

Financial performance of public enterprises in Kosovo

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Abstract

Accomplishing the needs of the clients is the purpose of the functioning of public enterprises in Kosovo. The way they meet those needs depends on their operational and financial performance. Given the different natures of difficulties achieving performance is a major problem in the course of the event. Therefore, in order to provide more qualitative services to the clients the Board of Directors and management strive to achieve maximum performance. In order to have positive preference there should be considered the nature of the factors that affect the performance including here the inherited problems and, the recent problems and difficulties with revenue collection. The direct impact of the Government in these public enterprises is very important because even though public enterprises have operational and financial problems their existence is still depended on the Government subsidies, as most of the times they are in danger to go bankrupt. Therefore, in addition to managements and the Board of Directors the main shareholder in this case is the Government of Kosovo, and we can say that the most interested party to improve the financial and operating performance of the public enterprises is the Government of Kosovo because by improving financial and operating performance they do not have to provide the subsidies anymore instead public enterprises will be able to contribute to the Kosovo Consolidated Budget. Thus, we can conclude that financial and operational performance of public enterprises are the indicator that public enterprises should be independent, so they do not require financial support from the Government, and they should provide qualitative services to the clients.

Key words: public enterprises operational and financial performance subsidies the Board of Directors services

Introduction

Public enterprises in Kosovo operate according to the Law on Business Organizations (Law NO. 02/L0123), the Law on Public Enterprises (Law Nr.03/L-087), amendments and supplements to the law on Public Enterprises. However these enterprises have offered public services in other forms of organization as former social enterprise or enterprise under the administration of the Kosovo Trust Agency (KTA transformed in 2008 in Kosovo Privatization Agency AKP) which resulted on the corporatization, then only after the entry into force of Public Enterprises law they are organized as a joint stock companies, with corporate governance. With the amendment of this law in 2012, the Law for amending and supplementing the Law Nr.03/L-087 for public enterprises (Law Nr.04/L-111), there are also formed several new public enterprise of local level, and some are transformed in two new enterprises for example from the former Post and Telecommunication of Kosovo are created two public enterprises: Post and

Telecommunication and the Kosovo Post. From former Railways of Kosovo are formed in two new public enterprises: Trainkos and Infrakos while in concession it is given the Pirshina International Airport. Lately it was privatized the distribution of KEK (part of KEK).

According to the law they are divided into:

- Central public enterprises,
- Public enterprises for regional irrigation and water supply and
- Local public enterprises

Today they work as a joint stock company owned by the Republic of Kosovo. Meanwhile Government has exclusive power for the shareholder rights for central public enterprises; whereas for private enterprises on the local level it's on the competence of the Municipal Committee of Shareholders. Corporate governance system is organized by the board of directors as a decision making body and functionaries of public enterprises (Chief Executive Officer,

Secretary, Financial Officer and Internal Audit Officer) as a management executive part of the government.

Scope and objectives

The main purpose of this paper is to identify and encourage the improvement of factors that affect the operational and financial performance of some public enterprises in Kosovo. With particular emphasis on factors which have greater weight and which treated by the management generates greater performance level.

According to Glenn P. Jenkins, the objectives of the enterprise are:

Firstly, the main objectives are financial because they have to deal with revenues and expenditures of the company or budgetary relations between the company and the government.

Second are economic objectives that are related to efficient allocation of scarce resources of the country.

Third, public enterprises have distributional objectives that are often called objective "social" enterprises. These objectives usually concerned with the level of income, welfare, or privileges for different subgroups of populations.

Furthermore, another objective remains sensitization of relevant structures to increase the level of organization and delivery of public services with lower cost.

Hypotheses and research question

Improving the performance of public enterprises and improving the quality of services for public remains a challenge for directors and management of the public enterprises in Kosovo. The base research question of this paper is: What are the difficulties public enterprises face, and how to improve the current performance of the functioning of the central public enterprises. The central hypothesis is how much it is possible to reduce the financial difficulties of public enterprises, and to increase the possibility of offering quality public services for citizens.

Methodology

While working in the preparation of this project we have combined theoretical and practical side of the main operational and financial performance of public enterprises. We are based on comparative analysis of data published in financial statements for two more years for public enterprises in Kosovo audit reports, annual reports, and regulatory offices, enterprises of different activities (which provide different services), at the central, regional, and local level. We have also synthesized similar positions in order to have an easier compare and research.

Characteristics of performance indicators

Some common features of developing an activity of public enterprises that are significant in determining the performances are:

Fixed assets inherited

If we look at the statement of financial position we can see that almost all public enterprises have high-value assets. In order to preserve the value of the assets in the process of preparing public enterprises for corporatization it is performed a new assessment of property and assets even though their financial value is quite high. So it can be concluded that the preservation of asset value has been the order of the previous administrators of enterprises before they accelerated depreciation.

High level of depreciation

As a result of the high value financial assets even though depreciation rates below those specified by ATK depreciation costs are still high with a high participation costs, and in some cases they are determinants i.e. by operating profit before financial result depreciation create financial loss before interest and taxes. The table data can be seen how high is the depreciation for some public enterprises as that exceeds the regular income from the activity, such as public enterprises "Iber Lepenci" depreciation expenses are for the year 2011 were 4,548,798 and 3,632,934 revenues or KLMC only expenditures of depreciation for the year 2011 were 1,021,536 and total revenues were 1,186,809.

Requirements for account receivable

Public enterprises that provide services to the public (energy, water, and waste) which fail to collect their taxes or state that failed to find a better method to collect their claims that are also high. Most of these problems are inherited from the beginning of operation of the public enterprises in the period before corporatization and emergency assistance programs to the impossibility of cashing as a reflection of evasion (avoidance) of payment or in the case of inter-community political implications. From the data that we analyzed did not change the level of requirements for accounts receivable in 2011 (57,166,000) or have remained at the level of 98% of demand in 2010 (58,513,000), after their provisioning by enterprises as KEK, KOSTT and RWC "Prishtina".

Insufficient revenues

Some public enterprises have noticed that despite generating higher revenues due to the nature of the activity (KEK power supply) or to companies where the waste is generated lower than the level of revenues. These revenues are insufficient to this level authentic operational expenditures and providing comprehensive services to the public. Therefore, the purpose of the fulfillment of this part

and that the public will be provided with access to public benefits. Some of these activities are subsidized by the government for an emergency (power supply) or by donor grants.

Technical losses (old infrastructure)

Some public enterprises especially from the sector of energy, water supply and irrigation are facing with outdated infrastructure of the electricity network, water supply or irrigation. These enterprises do not have the force of capital accumulation that can undertake capital investments from own resources so very often additional sources of funding have been from BKK as otherwise they could not carry out the necessary investments in the functioning of the electricity network, water supply or irrigation.

Subsidies from government grants

In the early years, when the participation of public enterprises with own source revenues was small or nominal subsidy in the form of grants from the government has been much higher level but with increased generation of revenues from the public enterprises on the side it has started to decline participation of government in subsidizing in carrying out of the activity of public enterprises. From the data analyzed for the following utility position postponed grants have decrease from 2011 (97 %,) and also the participation of revenues from grants since 2010 has diminished in 2011 or 92% of revenues by 2010.

Unclear situation about taxes from the past

Financial statements derived from the audit reports (KEK, KLMC) highlights the issues of tax disputes from the past but have not yet taken final shape between public enterprises and ATK as a result of unclear tax laws and changes them.

Operational performance

The primary importance of the functioning and development of their activity is operational performance in terms of carrying out their public function for the purpose of providing services to the public. The main goal here is to generate higher revenues than expenses. This is known in

economic practice as formula EBDITA profit before depreciation, interest, taxes and amortization. For the shareholder in the case of public enterprises in Kosovo, which is government is vital that companies realize operating profit after this level ensures the provision of services to the public as the functioning of public enterprises goal is to increase profits, fig.nr.1.

Financial Performance

Despite the progress in terms of quantitative indicators and financial, in the majority of public enterprises have either negative financial results. This is happening due to the high level of impairment but also for other reasons as mentioned above such as a low level of collection, insufficient income technical losses, etc., fig.nr.2.

Conclusion

Successful financial performances of public enterprises are not only the objectives of the Board of Directors and management, but also the government's goal which is a shareholder only in Cork, primarily to meet the needs of citizens for better quality public services.

Based on the analysis of the financial performance of public enterprises based on published financial statements for 2010 and 2011, we concluded that despite progress in comparison with the previous year. The achieved performance level is still low and some enterprises have failed on operation and development of activity based solely on their own sources of revenues. Still they continue to seek support for the development of activities in the form of subsidies from the government. Based on our analysis we conclude that the current level of performance can improve by undertaking the following activities:

Revaluation of assets by market value criterion of "non-preservation at any cost of high value assets"

Technical loss reduction by improving the network,

Increasing the level of collection,

Reduce operating costs,

Searching for additional sources of revenue

Fig.nr.1

	(on 000 Euro)	(on 000 Euro)	%	Public Enterprises
Operational expenses	2011	2010		
	88,738,000	91,700,000	97	PTK
	203,268,000	195,702,000	104	KEK
	11,040,000	13,718,000	80	KOSTT
	8,400,000	21,263,000	40	ANP "Adem Jashari"
	3,233,636	3,182,228	102	"Ibër Lepenci"
	9,304,512	9,704,389	96	KRU "Prishtina"
	3,054,000	2,506,000	122	KRU "Hidroregjioni"
	1,394,000	1,421,000	98	KRU "Hidromorava"
	2,078,011	2,138,016	97	KRU "Hidrodrini"
	1,874,000	1,849,000	101	KRU "Mitrovica"
	1,883,802	1,828,708	103	KRU "Radoniqi"
				KRUJitjes "Radoniqi-
	624,000	582,000	107	Dukagjini"
	180,000	158,000	114	KRUJitjes "Drini i Bardhë"
	1,076,795	1,066,596	101	KMDK
	2,004,656	0		Trainkos
Total	338,153,412	346,818,937	98	

Fig.nr.2

Financial result	2011	2010	Public Enterprises
Profit	46,116,000	33,396,000	PTK
Profit	16,517,000	14,148,000	KEK
Profit	1,283,000	3,468,000	KOSTT
Profit	396	6,178	ANP "Adem Jashari"
Loss	(3,989,516)	(2,333,783)	"Ibër Lepenci"
Loss	(911,322)	(960,526)	KMDK
Loss	(324,143)	(1,939,934)	KRU "Prishtina"
Loss	(496,000)	(533,000)	KRU "Hidroregjioni"
Loss	(352,000)	(386,000)	KRU "Hidromorava"
Loss	(153,073)	(235,784)	KRU "Hidrodrini"
Profit/Loss	62,000	(382,000)	KRU "Mitrovica"
Loss	(676,786)	(706,044)	KRU "Radoniqi"
			KRUJitjes "Radoniqi-
Profit/Loss	2,000	(29,000)	Dukagjini"
Loss	(17,000)	(73,000)	KRUJitjes "Drini i Bardhë"
Profit	79,499	0	Trainkos

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