation from 2015 on implementing the fiscal rule with limits to the budget deficit of 2% of Gross Domestic

Product. Implementation of this rule stipulates prudent planning of public expenditure including overall expenditures and the value of foreign borrowings for specific projects during this period. This requires that the order of priorities for financing to be very prudent and within the given budget.

Budget organizations should operate within the general policies of the Government, this means that the structure of budget expenditures within economic categories should be followed and that the movements from one economic category in another economic category would hardly be supported in order to maintain the level of investment capital affecting the growth of the economy in Kosovo.

## **II. The category of wages and salaries and other economic categories**

Second Budget Circular contains strong ceilings which differ from the ceilings given in Circular 01/2015, including ceilings on wages and salaries and increases for work experience for each year of service by 0.5% of basic salary. Further on, this category includes implementation of the Agreement (Letter of Intent) signed between the Government of Kosovo and the IMF that affected expenditures in some items comprising this economic category.

Until the adoption of the new Law on salaries (it is being prepared), Budget Organizations are not allowed in any way to change (increase) multipliers or fixed salaries, increase the number of employees and establish new agencies without availability (commitment) from the budget approved.

Any violation of this paragraph by the budget organization/institution is entering into obligation with no cover, violation of LPFMA and the annual budget law and the responsibility falls under the officials who take such steps, since they risk the lack of budget funds for paying legal obligation of regular salaries during the fiscal year. Government will not allocate additional funds to cover these obligations if budget organizations have no cover for this.

The legal provisions should fully adhered to, when handling requests for payment of overtime. In many cases these expenditures burden the category of wages and salaries even further. We suggest that the provisions of the Law on Civil Servants are taken into account during fiscal year 2016, where overtime is preferably compensated with days off.

When it comes to the structure of expenditures, monetary amount for wages and salaries will include the costs for working experience for each working year by 0.5% of basic salary. The employment of civil servants should be made in line with monetary amounts available for economic category "*Wages and Salaries*" for 2016.

Based on the priorities of the Government, the structure of expenditures maintained the ratio between current expenditures and capital investments. However, current expenditures had reduction in economic category of Goods and Services with aim to increase appropriations for other categories to cover contractual obligations.

In the midterm period 2016-2018 the Government will maintain the level of capital expenditures of 2015. Furthermore, possible savings in operating expenses and additional revenues from better collecting performance during this period will orient towards enhancing the level of capital investments with developmental character.

During this process of planning capital investments, each Budget Organisation should initially finance on-going projects including co-financing projects (financed by loan or potential Donors) and then new projects in line with priorities.

The Government will continue financing investments in road infrastructure including Route 6 Prishtina-Skopje, as well as priority routes M2 Prishtina - Mitrovica and M9 Prishtina - Peja.

In addition to this direct investments from regular budget, the Government within this period plans to finance some other capital projects of national importance in the field of education, health, infrastructure, agriculture, using the clause/article of public investments from Law on Public Financial Management and Accountability in line with the Agreement with International Monetary Fund.

It also will continue supporting through subsidies and transfers for agriculture, social schemes, (continuing with the implementation of schemes related to war veterans and politically persecuted individuals); Health sector etc.

Further on, support will be given to strengthening the safety and security (Security Sector Reform) and the establishment of the Kosovo Armed Forces.

Relevant analyses in budget drafting are very important for designing performance-based budget. Performance indicators help the process of budget execution reporting and monitoring.

### **III. Budget Planning Systems**

It is requested from budget organizations to thoroughly submit budget requests into operating systems (PIP and BDMS) following the given ceiling. These systems will not allow exceeding the ceiling issued by second budget circular.

#### **Public Investment Program (PIP)**

Budget planning for capital investments is made through the PIP system. Government strategic priorities, as set out in the "Statement of the Government Medium Term Priorities 2016-2018" within the MTEF document, should be the basis for preparing budget requests and identifying capital projects.

All budget organizations should fully justify budget requests for their projects through the PIP system. Further on, all budget organizations are notified that functional classification for each individual project in budget planning stage will be fully adapted to the 2016 budget.

For all individual capital projects, officers- project managers of Budget Organizations will have to select the option of "***Function***" which corresponds to the type of project, for each project. The Budget Department will provide assistance through a ***Guideline for classification of Capital Projects*** for selecting a function and through direct assistance.

The adoption of this type of functional classification, so far only applied to financial reporting phase, enables the planning / budget allocation by government functions (e.g. education, environment, social, economic issues, administration, etc.) and secures the infrastructure for developing a budget process based on government strategic priorities.

You are encouraged to use the ***Guidelines for classification of capital projects*** and the PIP manual which provides guidelines for evaluation procedures and project planning, budgeting of capital funds and monitoring the implementation of projects that can be found attached to end screen of PIP system.

### **Budget Development and Management System (BDMS)**

Budget Development and Management System is a financial system which deals with budget formulation and planning of expenditures for all operational economic categories (number of staff and their costs, wages and salaries, goods and services, utilities, subsidies and transfers as well as the reserve).

Functional codes are applied in BDMS system since the beginning of planning through BDMS system, so budget organizations despite the PIP system, do not need to select the functional code for operating part. Functional code is a code that serves for reporting and it is assigned automatically by the BDMS system after each request approved for opening of a new budget line.

A BDMS user guide can be obtained directly from the Web site [www.bdms-ks.org](http://www.bdms-ks.org)

### **IV. Gender Responsive Budgeting (GRB)**

Pursuant to the Law no.05 / L-020 (2015) on Gender Equality, all Kosovo institutions are responsible for “involving gender budgeting in all areas, as a necessary tool securing that the principle of gender equality is followed in collection, distribution and allocation of resources” (Article 5.1.5.). For this reason, budget organizations must make the effects of public spending visible in terms of the equality of women and men, boys and girls in the annual budget for 2016. It will contribute to enhance the effectiveness and transparency of public financial management.

Each Budget Organization is recommended to use the tables in Annex 3 and integrate them as an annex to the annual budget 2016, using previous trends to inform the planned expenditures.

Tables in Annex 3 can be used to inform about specific objectives, activities and indicators for enhancing gender equality in various sectors, in accordance with the Law on Gender Equality. This does not necessarily mean an increase in expenditures, but more efficient use of existing resources and/or equal distribution of existing resources.

Should questions arise regarding the instructions in this circular, Budget Organizations should feel free to consult with their analysts within the Department of Budget at the Ministry of Finance (MoF).

### **V. Budget Hearings**

Budget hearings will be held from 31<sup>st</sup> of August to 4<sup>th</sup> of September 2015. Each budget organisation must adhere to the timetable accurately. Budget hearing schedule is provided in Annex 2. Participants in these hearings will be senior officials of the Budget Organization/ Agencies, the staff of the Ministry of Finance, Office of the Prime Minister, Budget and Finance Committee within the Assembly and representatives of the Ministry European Integration. MoF analysts will consult with the Budget Organizations on all relevant matters before the budget hearings are held. We expect the Budget Organizations to provide a general overview of their requests for 2016, a procedure that will last no more than 15 minutes, including performance indicators based on programs and projects. During these hearings, we plan to reach an agreement on the total amount of your Organization’s budget for 2016.

It is important that budget requests are in line with the strategic priorities of the Government, as reflected in the “Statement of strategic priorities for the Medium Term Expenditure Framework 2016 - 2018 presented in the MTEF.

## **VI. Formal Budget Request**

Budget organizations, should send their requests at the latest by 21<sup>st</sup> of August 2015, at the Budget Department in three official languages. Materials are submitted to the archives of the Ministry of Finance, XII floor in hard and electronic copy to the Director of Budget Department and the respective analysts.

Budget requests should include:

- Request (Route slip) signed by the Secretary General or Chief of Agency.
- PCF 2 3 and 4 forms;
- Table 3.1 printed from BDMS system,
- Table 3.2 printed from PIP system, and
- Other useful information on the activities to be financed from the proposed financing ceiling for 2016 and estimates for 2017-2018.

For further information or assistance regarding any element of this circular, please contact the respective analyst within Budget Department of the Ministry of Finance.

Sincerely,

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Avdullah Hoti  
Minister

Attached:

- Annex 1. Budget ceiling for 2016 and estimates 2017-2018
- Annex 2. The budget hearing schedule
- Annex 3. Gender Responsive Budgeting (GRP)

## Annex 3 – Gender Responsive Budgeting (GRB)

**Table 1. Numbers of employees in the corresponding Budget Organization**

[Name of institution]

Year	Total number of staff	Number of women staff	Number of men staff	Wages and salaries /amount for women	Wages and Salaries /amount for men
2014					
2015					
2016					

**Table 2. Planning for 2016 levels of salaries in Budget Organisation**

[Name of institution]

Level of salaries	Total number of staff as per level of salaries	Number of men	Amount spent on men	Number of women	Amount spent on women
201-400					
401-600					
600+					

**Table 3. Numbers of beneficiaries of subsidies or services provided by budget organizations of relevant departments (where applicable)**

Name of Institution: Name Service / subsidy]

Year	Total budget of service / fixed subsidy	total number of beneficiari es	total number of women beneficiaries	total number of men beneficiaries	Budget for women	Budget for men
2014						
2015						
2016						