

Financing local self-governments in North Kosovo – a dance in suspense

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1. Introduction

Northern Kosovo municipalities became budgetary users only after the local elections and forming of local municipal authorities. However, the process of financing local self-governments in northern Kosovo was accompanied by many challenges distinctive also for other segments of the functioning of these municipalities.

The goal of this paper is to display the legal framework regulating the processes of preparation, representation, and adoption of municipal budgets, as well as to present the main challenges in the process of budgetary realization in northern Kosovo's municipalities.

2. System of financing Kosovo's municipalities

Financing Kosovo's municipalities is regulated by the Law on Local Self-Government,² Law on Local Self-Government Finances³ and the Law on Public Finance Management and Accountability.⁴ In the course of developing these laws, the Council of Europe's European Charter on Self-Government was considered; in article 9, the document defines that municipalities should possess sufficient financial means for the successful implementation of designated competencies.⁵

The Law on Local Self-Government defines municipalities' competencies as primary, delegated, and expanded.⁶ On the other hand, the Law on Public Finance Management and Accountability

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² Law no. 03/L – no. 040 on Local Self-Government, available here <http://bit.ly/2tyqufg>

³ Law no.03/L – no. 049 on Local Government Finance, available here <http://bit.ly/2uO271h>. Law no.05/L-108 on amending and supplementing the Law, available here <http://bit.ly/2tsHlLa>

⁴ Law no.03/L – no. 048 on Public Finance Management and Accountability, available here <http://bit.ly/2tH9BSs>. Last amendment of this law: Law no.05/L-063 on amending and supplementing Law no. 03/L-048, on Public Finance Management and Accountability, amended and supplemented by laws no. 03/L-221, no. 04/L-116 and no. 04/L-194, available here <http://bit.ly/2uOxetA>.

⁵ Council of Europe's European Charter of Local Self-Government, available here <http://bit.ly/2vOse5b>

⁶ Expanded activities are defined in articles 19, 20, 21, 22 i 23 of the Law on Local Self-Government, concerning competencies in the fields of health services, education, and culture, as well as the right to participate in the election of the police station commander.



determines that the Assembly, Government, and competent ministries should provide municipalities with budgetary funds necessary for the realization of their competencies. Article 7 of the law defines the sources of financing municipalities as consisting out of:

- 1) Its own revenues, proscribed by article 8 of the Law;
- 2) Operational grants;
- 3) Grants for expanded competencies;
- 4) Transfers for delegated competencies;
- 5) Extraordinary grants;
- 6) Republic of Serbia's financial support;
- 7) Income from municipal debt.

Primary municipal revenues/income are determined by article 8 of the aforementioned law, referring to the following:

- 1) Municipal fees, recompenses, user charges/tariffs, other payments for public services provided by the municipality, as well as regulatory fees and penalties approved on the basis of this law;
- 2) Revenues for renting immovable property located in the respective municipality, and under the jurisdiction or ownership of the municipality;
- 3) Revenues from selling municipal property;
- 4) Revenues from enterprises that are fully or partially in the ownership of the municipality;
- 5) Joint payments on behalf of the user of educational and health services provided by the municipality;
- 6) Revenues obtained from any municipal agency, department, or organization, as a result of offering goods or services;
- 7) Interest on municipal investments, if existing;
- 8) Grants and/or donations from foreign governments (except the financial support of the Republic of Serbia) or foreign organizations, including governmental and nongovernmental organizations, and international and supranational institutions;
- 9) All other categories of revenues defined as primary municipal sources of income on the basis of the law.

This law determines that municipalities obtain operational financial means from the central state budget (Article 23), encompassing general operational means, those designated for education, and operational means dedicated to satisfying the needs of health care. These funds should be distributed on the basis of fair, transparent, and objective criteria, giving municipalities greater freedom for allocation and consumption of grants.

Conditions for financing the four Serb-majority municipalities in northern Kosovo (North Mitrovica, Zvečan, Zubin Potok, and Leposavic) have been created only after the signing of the Brussels Agreement, conducting local elections, and forming municipal authorities (Municipal Assembly, and Mayor). It was just upon completion of this process that the municipalities commenced developing local budgets, which this paper refers to at a later stage.

When it comes to the process of financing North Kosovo municipalities, it is important to mention the North Municipalities Development Fund – which emerged as a result of the Agreement on Customs signed as part of the Brussels Agreement. Namely, this Agreement foresees the establishment of the North Municipalities Development Fund (or so-called Customs Fund) on the basis of customs revenues for Gates 1 (Jarinje) and 31 (Brnjak) obtained from customs clearance of goods distributed to northern Kosovo. Financial means from this Fund may exclusively be utilized by the northern Kosovo municipalities for their development projects, such as construction and maintenance of public infrastructure (including roads, hospitals, water supply systems, wastewater treatment, and waste management), support given to enterprises/companies, farmers, and the civic sector, promotion of human rights, education, access to healthcare, and transportation.

3. The process of drafting municipal budgets

3.1 Procedures and deadlines for municipal budget drafting

The Law on Annual Allocations regulates allocations for all budgetary users, including municipalities, and authorizes them to spend or transfer public funds to a certain amount, and for a set of purposes within the given fiscal year.

The process of drafting the municipal budget commenced by developing a medium-term budgetary framework (in the further text: Medium-term Framework). It is a document adopted each year by the Municipal Assembly, encompassing elements from three fiscal years and offering a detailed analysis of municipal incomes and expenses. The expenses are planned with the purpose of maintaining strategic priorities for the socio-economic development of the municipality. The Medium-term Framework represents a useful mechanism helpful for a more proper integration of municipal strategic priorities into the budgetary process. Each municipality is obliged to draft a Medium-term Framework, which is a request demanded by the annual rulebook for drafting municipal budgets (in the further text: budget circular) published by the Ministry of Finance.

As for Medium-term Framework and municipal budgets preparations, the main role and responsibility lies in the Mayor's hands and the Municipal Assembly. The Mayor is responsible for drafting a budget which is then submitted to the Municipal Assembly for adoption. After the budget is adopted, the Mayor is in charge of its implementation as well.⁷ At the Municipal Assembly level, the Policy and Finance Committee is responsible for reviewing all financial and fiscal documents, hence for taking the budget proposal into consideration.⁸ As a municipal body with the right to present an advisory opinion on allocations for non-majority communities in municipalities, the Communities Committee may also provide the budget proposal with its commentary. After that, both documents are sent for adoption to the Municipal Assembly, as the highest representative body of a municipality. In the course of drafting (or implementing) the budget, the municipality may consult the Municipal Budget Department at the Ministry of Finance, in charge of assisting municipalities in these issues.

There are a few concrete steps that must be complied with in the process of Medium-term Framework and annual municipal budget drafting and adoption. These steps are elaborated in the budget circular published by the Ministry of Finance. The budget circular is the basic document for municipal budget planning, containing guidelines for its drafting. This document offers instructions, deadlines, and initial financial constraints for the needs of preparing a municipal budget and providing an assessment of the following three fiscal years.

During budget drafting, there are certain time limits that must be complied with, determined by the following dates:

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| April 30 | The budget drafting process is initiated by the Government of Kosovo being obliged to submit to the Assembly of Kosovo – by April 30 of every calendar year – a Medium-term Framework for adoption ⁹ covering the next fiscal year, and estimates for the following two fiscal years. ¹⁰ |
| May 15 | is the time limit for the Minister of Finance to send the first budget circular to the Departments of Finance of municipalities. ¹¹ |
| June 3 | is the deadline for the Municipal Assemblies to consider, amend, and adopt the Medium-term Framework, which should be delivered to the Ministry of Finance and made available to the public. In the course of drafting the Medium-term Framework, the local authorities should consult key community actors, including public debates and other mechanisms (questionnaires, direct meetings, etc.), the topic being the respective municipality's priorities. Prior to adopting this document, the Policy and Finance Committee should also conduct public sessions, during which the strategic municipal priorities would be discussed. ¹² |

⁷ Article 58, Law no. 03/L – 040 on Local Self-Government, available here <http://bit.ly/2tyqufg>

⁸ Article 52.2, Law no.03/L – 040 on Local Self-Government, available here <http://bit.ly/2tyqufg>

⁹ Content of the Medium-term Framework is given in Article 19 of the Law on Public Finance Management and Accountability.

¹⁰ Article 5, Law no. 03/L-221 on amendments to Law no. 03/L-048 on Public Finance Management and Accountability, available here <http://bit.ly/2tM8NM9>

¹¹ Article 6.2, Law no. 03/L-221 on amendments to Law no. 03/L-048 on Public Finance Management and Accountability, available here <http://bit.ly/2tM8NM9>

¹² Budget circular 2016/01 for municipalities, Ministry of Finance, available here <http://bit.ly/2tQilWZ>

- August 15 is the time limit for the Minister of Finance to deliver the second budget circular, which has the purpose of providing final budgetary instructions with dernier amounts of budgetary transfers calculated in accordance with the Law on Local Self-Government Finances and the suggestions from the Medium-term Framework.
- September 1 is the deadline for the Mayor to submit a municipal budget proposal to the Municipal Assembly for consideration and adoption. The proposed municipal budget must contain the following items: economic and budgetary forecasts and assumptions; the total assessment of revenues from all sources; the estimates of total expenses in all economic expenses categories; the expected donor support assessment; and all other information of essential importance for the budget.¹³ In the case of the Mayor not fulfilling his or her duty within the legal deadline, the Government introduces sanctions against the municipality, including the appointment of a Financial Manager to take over all Mayor's competencies in this regard.¹⁴
- September 30 Municipal Assemblies should review, and if necessary – amend, approve and adopt the municipal budget for the following year, which should be submitted to the Ministry of Finance by September 30. Besides the budget proposal, the municipalities also deliver the Funds Allocation Request.¹⁵ If the Municipal Assembly does not adopt the budget proposal in the legal timeframe, the Minister of Administration and Local Self-Government may apply steps in dissolution of the Assembly, and introduce provisional measures.¹⁶

Thus, in the course of drafting a budget, municipalities are obliged to submit two main documents to the Ministry of Finance. The first document is the Medium-term Framework that must be adopted first by the Policy and Finance Committee, and then the Municipal Assembly, further having to be delivered to the Ministry of Finance by June 30. The second document is the Annual Municipal Budget Proposal submitted to the Policy and Finance Committee, and Municipal Assembly by September 1 on behalf of the Mayor. The Assembly adopts it by a majority vote and forwards it to the Ministry of Finance by September 30. When the adopted budget proposal is delivered to the Ministry of Finance, it verifies whether the budget is in accordance with the budget circular, after which – in the timeframe of eight days – the said Ministry notifies municipalities if their budget is approved or whether changes need to be applied.

3.2 Civic participation in budget proposal drafting

The process of drafting a Medium-term Framework and the annual municipal budget envisages the possibility of active civic participation. Citizens have the legal possibility to demand changes of certain budgetary categories and request allocation of budgetary funds, whereas the decision on accepting or rejecting their proposals is in the Mayor's hands. Citizens may also attend Policy and Finance Committee sessions and/or sessions of the Municipal Assembly, where they can put forward proposals for financing projects of general significance. According to the Law on Local Self-Government, sessions of the Municipal Assembly and all its Committees are open to the public. Besides this, the Law obliges the Policy and Finance Committee, and the Municipal Assembly to conduct public debates on documents of general importance for the citizenry. In the course of these meetings, it is compulsory for the local authorities to inform citizens on all important plans or programs of public interest, including the budget proposal. According to the Ministry of Public Administration and Local Self-Government data, in 2016 – the municipalities of North Mitrovica, Leposavic, and Zvecan have not conducted a single public debate with their citizens in terms of budget-related issues.¹⁷

¹³ Article 61.1 Law no. 03/L-048 on Public Finance Management and Accountability, available here <http://bit.ly/2tH9BSs>

¹⁴ Article 62, Law no. 03/L-048 on Public Finance Management and Accountability, available here <http://bit.ly/2tH9BSs>

¹⁵ Article 20.3, Law no. 03/L – 048 on Public Finance Management and Accountability, available here <http://bit.ly/2tH9BSs>

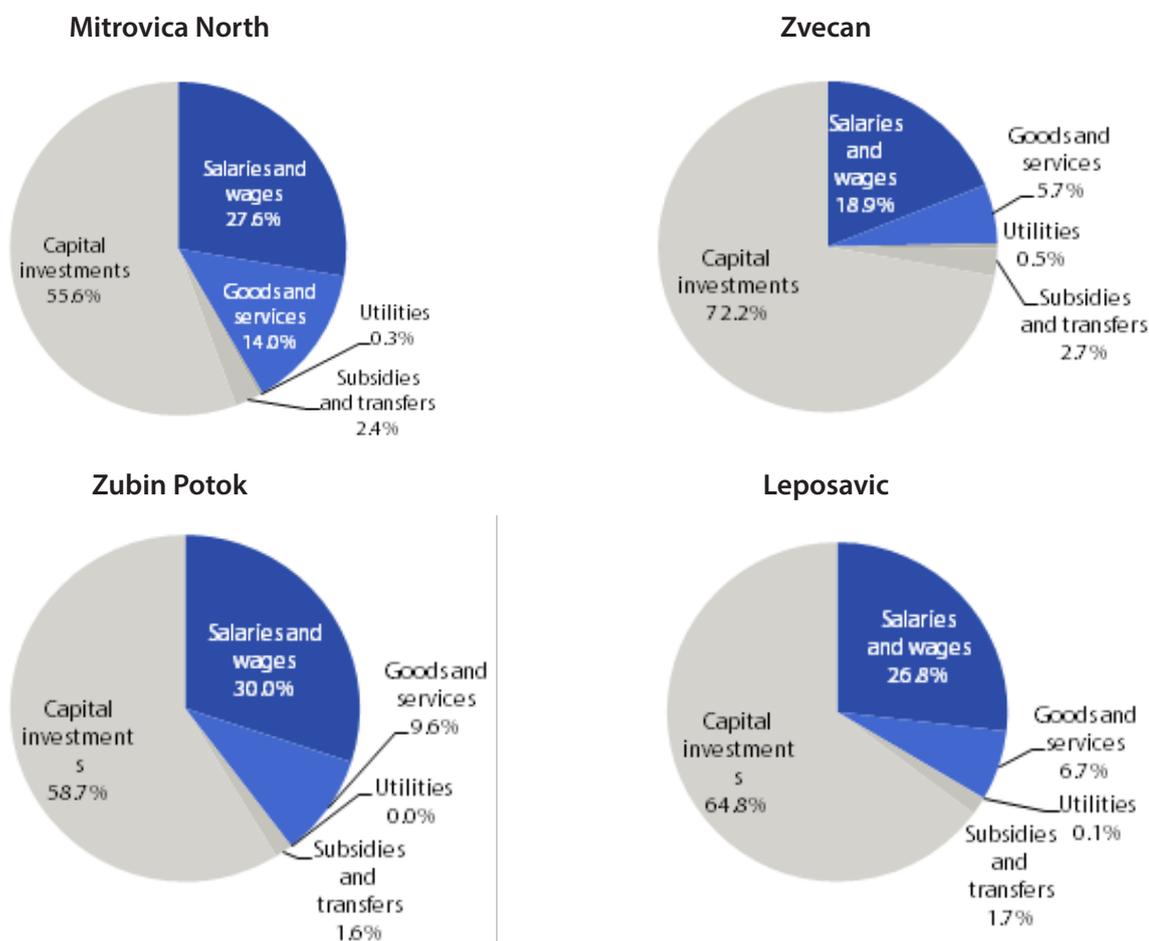
¹⁶ Article 50.2 Law no.03/L – 040 on Local Self-Government, available here <http://bit.ly/2tyqufg>

¹⁷ Report on the functioning of the the Republic of Kosovo Municipalities for the period of January-December 2016, available here <http://bit.ly/2rC0zXq>

3.3 Analysis of northern Kosovo municipalities' budgets for 2016

In 2016, north Kosovo Serb-majority municipalities had at their disposal budgets of the following amounts: North Mitrovica – 6,771,782€, Zvečan – 2,788,498€, Zubin Potok – 2,459,026€, and Leposavić – 4,227,337€. These municipalities have in different ways distributed these budgetary means by categories, clearly presented in Chart 1.

Chart 1. Distribution of budgetary funds in northern Kosovo municipalities by categories, for 2016



Source: Audit reports on annual financial statements of the municipalities of North Mitrovica, Zvečan, Zubin Potok, and Leposavić for the whole year – conclusive with December 31, 2016.

The chart shows that the Municipality of Zvečan allocated most funds to capital investments (72.2%), whereas the largest allocations for salaries and wages occurred in the Municipality of Zubin Potok (30%), while the most significant amount of financial means dedicated to goods and services was spent in North Mitrovica (14%). In all aforementioned municipalities, utilities amount for less than 1% of the budget, while sums dedicated to subsidies and transfers move from 2.7% in Zvečan to 1.6% in Zubin Potok.

4. Annual financial and audit reports

After the budget has been realized, municipalities are obliged to prepare and submit an annual financial report. This report is delivered to the Director of Treasury¹⁸, whereas the deadline for submitting is 30 days since the fiscal

¹⁸ The Treasury Department ("Treasury") was established within the ministries of Finance and Economy, and it is in charge of managing the Consolidated Kosovo Fund, as well as responsible for practicing other competencies given to them by the law.

year conclusion. The main financial officer and head administrative official of a given municipality are in charge of submitting the annual financial report.¹⁹ The report is also delivered to the National Audit Office²⁰ that conducts yearly audits of the regularity of the Kosovo budget and its budgetary users (in this case – the municipality) in accordance with the law.

The municipal budget's audit is implemented each year in order to determine whether the budgets were administered properly, economically, and efficiently, and if systems for measuring their efficacy are in place. In North Kosovo's municipalities, audit reports of municipal budgets are conducted from 2014, whereas the report for the budgetary 2016 was published in June this year.

In the findings of audit reports for north Kosovo municipalities it is stated that budget planning is inadequate and its realization is at a low level. For instance, in 2016, the Zvečan Municipality used only 58% of the budgetary means at its disposal.²¹ However, next to the weak realization budget rates, the reports state an improvement in comparison to 2015, showing a positive trend in strengthening municipal capacities for budget realization.

Auditors established that not all northern Kosovo municipalities possess development strategies²² and other plans for growth. The lack of a general development strategy and other growth plans is making it impossible to track and measure the fulfillment of long-term and short-term goals. Hence, the report contains auditors' recommendations to mayors to commence drafting a general development strategy and creating an action plan in order to track budgetary achievement of goals and priorities of the given municipality.

As for the public procurement process, the north Kosovo municipalities still find it to be a great challenge – due to the complexity of harmonization with Kosovo Government's demands. That is why it often occurs that projects are not terminated in the budget year for which it had been planned to be completed within. Therefore, financial means and remaining activities are then transferred into the next year; in order to do so, the Ministry of Finance needs to issue a special consent. Audit reports mention that, despite the increase in capital investment budgets, the realization of those funds is still at a low level.²³

Another joint finding of the audit reports for all four municipalities involved is that the municipalities themselves collect only a small amount of their own revenues/incomes. In municipal budgets, primary revenues are split into three categories: revenue collected by the municipality, police penalties, and court sentences.

According to the Ministry of Administration and Self-Government report, the municipalities of Zubin Potok, Zvečan, and Leposavić collected below 10% of the envisaged amounts of direct primary revenue. In collecting their own primary revenues, the North Kosovo municipalities refer to UNMIK administration decisions, which do not foresee income from sales and property tax, building permits, use of public property, or other sources of municipal revenue in accordance with Kosovo legislation. Hence, all means collected through this budgetary item belong to income gathered from administrative fees, taxes for birth, marriage and death certificates, which are still symbolic financial means in comparison to the previously planned amounts. It may be interesting to mention that, except the Zvečan Municipality,²⁴ no other municipality has had expenditure from this budget category (primary revenues).

¹⁹ Ministry of Finance's Rulebook no. 03/2013 on annual financial reports of budget beneficiary organizations, available here <http://bit.ly/2tyRoqg>

²⁰ National Audit Office is an independent constitutional institution. For more on this institution, but only in Albanian, see <http://bit.ly/2uwVAqS>

²¹ Audit report on annual financial reports of the Zvečan Municipality for the year conclusive with December 31, 2016, June 2017, available here <http://bit.ly/2vcjPrW>

²² These findings of the audit report provokes suspicion, since the Zubin Potok Municipality adopted a Municipal Development Strategy for the period of 2013-17, and a Tourism Development Strategy for the period of 2015-20, whereas the Leposavić Municipality also has its own Tourism Development Strategy for 2017-22.

²³ For instance, during 2016, the Municipality of Zvečan spent only 51% of its capital investments budget

²⁴ In the course of 2016, the Zvečan Municipality spent 6,342€ from its primary income category

4. Conclusion

There are four main challenges the north Kosovo municipalities face in terms of their finances. The first one refers to the dissatisfaction of all northern Kosovo municipalities with the amount of yearly budgets designated by the Government in Pristina, since these local authorities claim that they are entitled to significantly larger budgets from those they have been given. This was particularly an issue in 2014, when these municipalities did not want to accept assigned budgetary means for a long period of time.

The second challenge is referring to the insufficient capacities of municipalities to realize assigned means within a fiscal year. The weak budget implementation is particularly noticeable in the area of capital investment projects realization, where projects are transferred from one fiscal year to the next one, which requires a special authorization from the Ministry of Finance.

The third challenge refers to the rejection of these municipalities to realize financial budget means from the sector of education and health services. The reason for this lies in the fact that these two sectors have been envisaged to be part of the Association/Community of Serb-majority municipalities, hence the implementation of available budget funds in these fields is considered as undermining initiatives for establishing the Association/Community.

The last challenge is about the municipalities' refusal to implement the provisions of the Law on Local Self-Government Finance in the field of primary revenues/income. Hereof, the revenue collected by the municipality from primary sources are negligible, below 10% of the envisaged funds.

Ultimately, it may be concluded that there is a positive trend in the process of financing northern Kosovo municipalities in all fields, particularly those concerning the strengthening of local capacities for budgetary funds implementation.

InTER – Institute for Territorial Economic Development – is an independent non-governmental think tank with the mission to promote and improve sustainable socio-economic development in the Western Balkans.

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