

KOSOVO

UNITARY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 10 887 km²
Population: 1.831 million inhabitants (2017), i.e. an increase 0.80% (2016- 2017)
Density: 168 inhabitants / km²
Urban population: 38.3% of national population (2011)
Urban population growth: n.a.
Capital city: Pristina (11.3% of national population)

ECONOMIC DATA

GDP: 19.7 billion (current PPP international dollars), i.e. 10 754 dollars per inhabitant (2017)
Real GDP growth: 4.5% (2017 vs 2016)
Unemployment rate: 27.5% (2016)
Foreign direct investment, net inflows (FDI): 324.8 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 27.3% of GDP (2017)
HDI: 0.739, rank N/A (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Kosovo is a democratic parliamentary republic, which declared its independence from Serbia in February 2008. From 1999 to 2008, Kosovo was an internationally-administered territory based on UNSC Resolution 1244, ruled by a bifurcated central government composed of the United Nations Mission in Kosovo (UNMIK) and the Kosovo Provisional Institutions of Self-Government (PISG).

Since 2008, legislative power has been vested in the unicameral National Assembly, composed of 120 deputies (including 20 seats reserved for minority representatives), while the executive power is exercised by the Prime minister, indirectly elected by the Assembly, and ministers of Kosovo. Early presidential elections were held in 2017 due to a no-confidence vote and internal crisis regarding Kosovo's borders. The EU-Kosovo Stabilization and Association Agreement (SAA) entered into force in 2016 as the first contractual relationship between the European Union and Kosovo. Moreover, Kosovo is expected to apply to become a member of the Council of Europe (CoE) in the coming years.

The governing body of the municipalities are the municipal assembly (*Kuvendi I Komunës* in Albanian and *Skupština Opštine* in Serbian) with members (from 15 to 51) directly elected by universal suffrage for a four-year term. The mayor (*Kryetar/Gradonačelnik*), who is the highest executive body of the municipality, is elected through direct elections also for a four-year term.

Decentralisation in Kosovo has been a top-down process. Based on the 2007 Comprehensive Proposal for the Kosovo Status Settlement of President Ahtisaari, the 2008 Constitution recognises municipalities as the basic territorial unit of local self-governance, and states that their organisation and powers are specified by law (Art. 12). Chapter 10 of the Constitution guarantees the right to local self-government, as exercised by representative bodies elected through general, equal, free, direct, and secret ballot elections (Art. 123). Municipalities enjoy a high degree of local self-governance and must ensure the active participation of all citizens in their decision-making process.

Likewise, law no. 03/L-040 on Local Self Government (enforced in 2008), defines the legal status of municipalities, their competencies, general principles pertaining to municipal finances, the organisation and functioning of the municipal bodies, intra-municipal arrangements and inter-municipal co-operation. Other basic laws were adopted in June 2008 as part of the "Ahtisaari Package laws", in particular Law 03/L- 049 on local government finance, Law 03/L-041 on administrative municipal boundaries and Law 03/L-072 on local elections.

In 2016, the government launched a second phase of its decentralisation process through the Ministry of Local Government Administration. To this end, it has defined a Strategy and an Action Plan for local self-government for 2016-2026, aimed at promoting the role and consolidating the functions of municipalities. It has five main components: 1/ Increasing economic, social and local structural sustainability to ensure that the parameters of local policies and financial modalities will bring innovation to the development of municipalities. 2/ Creating a framework for good governance and effective regulation to ensure democratic representation of citizens and professional and efficient administration of municipalities. 3/ Strengthening institutional capacities of local self-government to meet the demands of citizens and achieve sustainable improvement in municipal services for citizens. 4/ Strengthening partnerships between local government, civil society and businesses to create active, comprehensive and cohesive citizens. 5/ Promoting cultural and natural heritage and affirmation of cultural, ethnic and linguistic diversity in municipalities to affect the social, economic and cultural development.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	38 municipalities (<i>Komunë</i> in Albanian and <i>Opština</i> in Serbian)			
	Average municipal size: 48 176 inhabitants			
	38			38

OVERALL DESCRIPTION. Kosovo has a single-tier subnational government system made of 38 municipalities. Territorial decentralisation in Kosovo merges with ethnic decentralisation, considering that the 10 Serbian-majority municipalities, and the four municipalities located in the northern part of Kosovo, are clearly distinct from their Albanian-majority counterparts.

In 2013, Kosovo-Albanian and Serbian government representatives signed the so-called Brussels Agreement. The accord envisages the integration of the four municipalities with a Kosovo-Serb majority, which are located in the north of Kosovo, into Kosovo's institutional system. It also would devolve to them enhanced powers in terms of secondary health services and university education (see below).

Municipalities are large by international standards (more than 48 000 inhabitants on average, with a median size of 39 000 inhabitants, vs 9 700 inhabitants on average in the OECD and 5 900 in the EU). Three-quarters of municipalities have more than 10 000 inhabitants. The Capital city, Pristina, which has around 208 000 inhabitants in 2017, is followed by Prizren (190 000 inhabitants) and three cities with between 95 000 and 101 000 inhabitants (*Gjakovë, Pejë and Ferizajof*). A separate law for the Capital City of Pristina was approved in 2018 with budgetary effects starting in 2019.

Municipalities are subdivided into settlements (villages and urban areas) to ensure that services are offered to all citizens on a local basis. With the approval of the municipality, villages and urban areas, alone or in co-operation, may carry out some tasks that are within the responsibilities and powers of the municipality. Each municipality regulates the division of its sub-localities. In 2016, there were 1 469 settlements in Kosovo (villages / *fshat* in Albanian and *selo* in Serbian).

In 2001, the Assembly of the Republic adopted a law to regulate inter-municipal co-operation amongst municipalities of Republic of Kosovo. The law enables them to develop inter-municipal co-operation structures on matters of mutual interest in the delivery of their competences. The law defines several forms of co-operation such as joint working bodies, joint administrative bodies, joint public institutions, joint public enterprises and joint public-private partnerships. It also indicates that the government can encourage and support financially such inter-municipal co-operation through financial and administrative incentives. However, little inter-municipal co-operation has been initiated between municipalities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Law on Self-Local Government (2008) transferred significant functions to local governments, primarily in the social sector, divided into three types: own competences, delegated powers and enhanced powers. Own competencies are granted by law as sectors for which local governments have full power, such as local economic development, education and health, tourism, cultural and leisure activities. Municipalities draw up their own Development Plans, which set budget priorities.

Delegated competencies are mainly performed by municipalities on behalf of the central level, such as distribution of social assistance and administrative duties. Enhanced (or extended) competencies are entrusted to certain municipalities with a Serbian majority in the areas of health, education and cultural affairs. These competencies also enable constituents, for instance, to select local police station commanders (in an example of an 'asymmetric decentralisation' of sorts). Some municipalities in Kosovo also deliver certain services through local public enterprises (e.g., local economic development).

However, the basic legislation on the functioning and the transfer of competencies from the central to the local level in Kosovo has not been fully implemented yet. New laws affecting the powers of municipalities are still being adopted. Lack of capacity and inter-institutional co-ordination, intercommunity tensions and the insufficient involvement of citizens undermine the efficiency of municipalities to deliver the services they are in charge of.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPAL LEVEL	
1. General public services	Delegated: Cadastral records; Civil registry; Voter registration; Business registration and licensing. Own: Municipal general administration; Licensing of local services and facilities; Promotion and protection of human rights
2. Public order and safety	Own: Local emergency response; Enforcement of civil protection; Fire-fighting
3. Economic affairs/transport	Own: Local economic development; Tourism; Local roads; Local public transportation
4. Environmental protection	Delegated: Forestry protection Own: Local environmental protection; Provision and maintenance of public parks and spaces; Sewerage and drainage; Waste management
5. Housing and community amenities	Own: Urban and rural planning; Land use and development; Implementation of building regulations and building control standards; Water supply; Local heating schemes; Public housing
6. Health	Own: public health; Public primary health care. Expanded: Secondary health care
7. Recreation, culture & religion	Own and expanded: Culture and leisure. Own: Sports
8. Education	Own: Provision of public pre-primary, primary and secondary education, including registration and licensing of educational institutions, recruitment, payment of salaries and training of educators and administrators. Expanded: higher education
9. Social protection	Own: Provision of family and other social welfare services, such as care for the vulnerable, foster care, child care, elderly care, including registration and licensing of these care centres, recruitment, payment of salaries and training of social welfare professionals. Delegated: Distribution of social assistance payments (excluding pensions)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: all municipalities.	Other	Availability of fiscal data: Medium	Quality/reliability of fiscal data : Medium
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GENERAL INTRODUCTION. Since 2006, Kosovo has been transitioning from having the least decentralised system in South-East Europe to one of the most decentralised, along with Macedonia. However, while local governments in Kosovo are devolved a large array of competences, their autonomy is limited in terms of financial resources and capacities. The Constitution recognises the need to specify the financial resources available to municipalities in Kosovo, including municipal own-source revenues, grants, and other sources of finance. In addition, law no. 03/L-048 on Public Financial Management and Accountability (last amended in 2013) describes a wide range of procedures, in the area of finance, to be followed by municipalities (e.g. how to draft and pass municipal budgets).

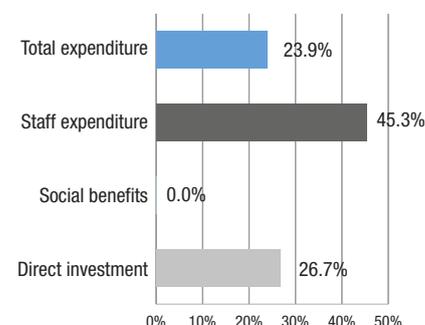
On this basis, the 2008 Law on Local Government Financing (LGF) sets the general principles regarding fiscal decentralisation. Article 2 defines "Municipal Financial Autonomy" whereby municipalities in Kosovo shall be entitled to adequate financial resources of their own, that they are free to use as they see fit in the delivery of the municipal services that are part of their remit. It also states that the municipality has the right and authority to autonomously regulate and manage financial resources that are generate from own-source revenues or provided under a general grant.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	683	6.7%	100%	
Incl. current expenditure	509	5.0%	74.5%	
Staff expenditure	414	4.1%	60.6%	
Intermediate consumption	65	0.6%	9.5%	
Social expenditure	0	0.0%	0.0%	
Subsidies and current transfers	15	0.1%	2.2%	
Financial charges	0	0.0%	0.0%	
Others	15	0.2%	2.2%	
Incl. capital expenditure	174	1.7%	25.5%	
Capital transfers	0	0.0%	0.0%	
Direct investment (or GFCF)	174	1.7%	25.5%	

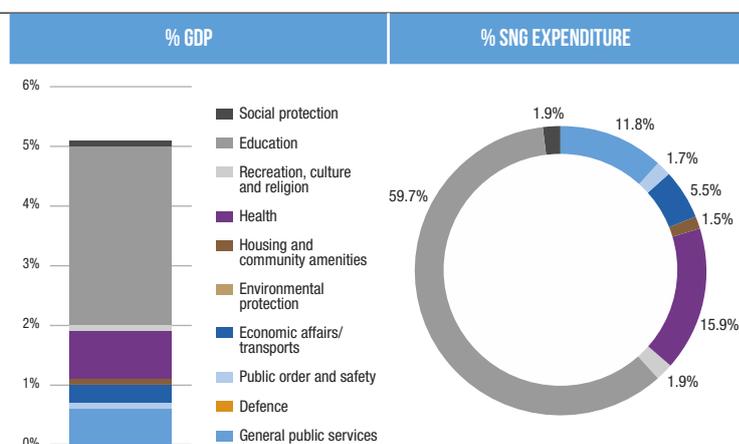


EXPENDITURE. Despite large transfers of responsibilities in key areas, the share of subnational expenditure in GDP and public expenditure is relatively low, in particular compared to the EU average (15.5% of GDP in 2016 and 33.4% of public expenditure in 2016). The weight of staff spending is particularly significant, resulting from the fact that municipalities are responsible for teachers' salaries. In 2013, Pristina was the only municipality to allocate the lion's share of its budget to capital expenditure.

DIRECT INVESTMENT. Total public investment in Kosovo has dropped in 2014–2015 to 7% of the GDP. Yet, the share of local investments in the total public investment has increased from 22% in 2009, and after a historic high of 28% in 2015, it decreased to 26.7% in 2016. In 2016, local governments in Kosovo devoted 25.5% of their total expenditures to investment. Before 2015, around half of local investment was dedicated to general public services. However, in 2016, this represented only 9% of local investments, whereas investments related to economic affairs (roads and transport infrastructure) represented 57% and those related to housing and community amenities (basic local government services) 17%.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Local governments in Kosovo are primarily responsible for the financing of all pre-university schooling, which accounts for 60% (max.) of their total spending. Their second main area of spending is health (16%), mostly in primary and secondary healthcare, followed by general public services. However, local spending on education and healthcare remain controlled, in large part, by the central government. Compared to other countries in South-East Europe and the EU, SNGs play a smaller role in housing and community amenities.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	766	7.5%	28.1%	
Tax revenue	151	1.5%	6.0%	19.8%
Grants and subsidies	573	5.6%		74.8%
Tariffs and fees	42	0.4%		5.5%
Property income	0	0.0%		0.0%
Other revenues	0	0.0%		0.0%

OVERALL DESCRIPTION. Despite a small public sector, Kosovo has the smallest total public revenue as a percentage of GDP within South-East Europe. The local share of total public revenues in Kosovo is below the EU average of 34.8% in 2016. The share of local finances in GDP between 2010 and 2016 was stable at around 7%. According to Article 7.1 of the LGF Law, the budget resources of municipalities consist of own source revenues, the operating grant,

grants for enhanced competencies, transfers for delegated competencies, extraordinary grants, financial assistance from the Republic of Serbia and proceeds from municipal borrowing. According to the 2018 Budget Law, all revenue from healthcare and education are to be dedicated to these two respective sectors only. Local revenues in Kosovo have increased in the recent years, due to the devolution of new responsibilities as SNGs are now responsible for paying the wages of workers in the education and health sectors. The devolution of new competences to local governments since 2006 was also accompanied with a change in the structure of local revenues in Kosovo, and the introduction of conditional and unconditional intergovernmental transfers. As a result, the share of grants and subsidies is particularly high compared to that of taxes.

TAX REVENUE. The main source of tax revenue of municipalities is the property tax. After years of low collection rates, significant efforts have been made by the Kosovo Cadaster Agency to improve registration and billing, which increased the minimum property tax rates enforced by municipalities. However, its yield remains stable at 0.4% of GDP,

In October 2018, a new Law on Immovable Property Tax came into force, introducing a tax on land in addition to the tax on property, to be effective in 2019. According to the LGF Law, municipalities may also collect Business License Fees, Motor Vehicle Fees, Municipal Administrative Fees, among others.

GRANTS AND SUBSIDIES. In Kosovo, the intergovernmental transfer system includes a fiscal equalisation mechanism in the form of an unconditional grant (General Grant), as well as specific grants.

The General Grant is defined by law as 10% of the general government's total revenues. Municipalities receive a lump sum payment of EUR 140 000, minus EUR 1 per capita for all local governments with more than 40 000 inhabitants. Therefore, municipalities with populations of greater than 140 000 do not receive a payment. The rest of the grant pool is then allocated to municipalities based on a formula depending on the population (89%), size of the municipality (6%), the number of ethnic minorities (3%), and 2% for municipalities in which the majority of the population comes from a national minority. Since 2009, the size of this unconditional grant has increased in line with national budget revenues, as well as own revenues, and the central government introduced investment grants in the scheme. According to NALAS (Network of Associations of Local Authorities of South-East Europe), this general grant represented 35% of SNG revenues in 2017.

The two main spending area of SNGs, education and health, are funded through specific block grants, determined by a National Grant Commission in accordance with a Medium-term Expenditure Framework (MTEF). The Education Grant is allocated to local governments on the basis of a formula that considers the wages of teachers, administrators and support staff, goods and services, building maintenance, and specific education policies. The Health Grant is also allocated through a formula based on the population. According to NALAs, local governments derived 49% of their revenues from block grants in 2017 (38% for education and 11% for primary healthcare). A special fund was also established to help the four Serbian-majority municipalities in the north of Kosovo, financed from customs duties collected on the border with Serbia.

OTHER REVENUES. Besides the property tax, municipalities also receive revenues from construction permits (infrastructure development charges, in the form of Land Development Fees), which have generated increasing revenue since 2014. They are also allowed to collect municipal charges including regulatory charges, education and health co-payments, as well as rental income. Fines-penalties including traffic fines and fines for municipal offences, and are collected at the central level by the Ministry of Internal Affairs before being allocated to municipalities.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
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Total outstanding debt

Financial debt*

* Currency and deposits, loans and bonds

FISCAL RULES. According to the Law on Public Finance Management and Accountability, municipalities must publish an annual financial report. However, they do not do so on a regular basis. Reports by an internal auditor in recent years revealed that in most municipalities in Kosovo internal controls on local finances are lacking. This led to a new law on the Internal Control of Public Finances. Since 2009, municipalities have an annual ceiling on current expenditure growth of 0.5%.

DEBT. Municipalities can access loans and debt markets (national capital markets only) to finance capital investments ("Golden Rule") with the authorisation of the municipal assembly and of the Ministry of Economy and Finance. However, access is subject to strict conditions: total annual debt service should not exceed 15% of municipalities' own-revenues from the past fiscal year and the total amount of outstanding municipal debt should not exceed 50% of their own-revenues from the past fiscal year. Grace periods are not allowed. Only a few municipalities had to use borrowing in 2016.



Lead responsible: OECD
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Socio-economic indicators: Eurostat // World Bank // UNDP // UN Desa // ILO // Kosovo Agency of Statistics.

Fiscal data: IMF-GFS // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // NALAS // Kosovo Agency of Statistics.

Other sources of information: NALAs (2018) Fiscal decentralisation indicators for South-East Europe // Gap Institute (2017) What are the real competences of municipalities? // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // Kosovo Local Government Institute and Local Government Information Unit (2016) Necessity to re-think decentralisation // Kasemets, K. (2015) Policy Making Review Kosovo, OECD SIGMA Papers // Institute for Advanced Studies (2014) Budgeting practices in six municipalities in Kosovo // Ebel, R. Péteri G. (2007) The Kosovo Decentralization Briefing Book, Kosovo Foundation for Open Society.