

REVIEW

OF LOCAL GOVERNMENT FINANCES IN KOSOVO

Trends, Fiscal Autonomy, Challenges and
Reform Priorities

March, 2026



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Acronyms

ARRU	Water Services Regulatory Authority
ASK	Kosovo Statistics Agency
BDMS	Budget Development and Management System
CAO	Chief Administrative Officer
COFOG	Classification of Functions of Government
GFS	Government Finance Statistics
IPSAS	International Public Sector Accounting Standards
KCB	Kosovo Consolidated Budget
KFMIS	Kosovo Financial Management Information System
LAI	Local Autonomy Index
MESTI	Ministry of Education, Science, Technology and Innovation
MFLT	Ministry of Finance, Labour and Transfers
MLGA	Ministry of Local Government Administration
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
PBG	Performance Based Grant
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMAL	Public Financial Management and Accountability Law
PIP	Public Investment Program
POE	Publicly Owned Enterprise
SOE	Socially Owned Enterprise

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Executive summary

This review of local government finance is part of DEMOS III. project activities to improve municipal performance in governance and management. Evaluation of municipal financial autonomy serves the ultimate goal to develop policies and legal framework for better services to citizens.

Several studies and reports have already discussed specific elements of decentralisation, municipal finances and local public financial management. The recent most important ones are listed among the references. They were useful resources of this review. The added value of our report is that all this information - together with the data collected and interviews with government officials - was put into a comprehensive framework.

Here local finances are evaluated together with the other components of decentralisation: that is the administrative-territorial structure, the scope of devolved functions and the political mechanisms of local accountability.

Main objective and approach of this assessment is to report on how central *government influence can be harmonised with greater municipal autonomy* and what the *proper incentives for efficient local service provision* are in the present multi-level governance system of Kosovo. Our assumption is that benefits of devolution can be realized only when vertical administrative dependence is balanced by *local social accountability*.

Presently Kosovo is in its *third stage of decentralisation*. Following the post war decade of international control and the establishment of legal bases after the declaration of independence, in this new era public sector modernisation served partially the decentralized public service provision. However, despite the evolving legal-regulatory framework, the actual level of local autonomy is ranked at a medium level by the Local Autonomy Index. So there are still areas of improvement.



Factors of decentralisation

Among the main factors influencing decentralisation the country *administrative-territorial system* has a rational structure. The large size municipalities provide good basis for managing the assigned functions economically. The diverse urban structure of the country and the numerous communities at sub-municipal level should be taken into account during the design of intergovernmental fiscal relations.

The *municipal functions and competencies* are dominated by the costly human services (education, health). The real municipal powers in service provision are limited. Direct supervision and strong control over local governments is often combined with competing programs and developments of the functional and line ministries.

In this rather centralised system of governance the *political-electoral mechanisms* determine the social accountability at local level. Mayors are central figures of the local government scene, but they tend to be more accountable towards the nominating political party than their local constituencies and the elected assembly.

Decentralisation policy in Kosovo targeted also the municipalities of ethnic minorities in order to keep the country's unity. However, fiscal decentralisation could not provide a viable alternative to secessionist actions. For this reason no reliable data were available on the ten municipalities with Serbian majority population. The local elections had very low voter turnout in the four municipalities of North Kosovo.

Municipal finances

Examination of *financial autonomy* focused on all the major revenue sources and the public financial management at the local level. Composition of municipal revenues is rather stable: specific grants finance half of the municipal budgets, the second largest revenue source is the general grant (one third of the total revenues). Own source revenues represent only approximately 15% of the total budget.

i. Own source revenue raising

There are many different types of *own source revenues*, but the property tax (33% of total own revenues) and the construction fee (30%) dominate. Most of the municipal fees, charges are small, nuance revenues. Own source revenues, especially the large ones are concentrated in Prishtina and in the urban centers. It raises the claim for revenue equalisation, as it is missing from the present regulations.

Our review has identified those own revenues which have the greatest potential in the future. They are the charge on local businesses, tax on tourism (accommodation), the motor vehicle tax and the land related revenues. Local business value tax in principle is paid for the local infrastructure and social services provided by the municipality. A fair business value tax should be based on the taxpayers' economic-financial positions, which better reflect their ability to pay. The accommodation (tourism) tax is a stable revenue source and it can be combined with matching grant scheme to compensate for a municipality's high seasonal costs. Motor vehicle tax is a good municipal resource both financing local roads and environmental protection. Land related revenues tap income of property developers and owners for the benefits gained from municipal investments. Greater revenue autonomy – e.g. by eliminating limitations on the use of charges, taxes - will also increase the revenues collected.

ii. Intergovernmental transfers, grants

The two major types of *intergovernmental transfers*, the general grant and the specific grants, both aim to finance the standard (average or minimum) level of services. The total amount of general grant is calculated as a percentage of public revenues. Deducting the property tax from this pool does not support revenue maximisation at the aggregate level of municipalities. Population number is the main criterion used for grant allocation. In the case of specific grants on education and on health the complex allocation criteria are used by the municipalities as spending norms and expenditure appropriations. Together with the staffing regulations they significantly limit local autonomy in using the total amount of grants available.

The future social grant was already debated for a long time. The allocation rules of a social grant might follow principles similar to other specific grants by using both service performance and measurable local needs indicators. The innovative municipal performance based grant has already been built into the regular practice of domestic transfers. It is partly financed by donors and uses a complex system of self-assessed indicators.

The *national grants commission* has broad responsibilities as an intergovernmental forum evaluating and monitoring the various transfers and municipal finances in general. Independence of the grant commission can be improved by strengthening its own analytical capacities by a permanent secretariat.

Capital investments are financed by the combination of various grants and municipal own revenues. Majority of municipal own resources are used for capital investments. The national government funds from line ministries, dedicated investments grant and a part of the general grant are not always coordinated properly. The highly centralised capital investment planning and project management is often criticised because of implementation failures and lack of municipal capacities in project preparation, procurement and monitoring.

iii. Public financial management

In the field of *municipal public financial management* the budget planning procedures and the strict regulations on municipal public employment are the major limitations on fiscal autonomy. The MFLT controls the total expenditure appropriations through the fiscal planning rules set by the budget circulars and the two rounds of budget negotiations. The ministry has the right to reject or revise the local budget if the planning rules and the standards are not followed. During the budget implementation the major amendments are strictly controlled by the national government. The capped expenditures on labour, combined with limitations on local discretion over salaries and employment create formal uniformity, when municipalities cannot respond on specific local needs.

Municipalities manage two thirds of all public assets. This *large stock of assets* puts a huge burden on local governments and its maintenance requires significant amount of capital expenditures, which is not available for the municipalities. They have broad powers in asset management, although there are limitation on local autonomy (e.g. no mortgages on public assets) and compulsory central approval of long term leases and property exchange.

Challenges and recommendations

In the final chapter of the review the *major challenges* on local financial autonomy are summarised and some *recommendations* are formulated. They are primarily policy proposals to support future legislative changes and to improve rules, procedures and practices of intergovernmental fiscal relations. Proposals follow the structure of the review, but focus primarily on municipal financing mechanisms:

iv. municipal own source revenue raising:

- a) diversifying municipal own source revenues by increasing the role of local business value tax, accommodation (tourism) tax, motor vehicle tax and land related revenues;
- b) greater local autonomy is required in local revenue policy design and in use of municipal own source revenues;
- c) deduction of municipal own source revenues from the calculation of general grant base should be terminated, because it creates counterincentives to municipal own source revenue raising;
- d) in property taxation the legislation on progressive tax rates should be implemented;
- e) municipalities need support to improve property registries;
- f) increase in construction permit fee revenues requires better municipal administration in permit issue and construction supervision;
- g) local business license fee should be transformed into a municipal business value tax, which is a contribution paid for the local infrastructure benefits received by businesses;
- h) once the accommodation (tourism) tax is implemented, the option to levy by guest nights might be allowed and there is no need to restrict the use of tourism tax collected;
- i) motor vehicle tax rate should reflect environmental objectives (higher polluters pay more); municipalities should have greater autonomy in rate setting;
- j) introduction of volume based user charges in utility and communal services creates economic incentives for efficient service management both at the service providers and the users;

v. Intergovernmental transfers, grants:

- a) connecting the amount of general grant calculation to a specific group of major national tax revenues would make it more predictable and transparent;
- b) allocation criteria of general grants should be diversified, reflecting the needs for those services, which are not correlated to population number only;
- c) changes of population number after the census should be gradually introduced in order to avoid drastic losses in general grant;
- d) specific grant allocation criteria should be further developed to compensate for differences in service unit costs; to support service network modernisation and to allow alternative service providers;
- e) specific grants should be transformed into block grants, instead of using them as definite budget appropriations by municipalities;
- f) capital investment financing should be incorporated in national development planning and MTEF by using diverse funding mechanism of matching grants and subsidies;

- g) revenue sharing mechanisms are missing from the Kosovar system of intergovernmental finances; personal income tax might be shared with municipalities;
- h) Grants Commission can be made more influential by improving the negotiation mechanisms and by strengthening Commission's own analytical capacities;

vi. financial management:

- a) gradually transforming budget planning and negotiations from expenditure and staff number control towards regulation on municipal budget revenues;
- b) easing staff regulations will improve service efficiency through more flexible public sector employment.

Introduction: objectives and tasks

This review of local finances fits into the DEMOS III. project's main objectives to improve municipal performance in governance and management with an ultimate goal to provide better services to citizens. The report is a contribution primarily to the *improvement of policy and legal framework* for decentralized local governance and rule-based municipal financing in Kosovo.

Evaluation of the current financial framework focuses on the critical elements of municipal finances and public financial management. Within the overall framework of intergovernmental relations the following *key areas of local finances are reviewed*: own source revenue generation and intergovernmental transfers, budget development and management framework for increased municipal efficiency.

Main objectives of this assessment are to report on two critical aspects of fiscal decentralisation. Firstly, how central government influence and control can be harmonised with the needs of *greater municipal autonomy*. Secondly, the proper *incentives for efficient local service provision* should be identified in the present multi-level governance system.

The specific fiscal mechanisms and techniques will be evaluated *within the broader governance framework*. Beyond focusing on local government finance issues, other factors should be taken into account during the review. Critical elements of this institutional environment, such as the assignment of public functions, the administrative-territorial structure of Kosovo and the political mechanisms are also discussed.

The major part of the review will discuss three areas of fiscal autonomy. All the components of municipal *own source revenue raising* will be evaluated. It will be followed by the assessment of the *intergovernmental transfers, grant schemes* and the status of municipal borrowing. The third broad area is the selected topics of *public financial management*.

Throughout this review our assumption is that the benefits of devolution can be realized only when vertical administrative dependence is combined with horizontal, local accountability. Future techniques of fiscal autonomy work only if central control is balanced by higher social accountability of the municipalities. It will also increase trust towards municipalities, which presently depend highly on central decisions (in staffing, fiscal planning, grant allocation, etc.). Real devolution will support better utilization of municipal revenue raising potential and savings in budget execution.

The review will conclude by identifying the *main challenges* and drafting some *recommendations* for improvements. These proposals are intended to support future legislative drafting

and also help to design rules, procedures for improved practices. Although the scope of this project does not allow to develop a comprehensive policy proposal. The recommendations only aim to specify the directions of future actions for improved fiscal autonomy. The often used argument to improve vertical fiscal balance by providing more funds to municipalities will not be subject of this review.

During the implementation the current *political and governance conditions* of decentralisation should be taken into account. Following the parliamentary elections in February, 2025 the formation of the new government slowed down. Outcome of political negotiations is critical for the future of decentralisation, as majority of present municipalities are led by mayors and assemblies of the former opposition parties.

The local elections are scheduled for the Autumn this year, which might be an opportunity to initiate reform steps afterwards. It can be supported by restarting the actions of the former working groups. The legislative program can be continued by completing the laws being under design already for several years (e.g. Law on Public Financial Management, Law on Local Government Finances).

Legal and institutional framework

The process of establishing the Kosovo state, as an effective operational government entity, can be divided into three development stages. The *first period* was a decade started with the war and ended with the declaration of independence in 2008. The basic laws and UNMIK regulations established the key pillars of the future state. From local governments' point of view the entire public administration and public service provision was under strict central control. The focus was on developing basic management capabilities at both government tiers.

The most critical pieces of legislation on local affairs were the laws and regulations on civil service, waste management, energy, environmental protection, water, spatial planning, communities' rights, public health, cultural institutions, etc.. The first regulations on property taxation and tax administration (e.g. valuation, appeals, tax directorates) were passed. By the end of this period the Ministry of Local Government Administration was established (2004). All these efforts concluded by drafting the Ahtisaari Settlement Proposal in 2007, which laid down the foundations of future decentralisation.

The next decade (2008-2017) was the *second stage*, starting with the declaration of independence and development of the constitutional system of Kosovo. All the critical pieces of municipal legislation were approved in this period. Based on the constitution (2008) the laws on local self-governments, municipal boundaries, local elections were passed, together with the regulations on public finances: the law on local finances, public financial management, public enterprises, immovable property tax, etc.. The important laws on decentralised services (e.g. education in municipalities), administration and management (e.g. to prevent conflict of interest) set the legal foundations of multi-level governance.

Start of the present, *third stage* is not clearly identifiable. However, in this period of the last six-seven years priorities of public service management and public finances have gradually changed. Efficient public spending, greater resilience to external shocks, fiscal space for financing the public functions were the main fiscal policy requirements (World Bank, 2023).

In this is new era of decentralized public service provision several previous laws were "amended and supplemented". Beyond the gradual improvements, public sector modernisation was continued with legislation – among others - on public financial internal control, organisation and functioning of state administration, regulation on salaries in the public sector, establishing education inspectorates, introducing consumer protection, etc.. Legislating the municipal performance – based grant scheme (2022) was in line with the new objectives of governance reforms to focus on quality of municipal operation, improved service management and efficiency.

(Chart 1) Municipal revenues as a portion of total public revenues were only 18% at the beginning (2007), but in seven years it increased to 29% (2014). This growth was first fuelled by own source revenues (23% of municipal budgets), but later the general grant became the dominant source of municipal budgets (36%). The other half of municipal budgets was financed by the specific grants on education and health care, plus the grants for capital investments. After 2018 the trend slightly reversed, but following the year of pandemic the general grant is the primary revenue source again.

Chart 1. Stages of decentralisation and local government development, 2007-2023

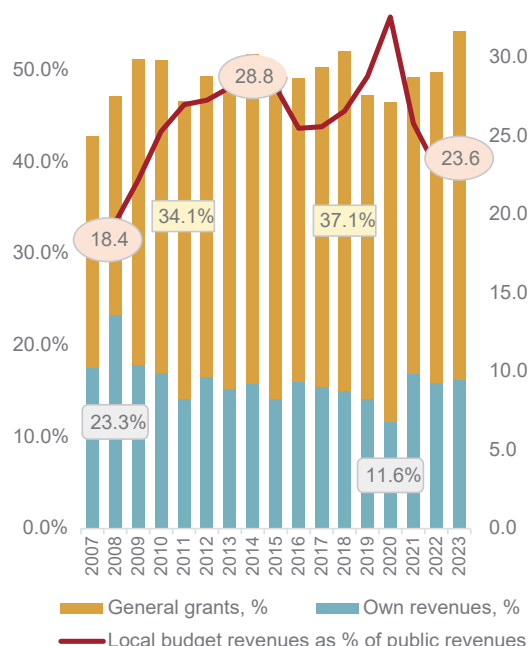
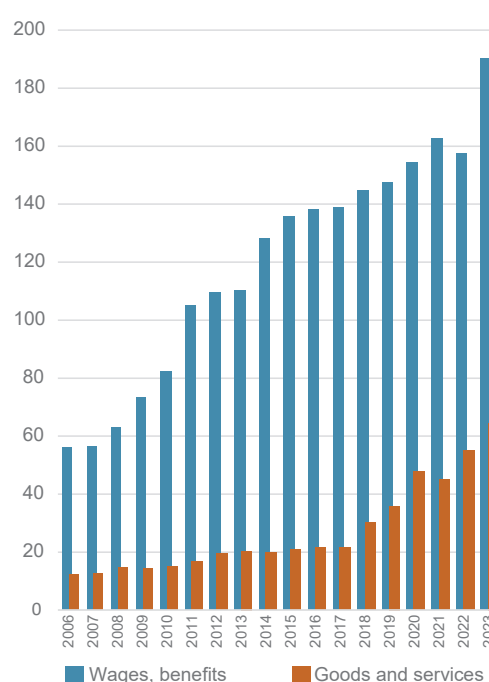


Chart 2. Expenditures per capita, EUR



Source: NALAS

Despite the fluctuation in grant dependency municipal expenditures on wages and benefits remained stable. Due to the strict control on municipal staff numbers and the salary levels, increase in per capita labour costs followed the rate of economic growth. (Chart 2) However, since 2018 the per capita expenditure on goods and services, as an indicator of municipal financial autonomy, started to grow. These expenditures increased because of the need for better services, the supplements to the regulated municipal personnel budget through contract schemes and also partly due to inflation (especially in 2022).

Higher municipal budgets, more general purpose revenues (general grants, own source revenues) create new requirements for the formerly deconcentrated system of local governments. The local finances, intergovernmental fiscal relations and financial management practices should be adjusted to this devolved system. Diverse local needs can be met by better targeted municipal service provision, which is supported by incentive based, more flexible forms of financing. It will require a new balance of central external administrative control and municipal discretion with stronger local, social accountability mechanisms. This is the approach what we follow throughout this review.

Despite the evolving legal-regulatory framework, the actual level of local autonomy is still ranked at medium level in Kosovo (see Box 1 on the Local Autonomy Index). The overall score of the Local Autonomy Index is 18 (on a scale of 0-37). Especially the indicators on fiscal autonomy and the related measures of the fiscal system with lower values show the areas of improvement. Majority of the indicator scores were not changed during the past decades.

Box 1. Local autonomy in Kosovo: low ranking of municipal finances

The international comparative project on the self-rule index for local authorities developed objective measures of local autonomy. The database covers 57 countries, primarily the Council of Europe member states. The country indices measure 12 dimensions of self-rule and interaction of the two government tiers. They cover institutional framework of decentralisation, assess the locally managed functions, four aspects of intergovernmental fiscal relations, political and administrative conditions of local governance.

The latest set of indicators and the accompanied report evaluates Kosovo local autonomy at a medium level with a total score of 18 (out of the maximum possible 37). The average overall score of 2015-2020 ranks Kosovo among the countries with lower indices. It is the second lowest among the countries of South-East Europe (ahead of Moldova), although positioned next to Romania, Croatia.

The lessons for our review is that institutional, policy related discretion and the legal conditions are scored higher than the fiscal dimensions of municipal autonomy. The transfer system, the fiscal self-reliance and the borrowing autonomy got score "1" in a scale of 0-3. During the reviewed two decades only a few scores increased, otherwise the assessment is quite static, there were no major developments according to this benchmarking. (Ladner et al, 2021)

Local Autonomy Index, 2020		
Dimensions	Range	Score
Institutional depth	(0-3)	2,00
Policy scope	(0-4)	2,00
Effective political discretion	(0-4)	2,00
Fiscal autonomy	(0-4)	1,00
Financial transfer system	(0-3)	1,00
Financial self-reliance	(0-3)	1,00
Borrowing autonomy	(0-3)	1,00
Electoral system	(0-2)	1,00
Administration	(0-2)	0,50
Self-rule	(0-28)	12,50
Legal protection	(0-3)	2,00
Administrative supervision	(0-3)	2,00
Central access (consultation, representation)	(0-3)	1,50
Interactive rule	(0-9)	5,50
Local Autonomy	(0-37)	18,00
Source: Local Autonomy Index		

This comprehensive evaluation of local governance indicates that intergovernmental fiscal relations and municipal finances should be in the center of future public sector reforms. However, status of municipal finances and financial management is only one factor, which determines the actual level of decentralisation and local autonomy. There are - at least - three other conditions which jointly influence the actual position of local governments.

They are the (i) administrative-territorial structure of the country, the (ii) actual functions and powers of municipalities in managing their own competencies and the (iii) political-electoral mechanisms determining the social accountability at local level (Boex *et al*, 2021). These aspects of multi-level governance will be briefly discussed before the analysis of municipal finances.

Administrative-territorial structure

The relatively large size municipalities of Kosovo form a network of economically rational size local units. (Table 1) In this *amalgamated model of local governments* the average population size of municipalities is 42,5 thousand. As the capital city dominates the urban structure with a population share of 14%, the average size of municipalities outside Prishtina is lower: 37,6 thousand. There are significant differences among the municipalities: almost one quarter (24%) of municipalities are in the group of population below 10 000 and five even with population below 5 thousand. They were mostly formed as municipalities of specific ethnic groups.

Table 1. Number and population of municipalities (2011, 2024)

	Number of municipalities	Population (2011)	Population (2020,2024) ¹	Average municipality population	Share of population (2020,2024)	Share if municipality number
Prishtina	1	198 897	227 466	227 466	14,1%	2,6%
90 000-	2	286 391	256 501	128 251	15,9%	5,3%
60 001-89 999	7	546 289	505 618	72 231	31,2%	18,4%
40 001-59 999	6	337 537	275 223	45 871	17,0%	15,8%
10 001-39 999	13	360 878	307 908	23 685	19,0%	34,2%
-10 000	9	50 029	45 292	5 032	2,8%	23,7%
Total	38	1 780 021	1 618 008	42 579	100,0%	100,0%

Source: Kosovo Agency of Statistics data

However, these *small municipalities represent less than 3% of the country total population*. So their significance for intergovernmental fiscal relations is low. Their unique needs and fiscal capacity problems might be managed by unique measures.

These large size municipalities are created on a group of villages, settlements or urban quarters. 1 469 settlements are comprised by the 38 municipalities, that is within the area

¹ Population number of 2020 in the four municipalities with Serbian majority, which did not participate in the 2024 census.

of an *average municipality* there are 39 *sub-municipal entities*. In five municipalities the number of these units even exceeds 75 (Gjakovë, Pejë, Podujevë, Prizren, Leposaviq). At the other end of the spectrum are the municipalities with less than five internal geographical entities (e.g. Klokot, Junik, Partesh, Mamushë).

Access to municipal services, the unit costs of service provision and the local fiscal capacity is very much influenced by geographical dispersion. The number of villages or urban quarters should be taken into account in the case of grant design. (Although the direct spending at the community level is limited, as only 175 staff positions are authorised by the 2023 budget.) The fragmented internal urban structure influences the budgeting procedures and the local accountability practices.

The country is also divided into seven development regions. They are statistical regions, following the European Union statistical nomenclature and regarded as NUTS-3 regions. Some ministries also formed their regional offices, as deconcentrated ministerial units. But establishing government tier at regional level is not a priority in the relative small and ethnically divided country.

Municipal functions and services

Beyond the territorial-administrative structure and the other critical factor influencing local autonomy is the scope of municipal functions. Service responsibilities and competencies assigned to municipalities measured by local budget expenditures show that *pre-university education* is the main local task. (Table 2, left column) More than half of local budgets (53%) is spent on kindergartens, primary and secondary education, financing both salaries and operation and maintenance of schools. The remaining part of the local budget is used for *health care services* (17%) and the *general public* (administrative and urban) *services* (15%). The remaining 15% of the municipal budget is used for all the other local own and delegated functions.

Table 2. Municipal responsibilities and actual powers

	Expenditures in % of total 2021	Effective political discretion, 2020 (scores in a scale)	
Education	53,0%	pre-school: primary school: secondary school:	0,5 (0-1) 0,5 (0-1) 0,5 (0-1)
Health	17,0%	primary health: hospitals: dental services:	0,5 (0-1) 0,5 (0-1) 0,5 (0-1)
General Public Services	15,0%	building permits: zoning:	0,5 (0-1) 0,5 (0-1)
Economic affairs	7,0%	Bus transport services	0,5 (0-0,5)
Public order and safety	2,0%	police order: traffic police:	0,0 (0-0,5) 0,0 (0-0,5)
Recreation, culture and religion	2,0%		
Social protection	2,0%	general caring services: special groups: child protection:	0,0 (0-1) 0,0 (0-1) 0,0 (0-1)
Housing and community amenities	1,0%	housing: social housing:	0,5 (0-0,5) 0,5 (0-0,5)
Defence	0,0%	police:	0,0 (0-1)
Environmental protection	0,0%		
Source: NALAS		<i>Total</i>	<i>2,0 (0-4)</i>
		Source: LAI 2.0	

The real municipal powers cannot be measured only by these expenditure ratios, but more by the *actual local control over service delivery*. In this respect municipal service provision is more limited, than the size of municipal expenditures indicates. One group of factors measured by the Local Autonomy Index focuses on these aspects of municipal services provision: effective political discretion (right columns of Table 2.).

Critical components of service provision are the (i) regulation on service performance and standards, (ii) employment rules, (iii) selection and supervision of service organisations, (iv) capital investment planning and the (v) financing. This latter one is a complex area: setting the sources of financing, the methods of allocating national grants, methods of service charge setting and all the related planning methods, such as defining spending limits, possible collective agreements, etc. They are reviewed below by major municipal services.

i. Education

According to the legislation on pre-school, primary and secondary education, municipalities are responsible for construction of educational facilities, registration admission of pupils, employment of staff and selection of the directors of educational institutions. However, most

of the decisions on school network (building and closing schools) and salaries depend on the ministry consent. They are central responsibilities as the ministry controls the financing and it has discretion over the budget. Status of the municipalities with Serbian majority is different, as they have enhanced powers in this field.

There are 1,036 public educational institutions at the pre-university level. (Table 3) In the average there are only 22 primary schools and 3 upper secondary schools in a municipality. One third of the primary schools are “satellite” schools, that is they are not in the same location as the central school. The typical primary school is relatively small with around 240 pupils and in total with 24 teachers, support and administrative staff. An average secondary school is only double in size with approximately 500 pupils and 49 member staff.

Table 3. Pre-university education, 2023/2024

	Pre-school	Primary school	Upper secondary school	Total
Educational institutions	62	852	122	1 036
Educational institutions in an average municipality	2	22	3	27
Pupils in public education	24 104	206 941	60 837	291 882
Pupils in private education	6 053	8 490	4 920	22 124
Pupils in a public school	388,8	242,9	498,7	281,7
Total education staff	1 122	20 639	5 949	27 710
Total staff per school	18,1	24,2	48,8	26,7

Source: Education statistics in Kosovo 2023-2024, ASK

Despite this relatively small size schools the Education Strategy 2022-2026 identified the lack of capacities as the major problem of education management. Municipal education departments manage the daily operation of the schools, provide maintenance services and do the procurement for all the schools. Educational institutions have no financial code and lack management autonomy, so this is the reason why all the operational tasks fall back on the municipal administration. The case of Kamenica shows the lack of real municipal powers in service delivery. (Box 2)

Box 2. Failed reorganisation of school network: case of Kamenica

In 2019, the Mayor of Kamenica, initiated a reform to restructure the municipal primary education system by merging under-enrolled rural schools to improve efficiency and education quality. Although the municipality holds formal responsibility for primary education, the reform faced strong resistance from local communities and teachers, who feared increased travel distances and reduced access for students. Additionally, the initiative encountered legal and institutional barriers, as education policy is tightly regulated by central authorities. As a result, the reform was not fully implemented, highlighting the gap between municipal responsibilities and their practical ability to carry out structural changes.

Parallel to the public network there are *private schools* at all three levels of pre-university education. 7% of all pupils are at these private kindergartens and schools. Most of the primary and secondary schools are concentrated in Prishtina, where 57% of primary and secondary school pupils are located.

ii. Health care and social services

Municipalities are responsible for primary health care services. The *151 primary health care units* under municipal control provide a wide range of preventive, public health, emergency and mental health services. These family medicine centers operate municipal affiliated centers (with family doctors and nurses) and medical posts (nurses). The higher level services (in hospitals, polyclinics, specialised institutions, etc.) are managed by the Ministry of Health. The secondary health care can be organized at the municipal level based on a municipal assembly request. In addition more than *one thousand private* health care service organisations provide a wide range of in- and outpatient services (KDI, 2020a).

The country has no universal health care system and the supporting insurance scheme. The health care institutions are funded by the Kosovo Consolidated Budget, appropriated as part of the Ministry budget. The provided services are free of charge, with a minor local administrative fee. The primary health care budget is planned and executed by the municipalities under the control of the Ministry. Beyond the central budget financing 40% of health care expenditures are privately funded. These contributions are partly co-payments reported in the consolidated budget and partly they are revenues collected by the private health service organisations.

The Serbian municipalities with *enhanced competences* (North Mitrovica, Gračanica, Štrpce) can provide secondary health care, including registration and licensing of health care institutions and payment of salaries. In parallel to this system of Kosovo funded health care, the Serbian government provides universal health services through the Serbian social insurance system.

The *Social Work Centers* employ 466 staff (2023, report from 36 municipalities), which manage a wide range of services. They are child protection, care for elderly and other special groups. The former grant for social services was incorporated in the General Grant. Presently municipal social services are mostly financed by the General Grant (EUR 5.7 M, 2.2% of total) and partly by the own revenues (EUR 1.5 Million, 1.5% of total) (KLGI, 2023a). The social service budget is mostly used for wages and salaries (EUR 2.1 Million) and for goods and services (EUR 1.6 M). The share of municipal own source revenues in financing sub-

sidies and transfers or the capital expenditures is higher, the actual amount is close to the funds used from General Grant. This part of the social budget very much depends of the municipal revenue raising capacities and reflects the local service priorities.

iii. Communal and utility services

Public utility services are the basic municipal functions. Water and sanitation, municipal solid waste management, public transportation, road maintenance, public lighting, etc. have high local significance. They represent approximately 10% of municipal budget, reported under different budget categories, such as economic affairs, housing and community services, general public services. Municipalities play a marginal role in infrastructure services. They are currently managed by state-owned regional enterprises, with local governments having minimal influence over their operation.

However, importance of these services is reflected by the high number of indicators used for the municipal performance grant. (Table 4). Municipalities pay more attention to the implementation of the schedule for waste collection (average score 84.3), public transportation (64.0) and sewage construction and maintenance (61.3). These performance indicators show vast regional differences. The municipal indicators follow the urbanisation slope, that is declining level of services with municipality size.

Table 4. Communal and utility service performance

	2023	2022	2021	Average
9.1.1 Local roads maintained during the summer season	42,30	57,45	47,38	49,04
9.1.2 Local roads maintained during the winter season	47,81	62,21	41,45	50,49
9.2.2 Length of local roads equipped with public lighting	33,81	47,67	48,69	43,39
10.1.2 Settlements included in local public transport	57,55	69,31	65,23	64,03
11.1.1 Implementation of the plan for the construction and maintenance of the water supply system	48,65	68,4	35,29	50,78
11.1.2 Implementation of the plan for the construction and maintenance of the sewerage system	60,10	74,72	49,12	61,31
11.1.3 Implementation of the municipal plan for waste management	40,00	55,23	41,92	45,71
11.1.4 The implementation of the schedule for waste collection	72,40	92,53	88,04	84,32

The high level of *municipal solid waste* collection and deposition services proves the advantages of decentralisation. 80% of population is served and almost all of the collected waste is deposited at the seven sanitary landfills (40% of waste) or the illegal (10%) or non-sanitary sites (40%). Municipalities and licensed companies collect the waste from collection points in cities and from households in rural areas. The collection service is financed by flat user charges. They were increased in 2024 from EUR 4.7 per month and household to EUR 6.2. Deposition and investments should be financed by other sources. (EEA, 2021)

In the field of communal and utility services Publicly Owned Enterprise (POE) is the typical organisational form. POEs operate in waste management, water services, public transportation (buses), district heating, etc. The 10 regional water POEs have central ownership, managed by Ministry of Economy. Other utility service POEs, which serve more than one municipality, form joint management boards. Subsidies to regional POEs are partly provided by the Ministry of Economy (to the regional water joint stock companies), although revenue collection improved in last years. Local POEs are subsidised mostly by municipal own source revenues (NAO, 2023).

Local POE is not part of the budget system, although the associated risks of capital financing or revenue collection should be parts of local finances as municipalities have the ultimate responsibility for these own mandatory functions. The NAO reports usually identify various service management issues of POE operation (e.g. in the case of Prishtina water company, parking POE). Sometimes the competencies of the municipalities and these service companies are not properly identified. It might cause conflicts between the Municipality and the company: for example in Prishtina both the municipality and KRM Pastrimi issued invoices for solid waste user charges, due to disagreement on the fee collection.

In general the main problems with local POEs prove the lack of financial incentives which cause poor asset management, lack of reconciliation of accounts receivable, missing business plans, failures in tendering and exceeding employment targets. (NAO, 2022)

iv. Delegated services

Beyond the numerous own functions municipalities have delegated competencies, as well. They are administrative functions, such as maintaining registries, licensing businesses and distribution of social payments. In the case of building permits all these municipal documents ought to be approved by central government institutions.

Sometimes even ministry responsibilities are in conflict, e.g. social housing is under the control of MLGA or Ministry of Communities and Returns, while public housing is a municipal own competence. Expenditure of these delegated administrative services represents a smaller part of the municipal budget. Functions can be delegated to municipalities only by law together with the necessary funding.

v. Ministerial structure

Local governments operate in a multi-level government system. So their autonomy is determined partly by the organisation and management practices of the national government. Ministries can intervene in municipal affairs through policy making, regulatory and supervisory actions, financing and direct service provision. In Kosovo the public sector and public services were mostly built from the top. After the war the newly established government structures were centrally administered by international and domestic authorities.

Under the present government structure two types of ministries determine the position and operation of municipalities. One hand there are the functional ministries, which influence key areas of local governance. Primarily the *Ministry of Finance, Labour and Transfer*, which is responsible for a wide range of financing and financial management competencies towards the municipalities. The *Ministry of Local Government Administration* has wide range of policy

making, planning and development functions, but also the ministry is responsible for legal supervision, monitoring of municipalities and manages the Municipal Performance Grant.

The other group is the line ministries, which are responsible for a specific type of services. Among these sectoral ministries the *Ministry of Education, Science, Technology and Innovation* has greatest influence of municipal affairs, as pre-university education is a devolved service. The ministry has policy making, planning, school facility standard setting and educational supervision functions. It is also directly involved in the specific education grant design and financing investments in school network. The *Ministry of Health* policy making, standard setting, development and control functions are organised in a centralised structure. From financing point of view municipalities are regarded as deconcentrated entities in service provision, with earmarked health care grants allocated directly to the primary health care units. (World Bank, 2023)

Direct supervision and strong control over local governments is an indication of lacking alternative forms of managing locally provided public services. Especially in the case of capital investments the projects are designed under the supervision of Ministry of Finance. Once the local budget is approved by the Municipal Assembly they are incorporated in the Kosovo Consolidated Budget in great details.

When the development goals and plans are not coordinated properly with the local government priorities, then it might lead to inefficient use of funds and even political conflicts (see Box 3.)

Box 3. Conflicting government authorities: case of locating investments

Implementation of capital projects in Kosovo often faces obstacles due to tensions between central government institutions and local authorities. It is particularly visible in the municipality of Pristina, where several major projects were delayed or had been blocked. One contributing factor is the Law on Cultural Heritage, which is overseen by the Ministry of Culture, Youth, and Sports. Under this law, municipal projects that involve areas or buildings of cultural value require prior ministerial approval.

In practice, municipalities sometimes encounter challenges in obtaining these permits, and projects may be halted shortly after they began. While the Ministry considers such interventions to be legal² and based on the applicable regulatory framework, municipal authorities often perceive them as politically influenced and illegal. These differing interpretations hinder the implementation of capital investments.

Another similar example is the conflict on the planning and building the multi-sport center in Pristina. While the Ministry of Culture, Youth, and Sports argued that they allocated €3.5 million for the project and even published a detailed conceptual plan for the center, but the final location has yet to be confirmed by the Municipality of Pristina. The municipality proposed an alternative site and claims that political disagreements have delayed the project. This situation illustrates a broader issue of limited planning and coordination between the two tiers of government.

² <https://www.mkrs-ks.org/?page=1,6,4136>

Political relations in municipalities

Municipal elections of mayors and councillors are organised for candidates on political party lists. *Mayors* are directly elected, consequently they enjoy high political legitimacy, which is coupled with strong administrative powers. These executive competencies authorise the mayors to control the local administration and to appoint the directors, as key political positions. The directors' compensation is in line with the national salary schemes, but it is paid by the municipal own budget.

Assembly members are elected on political party lists. But the candidates are ranked by the individual votes received on the ballot list. The councillor position is a paid job (EUR 600-700 monthly compensation for the private sector representatives). It is a burden on the municipal own source financed part of the budget.

The *municipal assembly's* key competency is the approval of the municipal budget and other powers regulated by the local statutes. In the highly centralised management of municipal affairs the assembly chair position is weaker compared to the mayor's. Through his political and administrative connections the directly elected mayor is in a better status to manage the local matters.

Despite the fact, that mayors tend to appear as well-known, central figures of the local government scene, they are more accountable towards the nominating political party than the assembly. Relationship of the mayor and assembly is reflected by the practice, that mayors *do not actively take part at the council meetings*. The Municipal Performance Survey results show that average (standardised) indicator is only 68%, albeit it slightly increased during the past years. The mayors activity is lower in the smaller municipalities and in the largest ones (outside Prishtina). Mayors of the political parties being in opposition at the Assembly of Kosovo are more responsive (indicator: 79%), compared to the four mayors of LVV (65%). Presently the mayor has the powers and competencies of the Chief Administrative Officer (CAO). Relationship of the strong mayor and the weaker Assembly chair or the elected councillors might be balanced by moving some administrative powers to an independent CAO. Even if the CAO, as the guardian of legality is employed by the mayor, this third actor might create a counterpoint to the mayor.

Presently the majority of municipalities is controlled by the political parties being in opposition in the National Assembly. (Table 5.). The three major opposition parties (PDK, LDK, AAK) together are present in 21 municipalities where 80% (60% in 2020) of the country population lives. The LVV has only four mayoral position in medium size municipalities. These localities represent approximately 13% of the country population. The ten municipalities with mayors elected on the Serbian list are the smaller ones. According to the latest 2020 population data here the average population size is 7 331 (18% of the country population). There are three municipalities with mayors representing a civic group or smaller parties.

The mayors' position is further supported by the fact, that the *assemblies are mostly dominated by the same political party as the mayor*. It helps the more effective local management in most of the municipalities and further weakens the control of elected bodies over the mayor. Only the mayors from LDK and LVV (3 municipalities each) and PDK (1 municipality) are faced with an assembly controlled by a different political party.

Table 5. Mayors: opposition political parties dominate

	Population, Census 2024	Number of municipality	Average muni population size, 2024/2020	Population share, Census 2024	Population share, 2020
PDK	507 763	8	63 470	32,0%	20,4%
LDK	530 617	8	66 327	33,5%	26,7%
AAK	224 525	5	44 905	14,2%	16,7%
LVV	201 131	4	50 283	12,7%	14,7%
LS	49 220	10	4 922	3,1%	
LS (2020 pop)	73 313	10	7 331		17,6%
NISMA	43 888	1	43 888	2,8%	2,8%
Civic Initiative	22 815	1	22 815	1,4%	1,0%
KDTP	5 607	1	5 607	0,4%	0,1%
Source: ASK, KLG/					

The municipal Communities Committee is a mandatory, permanent body. But the members nomination depends on political parties, similarly to appointment of the village representatives in the sub-municipal entities. These village heads have limited influence on the elected local governments. Due to the large number of settlements in a typical municipality the *territorial representation of local constituencies is weak*. They are often divided and the political party influence is greater.

Despite their powerful positions, *only 37% of the mayors' political promises made during the campaign have been fully met* during present four-year-long mandates (based on a sample of nine surveyed municipalities, DPlus, 2025a). 16% of the promises have shown no progress and the remaining majority is still under implementation. Sectoral breakdown of completed programs show the local preferences and services with the highest municipal influence. They are the social matters (e.g. kindergartens, youth programs; 23 out of 57 promises), infrastructure (water, sanitation; 11 of 34) and administration (10 out of 28). Mayors mostly *failed* in delivering their electoral promises in the field of *transportation, public services (e.g. waste management, public spaces), sports and tourism*.

Specific relation of the elected representatives is influenced by the overall municipal administrative-management culture. In this respect *transparency* of local governments is the critical condition of accountability. The country overall score of the Open Budget Survey is 50 (in a scale of 0-100), which is the third position in the region after Albania (57) and Serbia (51)³.

In the field of municipal finances the budget transparency index is one of the generally used indicators, which well measures all aspects of fiscal planning and budget preparation. According to the most recent assessment of budget transparency at local level the index is 57.5 and slightly decreased in 2023 (GAP, 2024a). Key budget documents (annual plan, re-

3 See <https://internationalbudget.org/open-budget-survey/country-results>

port) are usually available on the municipal websites, although one third of these documents are not in the required (machine readable) format. Annually three or more budget hearings are organised (only 10 municipalities did not have any, out of the evaluated total of 33).

The municipal performance indicators show that the level of citizens' access to public documents is lower in the smaller municipalities. There are regional differences, interestingly the municipalities in the two urbanised regions of Prishtina (68) and Gjilan (48) have lower averages of this indicator (country average is 77). Mayors' political party affiliations showed no significant differences in this respect.

i. Status of national minorities

Decentralisation policy in Kosovo partially aimed to balance the needs of municipalities with Albanian and Serbian or other ethnic population. Fiscal decentralisation might accommodate ethnic and cultural variations, so regionalism intends to provide an alternative to secessionist movements. Lessons of country cases on the impact of decentralisation and regionalisation on national unity are mixed (Martinez-Vazquez, 2015). Asymmetrical decentralisation with favourable conditions in the targeted municipalities could lead to conflicts with the others.

There are *no reliable data* on the ten municipalities with Serbian majority population in Kosovo.⁴ Serbs did not take part in the Kosovo census in 2024. The latest population estimates show that their share is around 5% of the country population. Serbian populated municipalities are typically with population below 20 thousand, so they belong to the group of smaller municipalities in Kosovo. Municipalities in Northern Kosovo are more compact and they are in different position than the others dispersed in the country, South of Ibar river⁵.

The last local elections had *only 3.47% voter turnout in the four municipalities*. It was boycotted by Kosovo Serb political parties, although it was conducted in line with the legal framework and considered to be democratic. The political situation in the past had direct impact also on the budget, in particular on the collection of own source revenues.

According to the Law on Local Self-Government these municipalities have *enhanced competencies* in health care, education and cultural affairs. Three municipalities manage secondary health care services, North Mitrovica has competence in higher education, licensing schools and paying salaries. Selection of local station police commanders are also parts of the enhanced competencies. The Serbian municipalities are authorised to establish an association (in Serbian "community") of their ethnic localities.

These municipalities benefit from *external financial assistance from Serbia*. There is limited public information on these transfers from Serbia. According to estimates the parallel municipal budgets are five times higher than the size of the budgets stemming from the Kosovo system. (ICG, 2024)

The Serbian municipalities - beyond the same financing rule as the other municipalities - are subjects to additional grants from the Kosovo budget. Part of General Grant is allocated specifically for the municipalities by the minority population number (3%) and additional 2% for the municipalities with majority of population composed of national minorities.

4 Graçanicë, Klllokot, Leposaviq, Mitrovica N, Novobërdë, Partesh, Ranillug, Shtërpçë, Zubin Potok, Zveçan

5 See the detailed report on Belgrade-Prishtina relations: ICG, 2024

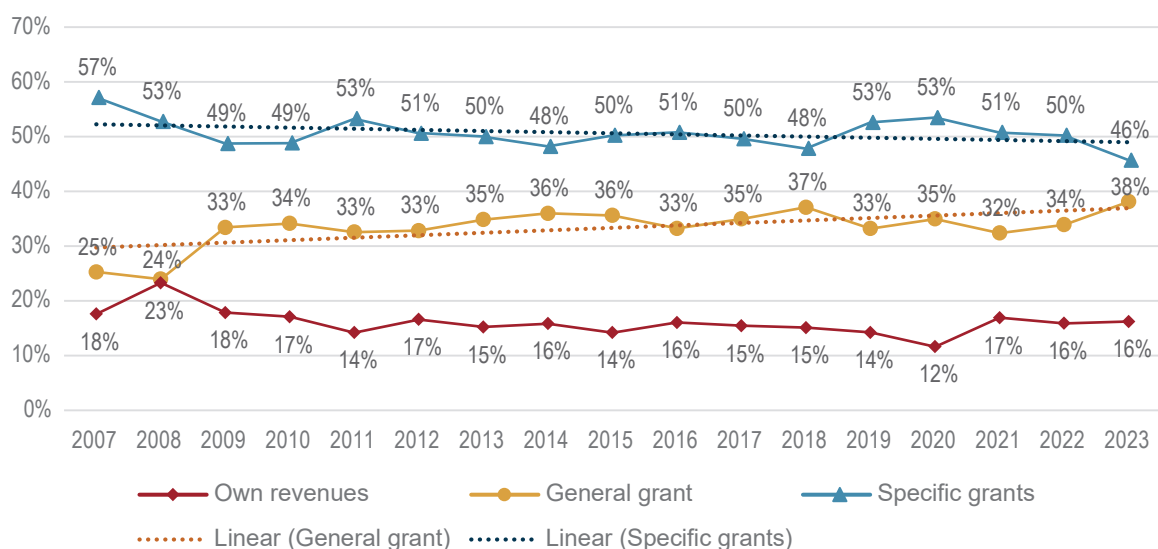
The possible routes for developing local governments in the Serbian dominated municipalities depends on the relations between the two countries. Which in turn is influenced by the international politics and capacities of the foreign actors to reach any long lasting compromise for peace and provision of basic services.

Examination of financial autonomy

Beyond the administrative-territorial structure, the scope of local functions and the political mechanisms, the fourth factor influencing decentralisation is the local finances. The scale of financial autonomy will be reviewed by the analysis of municipal revenues and some components of public financial management. Evaluation of local government revenues will focus on the composition of revenues, characteristics of major own source revenues, requirements of grants in financing devolved function and the regulations on municipal borrowing.

Since the declaration of independence and the start of active decentralisation policies, the *composition of major municipal revenues was rather stable* (Chart 3). Starting from 2009 the specific grants finance approximately half of the municipal budgets. The second largest revenue source is the general grant 33-35%. Municipal own source revenues represent only 15-17% of the total budget. The group of specific grants is dominated by the education grant, which is equal to two thirds of specific grants. Municipalities have greater freedom in using the general grant and the own source revenues. They together form the basis of municipal revenue autonomy.

Chart 3. Composition of municipal budget revenues, 2008-2023



Source: NALAS, 2024

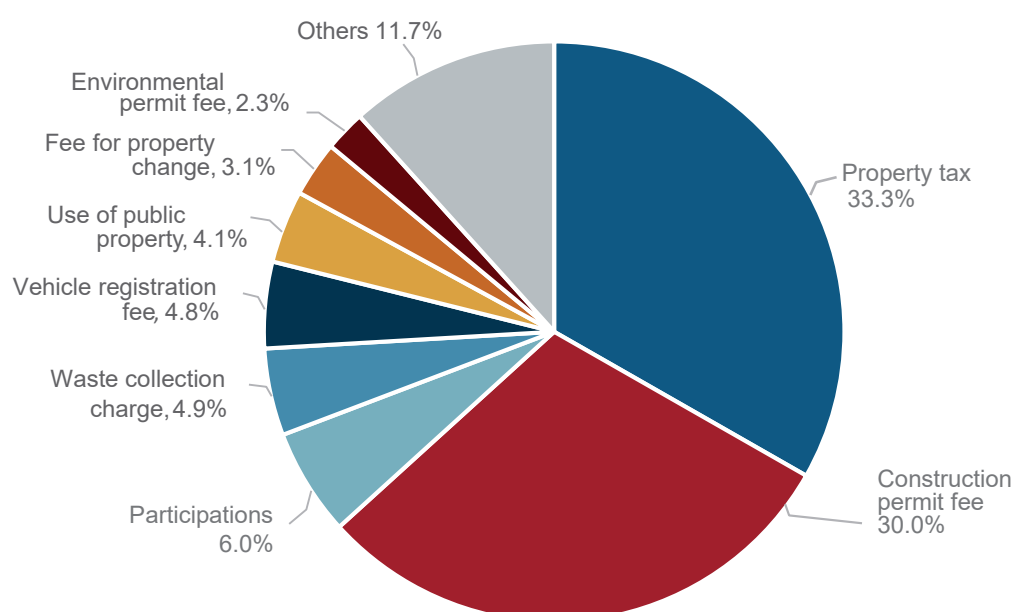
Own source revenue generation

Own revenues are very diverse municipal resources: there are approximately 60 different types of local taxes, fees, user charges, dues fine, payments for administrative services and revenues on municipal assets (sale, rent). Local revenues are also collected by municipality owned public enterprises, but they are not reported in the local budgets.

These municipal own source revenues are reviewed by assessing extent they meet the requirements of an ideal, good local tax or charge. These main evaluation criteria are as follows: significance in size, relation to services received, scope of local taxing powers, relation to changes in the economy (buoyancy), predictability, stability and revenue collection costs and administrative capacities needed.

The several dozens of municipal own source revenues (59 in 2024) in principle create a good, balanced revenue base of the local budget. However, the group of municipal own revenues is *dominated only by two types of resources*. One third of own revenues is the property tax and in addition the construction permit fee of similar size produces the majority of own revenues. (Chart 4)

Chart 4. Municipal own source revenues, 2024



Source: MFLT

Among the remaining numerous small size revenues there are contributions to municipal services, waste collection charge, vehicle registration fee and revenues on property. Share of each own revenue in this own revenues is around 5% or less. Beyond these eight sizeable resources the remaining more than fifty revenues together produce only 12% of this group of revenues. Among these minor revenues there are really nuance ones, producing only a couple of hundred euros (e.g. court fee, fine).

All the typical local government own source revenues were introduced in Kosovo. So beyond the property tax and the municipal service related fees or charges the municipalities can tax businesses, levy environmental charges (fee for permit, vehicle registration), tax

tourism and collect property related revenues. Presently many of these own revenue sources are underutilised, but they will be reviewed below to identify the reasons of low collection and the options for improvements.

Municipal own source revenue *raising capacity is rather equal outside Prishtina*. (Table 6) The capital city is in a unique position as 33% of own revenues are raised in Prishtina and together with the neighbouring municipalities the region's share is 47%⁶. Here the per capita own revenues are twice as much as in the other regions: EUR 38-46 is collected in the countryside.

Table 6. Table 6 Own source revenues by regions, 2024			
Region	OSR per municipality	OSR per capita	Share of total OSR
<i>Prishtinë</i>	5 852 132	94,1	47,2%
<i>Pejë</i>	2 801 858	46,6	8,5%
<i>Gjakovë</i>	2 179 846	43,5	8,8%
<i>Ferizaj</i>	1 608 185	43,4	8,1%
<i>Gjilan</i>	1 088 518	40,5	6,6%
<i>Prizren</i>	2 653 687	37,9	13,4%
<i>Mitrovicë</i>	1 053 171	32,9	7,4%
<i>Total</i>	2 609 334	55,1	100,0%
Source: KCB, 2024			

However, beyond the relatively equal position of these six regions, there are significant differences by municipalities. 30% of total own revenues are collected in the five regional centers (not counting Mitrovica). The 22 municipalities with population less than 40 thousand collect only 13% of the own revenues (again the non-reporting Serbian municipalities reduce the share of small municipalities).

These general characteristics of own source revenues indicate the *need for revenue equalisation* for fair and equitable financing of municipal services. Equalisation of own source revenues can be supported by diversification of major taxes, because presently two types of revenues, the property tax and the construction permit fee dominate. Both of them are typically concentrated in urban municipalities. Increase of other, uniformly allocated own source revenues will make the own revenues more even and proportional to expenditure needs.

The other option for improving local revenue raising is to create fiscal *incentives for better revenue collection*. NAO report highlights, that the municipal accounts receivable are mostly accumulated by uncollected property tax, construction permits, business tax, etc.. The poor financial reporting practices also contribute to the delays and higher debt. (NAO, 2023)

⁶ These data are distorted by the fact that most of the municipalities with Serbian majority population, especially in the North, do not report their own revenues to the Kosovar financial information system.

Presently fiscal incentives for more active own source revenue collection are missing from the intergovernmental fiscal system. Municipalities cannot accumulate the relatively small amount of own revenues. Another counterincentive of major tax reform is the ten percent rule of defining the total amount of general grant. Municipalities might benefit more from the increase of central budget revenues through the regulations on the grant envelope, than introducing the politically risky local taxes.

i. Property tax

Municipalities have limited authority to control the critical components of property tax policy. The value zones within municipal territory are defined centrally, based on information provided by the municipalities and with local classification of properties. Valuation of the taxed property is a central government task. The actual assessment is based on sales comparison using mass appraisal technique⁷. The municipality is responsible for regular inspection of the assessed properties. The tax rate is set locally within the range specified by the law.

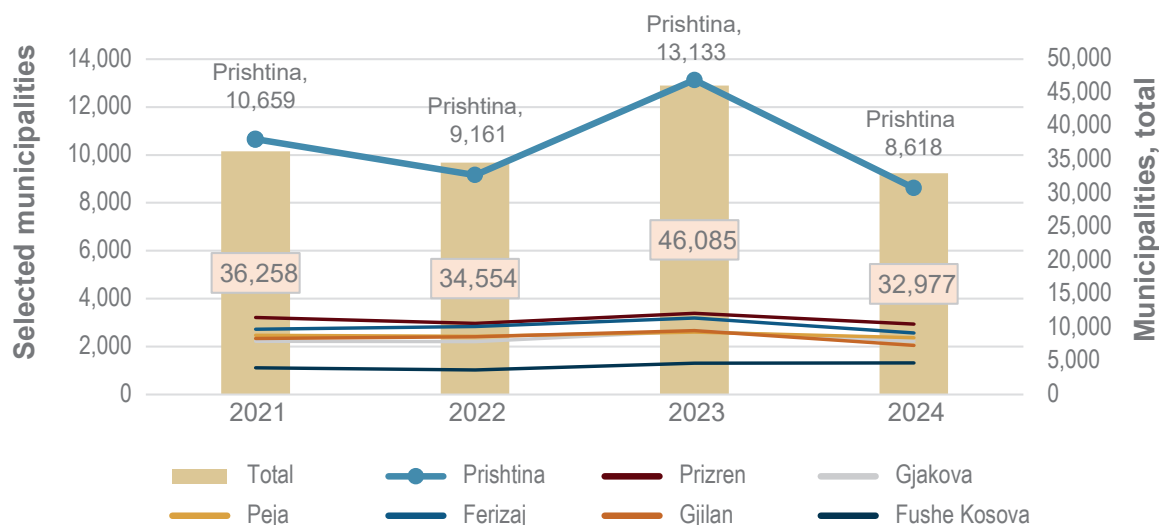
The tax exemptions are regulated by law (minimum tax base, deduction for primary residence, etc.). The municipality has no authority to give allowances, although it is involved in the law enforcement by reviewing and deciding on complaints. The second appeal level is the Ministry of Finance.

Tax bills are issued by the municipality using the relevant information from the property registers maintained by the Ministry of Finance and the national Cadastral Agency. The entire tax administration process is highly computerised⁸. The estimated costs of central tax administration is EUR 5-6 Millions, which is a major cost saving for the municipalities.

The central government influence on property taxation is proved also by tax revenue fluctuation during the past four years (Chart 5). The total property tax revenue of EUR 36.3 Million (2021) decreased to EUR 34.5 Million (2022) and in the following year increased again to EUR 46.1 Million. The decline is partly explained by the change in the administrative procedures, as vehicle registration was not conditioned on property tax payment (Nushi, 2023). Later the increase was due to the new valuation of residential properties. After a decade long period properties were reassessed and parcels were included in the property value.

⁷ <https://mfpt.rks-gov.net/Vleresimi/Page/234>

⁸ <https://mfpt.rks-gov.net/TatimiNeProne/Ballina/152>

Chart 5. Property tax, 2021-2024, EUR 1,000

Source: KCB report, 2023 and MFLT (2024)

To compensate the abrupt change in tax burden on homeowners, the minimum tax rate was lowered to 0.1% (from the former 0.15%). Municipalities were authorised to issue a one time “tax amnesty” of EUR 100 on the tax liability of 2023. These amendments to the property tax law resulted sudden decrease in revenues in 2024 (EUR 33.0Million).

Box 4. Progressive property taxation (2026)

Property tax exemptions (postponed to 2026):

- Primary residence: First €30,000 exempted
- Agricultural land: First €50,000 exempted

Tax Brackets:

- Bracket 1 (for property values less than €100,000): 0.1% – 1%
- Bracket 2 (for property values above €100,000): 0.2% – 1%
- Bracket 3 (for property values above €500,000) : 0.3% – 1%
- Bracket 4 (for property values above €1,000,000) : 0.4% – 1%
- Bracket 5 (for property values above €5,000,000) : 0.5% – 1%

Beyond the value-based property taxation the progressivity is supported by setting higher minimum tax rates for greater tax bases. (Box 4). There is an exemption up to a minimum value of residential and agricultural property. But above this limit the minimum rates will be increased by the assessed value of the property. Once progressive property taxation is used in practice, the higher minimum tax rates by these brackets will put greater tax burden on the large commercial property owners.

Table 7. Property tax revenue per capita	
Population size	2024
<i>Prishtina</i>	37,9
90 000-	18,1
60 001-89 999	19,5
40 001-59 999	15,4
10 001-39 999	16,3
-10 000	13,2
<i>Total</i>	20,4
<i>Countryside</i>	17,5

The property tax revenue raising capacity is significantly higher in larger, urban municipalities (Table 7). Property tax revenue per capita is EUR 37.9 in Prishtina, which is more than double of the municipal average in the countryside, that is outside the capital city (EUR 17.5). The larger urban municipalities are able to collect somewhat more, than the municipalities with population below 60 thousand (municipalities with Serbian majority in the North do not report property taxes).

The level of urbanisation determines the regional differences of property tax capacity. Highest per capita tax revenues are in the region of Gjakovë (25.8), Pejë (22.2) and the lowest in municipalities of Prizren region (15.1). Government party (LVV) controlled four municipalities collect less property tax per capita (12.4) than the other, non-Serbian municipalities (21.5). It is partly explained by the fact these municipalities are typically middle size or small municipalities.

Municipalities are supposed to cooperate with the national government in revenue collection. However, this shared responsibility often means high reliance of the municipalities on the information received from the ministries. The municipal performance survey data show low level of property tax registers (scored 37.9) and tax collection quality (38.4). The indicators tend to be significantly lower in the smaller municipalities.

Major issues of property tax regulation and tax administration are, as follows (based on interviews and DEMOS, 2025, Nushi, 2023, NAO, 2018):

- one of the main reasons behind the high unpaid taxes are the uncollectable taxes on privatised Socially Owned Enterprises, formerly managed by the Kosovo Privatization Agency;
- loss of tax base because of missing verification of property registries, as required by the law;
- regulations on administrative procedures do not allow to condition the issue of permits, government documents (e.g. car registration) or suspension of municipal services to tax payment and blocking accounts of non-payers;
- private enforcement is not allowed any more, resulting slow legal (court) procedures;
- missing analysis for sound strategy to enhance municipal own source revenues;
- restrictions on the use of general grant urges municipal decision makers to earmark own source revenues for capital investments, although there are no formal requirements or regulations to follow this local practice;

- lack of public awareness and transparency on property tax policy design, tax administration and the use of collected tax revenues;
- limited financial incentives to levy higher property tax rates and more active tax collection rate and elimination of arrears;

ii. Construction permit fee

Table 8. Table 8 Construction permit fee per capita			
	2024	2023	2022
<i>Prishtina</i>	54,1	51,0	54,3
<i>Countryside</i>	12,5	10,8	7,4
<i>Total</i>	18,4	16,4	14,0
<i>Source: MFLT</i>			

The second largest municipal own source revenue is the construction permit fee. In 2024 EUR 29.7 Million was collected, which represents 30% of municipal own revenues. In line with the economic growth the collected construction permit fee revenues increased significantly during the past two years. Due to high concentration of business activities and investment in Prishtina, the *capital city dominates* own revenue raising from construction permit fees. Every year the share of construction permit fees collected in Prishtina increased and by 2024 more fees were collected in the city (54% of the total) than together in all other municipalities of Kosovo (barred the municipalities with Serbian majority).

The construction permit fee is regulated by a transparent, administration cost based methodology. The annual fee is a square meter-based charge calculated by a formula dividing the required municipal annual budget for issuing permits and conducting supervision by the total area of permitted properties in the previous year.

Municipalities determine the construction permit fee for different categories of constructions. The fee is developed *in consultation with the Ministry*, ensuring that it reflects the actual administrative costs. A mandatory functional and budgetary analysis is accompanied by a public consultation period of 60 days, followed by a 30-day public notice before the fee becomes effective. The construction permit fee is distinct from *infrastructure fee*. It may be charged to recover costs of municipal infrastructure improvements specified by a Development Agreement.

iii. Land related fees

There are several types of revenues related to the utilisation of municipal property and urban space. Charges paid for the use of public property, the property rent or sale, parking fee and charging for advertisements produce around EUR 6 Million own revenues (6% of total in 2024). Half of these property related revenues is raised in Prishtina.

Public space is an *underutilised revenue source* with a great potential. It requires coordinated actions of urban planning, technical and municipal finance departments to identify and develop the best revenue sources and to manage the revenue stream. Municipality should cooperate with private businesses, which are able to finance joint investments (e.g. public garage), utilise the advertisement portfolio of the municipality, negotiate short or long term rent and lease agreements.

iv. Environmental taxes

Municipalities have the authority to collect different types of own revenues, which have an impact on the quality of the local environment. Motor vehicle registration fee, environmental permit fees, road tax jointly represent 7.4% of total own revenues (EUR 7.3 Million). *Motor vehicle tax* is the largest item (EUR 4.8 Million in 2024). It is a rather stable revenue source (9% increase every year) and equally available in the country. Prishtina's share is only 19% of the country total, producing EUR 4.04 per capita (average in the countryside in EUR 2.77). Outside Prishtina the per capita motor vehicle tax revenue ranges between EUR 1.90 in small and EUR 3.07 in large municipalities.

Motor vehicle tax is a typical local government revenue in decentralised countries. In Kosovo municipalities have extended power to levy this tax, only the principles of assessing the tax base are set by law: it should be based on engine capacity and type of the vehicle. It is levied only on the local residents, which will limit the municipal tax competition.

v. Charging businesses

Municipalities have the right to levy tax and license fees on businesses. These revenues are low (EUR 1.3 Million) and they represent less than 1.5% of own source revenues collected in 2024. Prishtina does not dominate in the case of business related revenues, as only 18% of business tax is collected in the capital city. As property tax burden is already high on commercial assets, municipalities follow rather conservative business tax policies for protecting the local economy and employment.

The business license fee is levied annually on any business premises (not only on the company headquarters) located in the territory of the municipality. Municipalities are autonomous in designing their own business license fee policies. They can differentiate the fee by categories of businesses or by types of their premises.

However, it is *prohibited* by the law to use any other measures, which would indicate *the size or the profitability of the businesses*. The number of employees, area, turnover or profit cannot be the basis of differentiating the business license fee. Consequently these provisions do not allow to charge businesses according to their ability to pay and to introduce progressive financial burden on businesses being in different financial positions.

This regulation makes the present license fee *less equitable and fair*. It also prevents municipalities to better utilise this potential local revenue source. The corporate income tax is low in Kosovo (10%), so business license fee might be increased and developed to a proper municipal business value tax.

vi. Tourism tax

The legal basis for introducing an *accommodation tax* in Kosovo is established under Law No. 08/L-074 on Tourism (2022). All residents and visitors staying overnight in accommodation facilities outside their usual place of residence are subjects to accommodation tax. The tax may be imposed up to 2% of the accommodation cost. It is an *earmarked municipal own-source revenue* to be used exclusively for local tourism promotion and development. This is a serious limitation on municipal autonomy.

Accommodation tax has a significant revenue potential, especially in municipalities with a growing tourism sector such as Peja, Prizren, and Prishtina (PPSE, 2024). Municipality of Peja is currently leading to draft the local regulation by launching public consultation on the accommodation tax, which is expected to enter into force in 2026. The estimated potential annual revenues from the tax is €1.5 Million in 2025 with and increase to €4.2 Million by 2027, assuming broader municipal adoption and tourism growth. These estimates are based on various scenarios, including fixed-rate options and percentage-based models.

Our estimates below are based on the number of visitor nights reported by regions (ASK data) and an average tourism tax of EUR 1.50/night. (Table 9) Even according to this modest estimate EUR 2.3 Million can be collected as tourism tax, which would be 2.3% of municipal own revenues.

Table 9. Accommodation (tourism) tax estimate			
Region	Visitor nights	Estimated tourism tax EUR/night	Estimated tourism tax as % of owns source revenues
Gjakovë	27 552	41 328	0,5%
Gjilan	195 510	293 265	4,5%
Mitrovicë	48 766	73 149	1,0%
Pejë	659 948	989 922	11,8%
Prizren	226 564	339 846	2,6%
Prishtinë	305 601	458 402	1,0%
Ferizaj	83 521	125 282	1,6%
Total	1 547 462	2 321 193	2,3%

vii. Service user charges

Municipalities collect various types of user charges, tariffs and co-payment fees. The largest revenue item is the *waste collection fee* (EUR 4.8 Million). The municipal solid waste collection service is financed by flat user charges (a monthly fee per households). It is usually collected by the smaller municipalities for the public service companies, while in the larger, urban municipalities the service companies themselves are responsible for the user charge collection.

Co-payments, reported as “participations” are also significant own revenue sources: in 2024 it was the third largest item (EUR 5.9 Million). They are paid as fees for dormitories, kindergartens, part time vocational training school attendance, health care services, etc. They are earmarked revenues, to be used by the service organisation, where the co-payment was raised.

Water and sanitation services are provided by the regional Public Ownership Enterprises. The *water tariffs* are set by the Water Services Regulatory Authority of Kosovo (ARRU) for three-year-long periods. Water tariffs are equalised, while charges for wastewater are differentiated. There are cross-subsidies towards households (who pay less) from the non-domestic consumers, which are more polluting. (ARRU, 2024)

The price setting regulation is based on the return on asset base. Cost recovery principle followed through consultation with all interested parties. It aims to finance operational and capital expenditures, that is maintenance, reconstruction and new investments. Despite this regulation the actual investments of the regional water companies are always below the regulated level (NAO, 2023)

Own source revenue management

Municipalities are under pressure to use the collected own revenues for capital investments. There is no formal requirement to target own revenues for capital budgets, but the strict regulations on municipal staffing forces them to spend them primarily on investments.

Planning of own source revenues is often based on outdated demographic data and with limited access to accurate economic information (DEMOS, 2025). Lack of human capacities also hinders accurate forecasts.

Municipalities accumulated significant amount *unpaid taxes, charges and fees* (until 2020 more than EUR 204 million, GAP, 2021). According to the financial management regulations municipalities can use the unspent own source revenues only for one year beyond the targeted budget year. In the Kosovo Consolidated Budget the expenses financed by own source revenues (Fund 21) are separated from the items financed by the carried forward own source revenues (Fund 22). This limitation further restricts the local financial autonomy. Reports on own source revenue management practices identify the need for better communication with tax payers and users of municipal services on their responsibilities, the collection procedures and penalties for non-compliance. Public information on the actual use of collected own revenues would improve the acceptance of these important municipal resources.

Summary evaluation of municipal own revenues

In summary the quality of municipal own source revenues are assessed along the following six criteria:

- how significant the revenue is, what is its size and contribution to the municipal budget;
- whether the revenue paid is related to services received, either as a specific user charge or a general budget revenue;
- how autonomous the municipalities are in developing local revenue policies, what are their powers in setting the tax base, rates and exemptions;
- how does the revenue follow changes in the economic environment (buoyancy);
- to what extent is the own revenue predictable and stable source of the municipal budget;
- how high the revenue collection costs?

Table 10. Characteristics of major municipal revenues: a summary

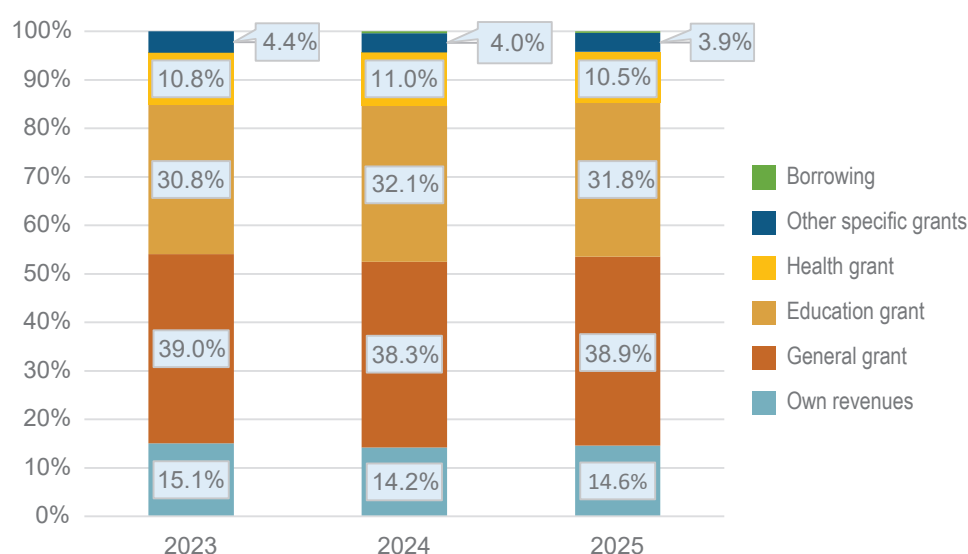
	Significance (size)	Related to benefits received	Local autonomy	Follows economic changes	Stability, predictability	Administration costs
<i>Property tax</i>	xx	x	xx	x	xx	xx
<i>Construction permit fee</i>	xx	xx	xx	o	x	x
<i>Land related revenues</i>	x	o	x	x	x	x
<i>Motor vehicle tax</i>	x	x	xx	o	xx	x
<i>Charges on businesses</i>	x	xx	x	xx	x	xx
<i>Tourism tax</i>	x	xx	xx	xx	x	o
<i>Service user charges</i>	o	xx	x	o	xx	x
Meeting the criterion: x: low level xx: high level o: not applicable, insignificant						

According to this qualification of municipal own source revenues the property tax and the construction permit fee meet these evaluation criteria, the most. Among the others the charges on businesses and the tourism tax have great potential, because they meet most of the conditions. Better utilisation of the motor vehicle tax and land related revenues might also produce additional municipal revenues.

Intergovernmental transfers and grants

During the past two years and in the 2025 budget composition of municipal revenues remained rather stable. (Chart 6). The four major types of grants jointly represent 85% of the total revenues. Within this group the various types of specific - block and earmarked - grants dominate. That is more than half of national budget transfers are dedicated directly to municipal services and tasks.

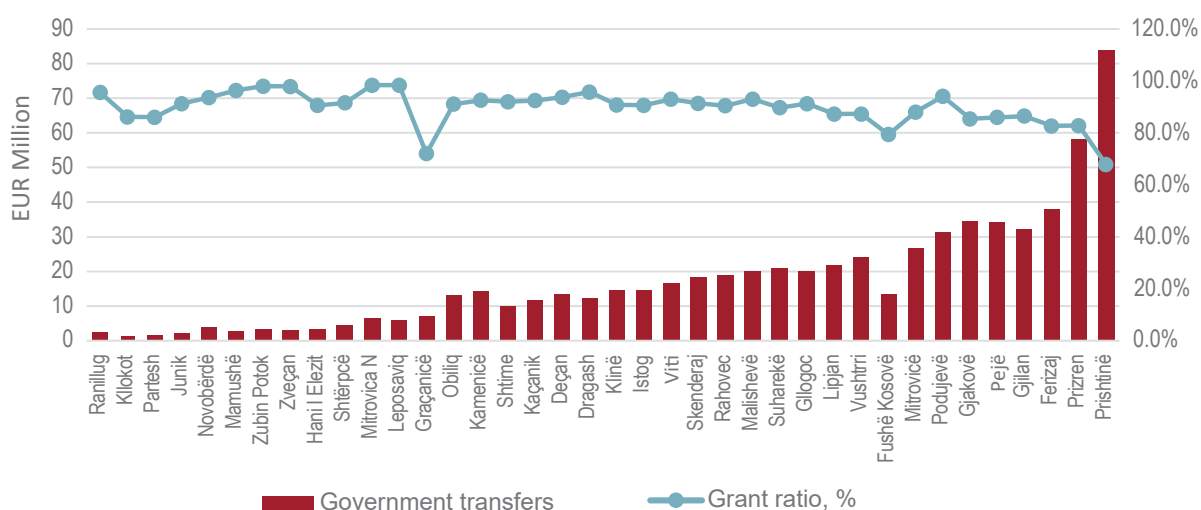
Chart 6. Municipal revenue structure, 2025 budget



Source: KCB, 2025

Access to central budget funds is rather uniform: government transfers follow the population number in a municipality. According to 2025 budget data the ratio of total grants in municipal budget was between 86% (Partesh) and 96% (Dragash) (except in the Serbian municipalities, where the own revenue data are not reliable) (see Chart 7., municipalities are ordered by population size)

The grant ratio is the highest in the middle size municipalities, that is with population 40-90 thousand. The municipalities with mayors of the opposition parties have slightly lower grants per capita (EUR 403), than the four municipalities with LVV leadership (EUR 436). Their advantage might be caused by the higher staff numbers and better wages.

Chart 7. Municipal transfer by population size, 2025

Source: KCB, 2025

The overall trend is that grants is proportional to population size and they finance a similar ratio of the municipal budget. This *formal equity* in grant allocation is caused by the fact, that population number dominates grant allocation: 43% of all government transfers is allocated by population number (due to general grant allocation rule) and education specific grant is based on the registered number of pupils (which is also proportional to school age population, as commuting is low between the large size municipalities).

Fiscal autonomy is constrained both by the *high ratio of transfers* in municipal finances and the *methods of grant allocation*. The latest assessment of fiscal autonomy in Kosovo against the OECD principles of public administration qualified the grant allocation rules rather low: score 3.4 (on a scale of 0-10), (SIGMA, 2024) The specific evaluation criteria on grants claim for revenue equalisation (Principle 32.b), earmarked allocations stimulate local implementation of national policies (Principle 32.e), resources ensure financial sustainability and self-reliance (Principle 32. f).

i. General grant

According to the Law on Local Government Finances general grant is part of operating grants and it can be used for any local competencies. The total amount of general grant should be at least *10% of general government revenues by subtracting certain types of revenues*. They are one time revenues, such as dividends, interest income, designated donor grants. However, according to the budget circulars local taxes and charges are also subtracted. These deducted items are the larger ones: property tax (EUR 30 Million) and other local government own revenues (EUR 57 Million in 2024).

This calculation method of general grant *creates a wrong incentive* at the municipal aggregate level. Calculating the total amount of general grants without municipal own source revenues does not support local revenue raising efforts. The more local taxes and charges are collected, the lower will be the general grant received. It has a negative fiscal impact at

the aggregate level, although this calculation method does not influence a particular municipality's revenue policy.

This is the reason why other countries with similar grant allocation rules specify the total amount of grants as a *percentage of major national tax revenues*, such as VAT, personal income tax or corporate income tax.

Table 11. Allocation method of general grant, 2024		
	Share	EUR Million
<i>General grant, total</i>	100%	211,8
<i>Contingency</i>	2,7%	5,7
<i>Population number</i>	89%	183,4
<i>Population of minority communities</i>	3%	6,2
<i>Population of minority municipalities</i>	2%	4,1
<i>Surface area (km²)</i>	6%	12,4

The total amount of general grant is allocated among municipalities by set rules, mostly by the *number of population* in a municipality (Table 11). In 2024 after deducting 2.7% contingency funds the remaining amount was allocated by the total population number (89% of the total grant), population of the minority communities (3%) and minority municipalities (2%).

There is an *equalisation grant* of municipalities with population below 140 thousand, who receive EUR 140 000 minus EUR 1 per population number. It supports the smaller municipalities, however even the hypothetical total amount is less than 1.8% of general grants or 0,7% of total revenues of an average municipality. So the impact of this grant budget equalisation is minimal.

This allocation technique is based on the assumption that municipal service costs are correlated with the population size, as only 6% of the general grants are allocated by the area of the municipality. However, the composition of local government expenditures show different proportions (see above Table 2 on municipal responsibilities). Beyond education and health care, which are supposed to be funded by specific grants, the other major local functions are the general public services (15% of the total expenditures) and economic affairs (7%). Costs of these services, such as *public transportation, water and sanitation* or some costs of *administration* in remote communities are related to factors other than population number.

These grant allocation rules show the present policy preferences, which *favour urban municipalities* (they benefit more from the high weight of population number in the allocation formula). Rural municipalities would gain more from the greater share of area based allocation or the use of other indicators, which reflect their specific needs (such as road maintenance, access to services in the municipal center). Half of the country population lives in rural areas, so their needs should be better covered by the allocation criteria.

The *unreliable population numbers* and the *impact of the 2024 census* further weakens the accuracy of this general grant allocation method. The latest census data show a 10% decrease in the country total population since the previous census in 2011. (ASK data; KLGI n.d.) This abrupt decline will influence municipal finances with some delay, as the use of the new population numbers was postponed to 2026. However, once it will be the basis of grant allocation each municipality should be protected from the impact of drastic decline. It can be achieved either gradual introduction of the criteria based on new population data or by modifying the weight of population number in the grant formula.

Table 12. Population growth: increase in 2011-2024			
Municipality	2024	2011	Changes, %
<i>Fushë Kosovë</i>	63 949	34 827	83,6%
<i>Partesh</i>	3 240	1 787	81,3%
<i>Gracanica</i>	18 486	10 675	73,2%
<i>Shtërpcë</i>	10 771	6 949	55,0%
<i>Klllokot</i>	3 041	2 556	19,0%
<i>Prishtinë</i>	227 466	198 897	14,4%
<i>Obiliq</i>	22 815	21 549	5,9%
<i>Mamusha</i>	5 607	5 507	1,8%
<i>Ferizaj</i>	109 255	108 610	0,6%
Source: ASK			

The census data shows the high concentration of the economy and population of Kosovo. Population increased in nine municipalities, but even among them there were significant differences (Table 12) They are in the *capital city agglomeration* and typically *smaller municipalities of the Southern corridor*.

Six municipalities lost more than one quarter of their residents in this period (Rahovec, Deçan, Novobërdë, Junik, Ranillug, Kamenicë). There are four municipalities in the North, which refused to take part in the census, so the population data on Leposaviq, North Mitrovica, Zubin Potok and Zveçan are not valid. The latest population estimates on these Serbian majority municipalities from 2020 show that their population remained stable, there were no major losses in these municipalities.

ii. Specific grants

Table 13. Specific grants, 2025		
	Amount, EUR	% of grants
<i>Specific grant of education</i>	248 315 495	37,4%
<i>Specific grant of health</i>	81 796 421	12,3%
<i>Financing for Capital Pristina</i>	17 080 800	2,6%
<i>Financing for Obiliq</i>	4 800 000	0,7%
<i>Financing for residential services</i>	4 224 127	0,6%
<i>Financing for secondary health</i>	2 603 077	0,4%
<i>Financing for theatres</i>	1 681 899	0,3%
<i>Financing for QHP, QKHFZ, KHM⁹</i>	85 036	0,0%
Total specific grants	360 586 855	54,3%
Source: KCB, 2025		

Majority of transfers (54%) received by municipalities is earmarked as specific or block grant. (Table 13) The two largest ones, the specific grant for education (37%) and the specific grant for health (12%) are categorised as operating grants by the law on local finances, although they finance capital expenses, as well. The other earmarked grants are smaller amounts (total of 5%) and they target either municipalities with special needs (Pristina, Obiliq) or services, which are outside the typical municipal mandates (residential social services, theatres, secondary health care, historical or cultural centers).

In the case of specific grants there are no set rules on planning the total grant amount. They are budgeted on the bases of inputs and limited by the total appropriations, derived from the central budget targets. The responsible line ministries have high autonomy in the allocation method design. Although any changes in the allocation methods – such as new standards on service performance, which would increase the need for grants (e.g. pupil-teacher ratio) - are approved by the grants commission.

iii. Education grant

The education grant allocation is regulated in details, but basically follows the number of children, pupils registered in a municipal educational institution. The education grant has the highest share among the total grants in the medium size municipalities (41% in the group of population 40 000-90 0000, while the average is 37%). This grant dominates more the budget of less affluent municipalities, that is those ones with lower per capita expenditures: its share is 40%, versus 32% in the rich municipalities. Despite the objective grant allocation

⁹ Historical Center of Prizren, Cultural Center of Zym Village, Council of Hoça e Madhe

rules the four municipalities led by mayor affiliated with the governing (LVV) party have higher share of education grant (42%) than the other municipalities (average is 37%).

Access to specific education grant is regulated in details by *standard service performance indicators and unit costs*. (see Annex) It explains why the education grant per teacher and per total personnel is higher in smaller municipalities: the unit costs (and the education grant per capita) of smaller schools or network of schools is higher, compared to municipalities with more pupils and larger schools.

Specific grant for education is supposed to cover primarily the labour costs of the service. According to the Medium Term Expenditure Framework only a fraction of the education grant is used for goods, services (5,3%) and for capital expenditures (0,9%). Municipalities have to *supplement the educational grants* to cover the total cost of education. According to the World Bank estimates municipalities paid *in addition 17%* of the education grant to the total cost of education (in 2019). It was financed by co-payments and other own revenues, plus by the general grant. (World Bank, 2021)

Table 14. Share of children/pupils in private education		
Education institutions	2015/2016	2020/2021
<i>Pre-school</i>	4,9%	22,4%
<i>Elementary, lower secondary</i>	1,0%	2,5%
<i>Upper secondary</i>	2,8%	4,9%
Source: ASK		

Beyond this additional financial burden on service users, *private education* is also getting more popular. Private kindergartens, primary and secondary schools operate as businesses, financed exclusively by tuition and user charges. These educational institutions are not eligible for education grant (the religious schools are exceptions, they benefit from state support). Despite the higher costs on families, the private school network is expanding (Table 14). By 2020 more than one fifth of children in pre-schools attended private ones. The share of pupils at other levels of pre-university private education doubled in five years.

It indicates, that parents are not satisfied with quality of education in the public sector. More funding is needed from public sources and/or the education grant should create incentives for better services. The grant allocation practice does not support school network rationalisation. The regulated staff scheme combined with the earmarked grant, will worsen the service quality in municipalities with pupil-teacher ratio above the standard level.

The education grant allocation method was designed during the early years of decentralisation in Kosovo. It follows the internationally used model of standardised education service indicators (Annex, Table A) There are approximately a dozen of indicators which determine the average education staff. Number of teachers, administrative personnel, special service providers, counsellors for different types of schools are set by dividing the number of registered pupils in a municipality with these norms (e.g. pupil-teacher ratio:21,3; support staff per 170 pupils; technical staff per 470 pupils).

The unit costs of these labour inputs are calculated according to the *rules of public sector wages and salaries*. The other unit costs are established by the ministry, although these coefficients are not made public. Municipalities are informed only about the standardised input indicators (see the Table B in Annex). As the service performance (input) indicators influence the size of education grant, any changes in the grant formula should be approved by the grants commission.

The major problem is that these education grant *allocation criteria are interpreted as municipal expenditure appropriations*. So they are not used as criteria for allocating the available education grant in a top-down planning process. These service performance indicators and the related unit costs (expenditure norms) are used as bases of education expenditure calculation. Once the grant is legislated in the budget law, then it becomes the approved education budget appropriation for the municipality.

Municipal fiscal autonomy is further limited by other *planning and employment regulations*. For example, in the budget circular of 2021 the MEST “recommended” not to publish vacancies when teaching staff retires. Also there is a secondary legislation with a *sub-formula* on how a municipality should distribute the available education grant among the schools managed by the municipality.

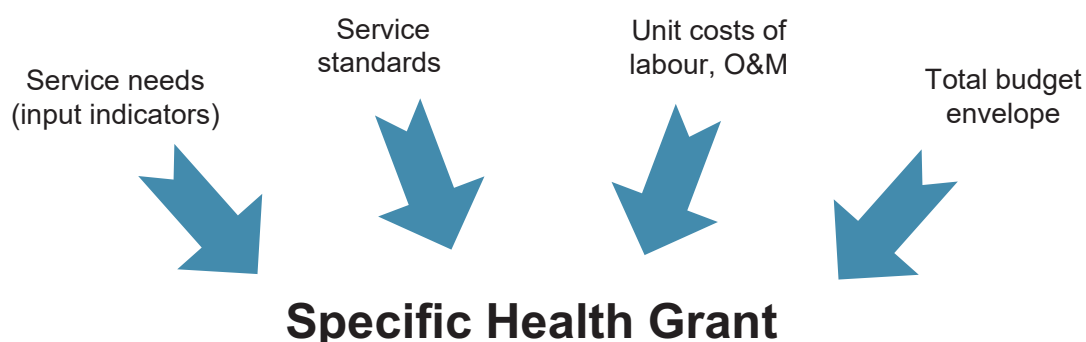
Population decrease after the 2024 census will have a major impact on education grant allocation, as well. Changes of younger population cohort is greater both in the case of population decline (caused by emigration or aging) and in municipalities with population increase (primarily due to arrival of mobile younger citizens and families with school age children). Population changes result new number of pupils and consequently the normalized staff numbers will be modified. Census data show more than 40% decrease in four municipalities and the sharpest increase was in Fushë Kosova (42%). (KLGI, n.d.)

The former *collective agreement* on public sector salaries had a major impact on school financing (the collective agreements are discussed below under chapter on public financial management). Some elements of the collective agreement were included in the grant scheme (e.g. three months retirement compensation, jubilee wages), so after court decisions they had to be paid by the municipalities. Although, according to the MoEST staff opinion the collective agreements had a clause, that these contracts are implemented only when the funds are available through the specific grant.

iv. Health grant

Health care grants represent a rather stable share of municipal transfers, approximately 12% during the past years. The *total amount* of specific health grant reflects the budget priorities in a specific year, as there is no dedicated health insurance fund based universal health care system in Kosovo. According to the World Bank estimates only 60 percent of annual health-care needs are covered by public funds. It includes the municipal revenues (approximately 13% of the health grant) needed to finance these health care services. (World Bank, 2021)

The EUR 82 Million (2025) specific grant for health is *allocated by input based criteria*. They are calculated by employment standards (the salaries and allowances), the number of consultations, visits (e.g. home visits for pregnant women, children, palliative care), other operational expenses for goods, services and the municipal expenses.

Chart 8. Factors determining health grant

The Medium Term Expenditure Framework planning tables specify the factors taken into account for estimating the bases of grant allocation. (Chart 8) They are the number and age composition of local population, the number of main family medicine centers and their units (one per 10,000 residents), number of family medicine ambulances and the allocated staff numbers. (MTEF, 2025-2027). The actual service performance standards used for planning purposes are set by the ministerial administrative instruction. The unit costs and other multipliers are derived from the health care total appropriation. Then the main components of the allocated health grant are planned by the annual budget.

Indicators used in the 2023–2025 Medium-Term Expenditure Framework (MTEF), such as expected home visits for pregnant women, children, and palliative care, continue to reflect *standardized norms, rather than actual performance or local demand*. As a result, the funding provided through the health grant is insufficient to meet actual local needs.

In 2019, only 8 out of 38 municipalities considered the Primary Health Care grant sufficient, while municipalities on average spent 13.5% more than the amount allocated through the grant. This gap particularly affects smaller and poorer municipalities, which often lack the fiscal space to compensate for the shortfall. Furthermore, reliance on outdated census data and the omission of migration trends in the allocation formula raises the need for a comprehensive revision of the health grant formula. It should be more needs-based, flexible, and responsive to real-time data and municipal performance. (World Bank 2023)

In addition to the specific health grant the *secondary health care services* are financed in the three municipalities with Serbian minorities. This amount of EUR 2,6 Million (2025) is allocated directly by the ministry.

v. Grants for social welfare services

Presently grant for residential services finances the homes for elderly, disabled persons and the child protection. The former social grant was merged with the general grant in two steps between 2010 and 2013 (KLGI, 2023a). As social services are important local functions, municipalities tend to finance greater share of total social expenditures by their own source revenues. (Table 15). In ten years time the share of own source revenues spent on social services doubled and it represents one fifth of total social service expenditures (2023).

Table 15. Social services: expenditures and sources of financing, 2013, 2023				
	General grant		Own revenues	
	2013	2023	2013	2023
<i>Expenditures on social services</i>	3 309 911,0	5 676 106,0	437 734,0	1 520 376,0
<i>Sources of financing</i>	88,3%	78,9%	11,7%	21,1%
Source: KLGI, 2023a				

The general grant allocated for the municipal social homes is a flat amount (KCB, 2025). It ranges between EUR 150 000 (Ferizaj) and Pristina (EUR 800 000), but typically a municipality receives EUR 230 000 (2025 budget data). These appropriations are further specified, as funding for salaries, goods and services, municipal expenses and capital expenditures. This way municipalities are restricted in using the funds received from the general purpose grant.

There is a proposal to introduce a specific grant for social services, see the Box 5. on the concept from 2018. The model follows the allocation method of specific health grant with a plan to apportion the social grant from the general grant pool.

Box 5. Specific grant for social services: draft concept from 2018

The concept Document of Local Government Finances foresee a specific grant for social services¹⁰. It will operate as an open system and will finance residential and day care social services, based on the minimum service standards set by the Ministry of Labour and Social Welfare.

Municipalities that establish and operate such centers, in line with defined criteria and with the Ministry's approval, will receive funding approved by the Grant Commission. This funding will cover both operational costs and the costs of delivering services according to the minimum standards. The grant formula will be based on social indicators and the number of registered social categories in need of services, as recorded by municipal Centers for Social Work.

The budget of this specific grant is planned to be provided by reducing the general grant. Based on the proposal all co-payments, fees, and charges collected for municipal social services will be treated as municipal own-source revenues and might be used by the relevant social service institutions. At the same time clear and transparent criteria will be established for financing municipal capital investments.

However, the recent national elections and the time required to constitute new institutions may delay the approval and implementation of these reforms. Adding to this complexity, 2025 will also be a local election year, potentially diverting political focus and slowing the reform process.

10 Government of Kosovo, 2018, Concept Document on Local Government Finance, available at: <https://kryeministri.rks-gov.net/wp-content/uploads/2022/05/Koncept-Dokumenti-per-Financat-e-Pushtetit-Lokal.pdf>

vi. Capital city grant

Prishtina has *extended responsibilities* in public safety, provision of secondary health care services, establishing general hospital and other public services. The capital city holds full competence to establish and manage publicly owned enterprises that serve only its territory. The city receives an additional grant from the central budget amounting to *at least six per cent* of the municipal general grant. It is required to submit an *annual grants plan detailing the financial needs* related to the additional competences of the capital city.

Funds for the secondary health care is not part of this additional grant. Large-scale public investments of national significance within the capital city also receive special financial support from the central government.

vii. Other specific grants

There are other minor specific transfers targeting various *cultural services*. Theatres in seven municipalities receive central budget funds (EUR 1.7 Million in 2025). The Historic Center of Prizren, a village cultural center and a council protecting Serbian cultural heritage are supported by national budget as a local grant (EUR 85 thousand in 2025).

The *municipality of Obiliq* benefits from a dedicated funding mechanism¹¹. Law mandates the allocation of financial resources to mitigate environmental and health impacts caused by industrial activities, particularly energy production. Beyond the national budget grant (EUR 5 Million in 2025) additional revenues are also allocated to the municipality. They are generated from energy-related activities (20% of royalties), support projects for environmental rehabilitation, public health improvement and community well-being, such as sport, health and education.

viii. Municipal Performance Grant

Legislation on municipal Performance Based Grant, was introduced in 2022, although with donor support the grant scheme was launched a decade ago. It is a *fiscal innovation* with dual objectives of (i) introducing an objective grant allocation method, which (ii) creates incentives for improved municipal performance in critical areas of local operation and management. Performance Based Grant is an additional *support to municipal capital investments* at a modest value of EUR 7-8 Millions every year.

There are *two sources of the grant*: EUR 4 Million appropriated under the MLGA budget and an EUR 3.8 Million share of donor funding. The grant scheme is opened to other ministries to join. The Performance Based Grant is managed by the MLGA, following slightly different rules. The Ministry manages its part through an agreement with the beneficiary municipality by retaining the ultimate control, that is payment of the contractors.

¹¹ Law No. 05/L-044 on the Environmental Hazard Zone of Obiliq and its surroundings

Table 16. Municipal Performance Grant allocation criteria	
Indicator areas	Maximum possible points
1. <i>Democratic governance</i>	40
I Role of the municipal assembly as an oversight body	12
II Participation, citizen consultation and inclusion	12
III Transparency, access to information and integrity	16
2. <i>Municipal management</i>	30
IV Financial management	13
V Contract management	7
VI Human resource management	10
3. <i>Provision of services</i>	30
VII Administrative services	6
VIII Spatial planning, public transport and the environment	8
IX Pre-university education	8
X Primary health care	8
<i>Maximum number of points that can be obtained</i>	100
Source: MLGA, 2024	

These funds should be used in that fiscal year, when the grant was awarded. Management of the donors' portion is more flexible: municipalities follow their own rules for the entire project cycle and they have two years to implement the investment.

The grant allocation is based on three types of performance indicators. (Table 16). *Democratic governance* has the highest share (40 points), municipal financial and human resource *management* (30 points) and *service quality* (30). There are more than 30 indicators beyond each area with well specified measurable, and verifiable markers. Applicants should meet *minimum conditions* of four types (1. reporting data in the electronic Municipal Performance Management System; 2. legal operation; 3. having unmodified audit opinion; 4. at least 75% of the capital investment budget should be spent).

Municipalities meeting these minimum conditions receive grants *in proportion to their scores* relative to the scores of the other eligible municipalities. The actual amount of grant is weighted by the municipality's share of the general grant. In addition, 10% of the total grant is allocated to the three best performing municipalities. The entire planning application and award process is harmonised with the budgeting cycle, so municipalities are informed about their share by the end of September.

Key element of the grant scheme is the *Municipal Performance Management System*. The present set of indicators was developed in a decade long preparatory process. Donors keep the right to modify the specific indicators. Electronic Municipal Performance Management System is regulated by a MLGA administrative instruction. It defines all the indicators and provides

a guidance with detailed explanation of each indicator. Accuracy of performance indicators is checked by a commission and the results are published internally.

NAO evaluated the performance based grant scheme and identified the following issues at 10% of the supported 185 municipal projects (NAO, 2021). They are partly caused by the overall public financial management rules, such as the need of additional MLGA approval, reporting practice of returned donor funds, not registering project in the Public Investment Programme, delays in project implementation and some public procurement deficiencies.

ix. National Grants Commission

In the rather centralised system of governance of Kosovo the national Grants Commission plays an important role. As an *intergovernmental forum* it evaluates the adequacy of the municipal financing system, processes municipal appeals regarding grant application, delegated or enhanced competencies and recommends additional funding where necessary. (See Box 6.) Furthermore, it monitors transitional provisions such as minimum grant guarantees and adjustments from updated population data, reviews proposed capital budgets from municipalities, in particular those which are proposed to be budgeted by line ministries. These competences are implemented during the budget preparation process and it requires technical support in order to have informed decisions. The commission also assesses requests for exceptional funding in special circumstances like natural disasters.

Box 6. Grants Commission: legal base, rules and procedures

The Grants Commission, as established by Article 32 of the Law No. 03/L-049 on Local Government Finance, is a central institutional body responsible for ensuring a fair and transparent allocation of financial resources to municipalities. It comprises high-level representatives including the Prime Minister or their representative, the Ministers of Finance and Local Government, another minister appointed by the Government, the Chairperson of the Assembly's Budget Committee, and four mayors (three from majority municipalities and one from a minority municipality). Municipalities are represented in the Commission, although national government and Assembly representatives are in majority. The municipal representatives on the Grants Commission are elected through a transparent lottery process, with separate draws for majority and minority municipalities. It is conducted publicly during the Commission's last meeting of each calendar year.

The Commission convenes at least once every calendar quarter, with additional meetings permitted by joint request of any two members and in a seven-day notice. A quorum of six members is necessary to conduct official business, and meetings are chaired by the Prime Minister or, in their absence, the Minister of Finance. Decisions are taken by majority vote, but in cases of deadlock, the Prime Minister or the Minister of Finance has the final decision-making authority.

The Grants Commission's responsibilities include *reviewing and updating grant allocation formulae* at least every three years and annually establishing the formulas for education and health grants. Regulations on the allocation of intergovernmental transfers are negotiated and prepared for government decision by this body. Any changes in the grant allocation criteria have to be approved by the Grants Commission. The Ministry of Finance has an influential position in the commission (e.g. in the past MEST's proposed grant amount in its entirety was only approved twice, (World Bank, 2021).

The Grants Commission is assisted by a *permanent secretariat*, which is - in practice - the Budget department of MFLT. The Ministry of Finance provides the Commission with administrative and expert support. This high dependence of an intergovernmental body on the MFLT risks the neutral, coordinating powers of the commission. Previous analyses already argued for stronger technical preparation capacities and a professional secretariat of the Grants Commission. It can support evidence-based decision-making equip the Commission with adequate tools, interaction with ministries and authority to monitor for informed decision making.

x. Summary evaluation of grant schemes

Main types of national budget grants are reviewed here along three standards, derived from the principles of public administration and the provisions of the European Charter of Local Self-Governments (Article 9).

Firstly, grants should *guarantee a minimum* (or average, standard) level of services for local governments that are in different positions. Differences in unit costs are caused by special needs, differentials in service costs, population size and composition, geographical conditions, etc. These factors should be all taken into account by the intergovernmental transfers.

Second objective of intergovernmental transfers is the *compensation of divergent fiscal capacities*. Due to differences in local tax bases and economic development, municipalities are in diverse positions, which should be equalised to a certain degree.

Third criterion is the *incentives created* for rational municipal spending, efficient local service provision and for increased local tax effort. In addition the *rules of defining total amount* of grants and municipal autonomy to use the received grants will be also reviewed.

Table 17. Summary evaluation of municipal grants

Grants	Grant allocation objectives		
	guarantee minimum / standard services	compensate revenue differences	create incentives
General grant	<i>partially, target the population related service expenditures</i>	<i>no</i>	<i>creates own revenue raising incentives at the individual, but not at the aggregate level</i>
Specific education grant	<i>follows the standard expenditures, less the specific municipal needs</i>	<i>no; require additional local revenues</i>	<i>for stable service level, no pressure for school network rationalisation</i>
Specific health grant	<i>input based norms and standard costs, not local demand</i>	<i>no; need for additional revenues</i>	<i>stable, standard service level</i>
Social grant (plan)	<i>input based norms and standard costs</i>	<i>no</i>	<i>stable, standard service level</i>
Capital city grant	<i>input based norms and standard costs</i>	<i>no; extra revenue for the (rich) capital city</i>	<i>stable, standard level for the expanded services</i>
Municipal Performance Grant	<i>benchmarking based, relative to municipality's position</i>	<i>no</i>	<i>improved performance of governance, management and services</i>

Capital investment financing and borrowing

Table 18. Local investments, 2010-2023		
Year	Local as % of public	
	investments	revenues
2010	25,1	25,3
2011	24,2	27,0
2012	21,3	27,3
2013	24,6	28,1
2014	26,0	28,8
2015	29,2	28,1
2016	23,3	25,5
2017	25,2	25,6
2018	25,3	26,6
2019	28,8	28,8
2020	40,0	32,6
2021	32,2	25,8
2022	34,1	23,0
2023	37,1	23,6
Source: NALAS		

Municipalities have a relatively *high share in public sector investments* (Table 18). Municipal expenditures on capital investments represent one third of total public investments. In the budget year of 2025 the amount of capital expenditures is EUR 225 Million, which is 29% of total municipal expenditures. (KCB, 2025)

These significant capital investment expenses put a *major technical and administrative burden* on municipalities. In the centralised planning, financing and management process, municipalities are faced with several issues in capital investment project preparation and implementation (see IMF, 2023; DEMOS, 2023; GAP, 2025). Major shortcomings are project appraisal, the dominance of less accountable Publicly Owned Enterprises in planning, inefficient project review and selection process, missing routine maintenance in budget planning. The main planning and control mechanism is the *Public Investment Programme* (PIP), where all the municipal capital investment projects are registered and monitored during the project implementation. Administrative instructions define municipal capital projects, classify capital expenditures and set the project selection criteria.

Through this centralised system of capital investment planning and financing, each and every local project is presented in the Kosovo Consolidated Budget by municipalities. PIP procedures regulate the selection criteria and prioritisation of capital investment projects. Project proposals submitted in the PIP by budget organizations are reviewed by the Budget Department in the MFLT. (PFM, 2022) However, not all the municipalities follow the rules set by the PIP manual, so MFLT has the right to correct the classification of projects before submitting for approval (KLG, 2023).

Municipal capital investments often compete with line ministries' capital projects. Allocation of ministry financed local capital projects (e.g. for infrastructure, regional development, education and culture) might lead to project overlaps and inefficient resource utilization. This is one factor why municipalities argued for a "4th grant", which would finance all local capital investments in a coordinated way by a formula.

According to the draft law on local government finances (2021) a special grant for capital projects is envisaged. It is planned to be highly regulated: the grant amount is minimum 40% of the General Grant; its allocation is based on the population number (80%) and geographical size (20%) of the municipality; central (co-)financing of municipal competencies are prohibited. These provisions reflect the need for transparent rules for capital investment financing and limitations on central government interventions on devolved municipal functions.

However, capital investments can be hardly regulated this way. The total amount of capital grants depends on the national development plans and cannot be formally connected to the targeted general grant. The proposed two indicators do not properly reflect local demand. The municipal capital investment needs should be identified by sectoral strategies and development plans.

Prohibition of central (matching) financing of municipal capital investments is against the principle of joint financing of capital projects with externalities or spillover effects. That is capital projects with benefits outside the municipal boundaries) require joint central and local funds, for example in the case of regional infrastructure (water, waste, roads), investments with environmental impact (e.g. public transportation) or social objectives (e.g. housing, secondary education).

Some issues of capital investment project design and implementation are caused by *the lack of municipal capacities*. Municipalities have limited professional planning staff, which might cause incorrect information on the starting conditions of an investment project. Municipalities need support from the responsible ministry departments in understanding the requirements of the PIP related administrative instructions. Proper coordination of municipal departments is missing during tendering, procurement process and also at the monitoring stage. (DEMOS, 2023)

There are also *external reasons* of low performance, such as the delays caused by the Procurement Review Board. These shortcomings partly justify the slow project approval by municipal assemblies and will lead to significant deferral in project implementation (no audited municipal projects were implemented on time (2013-2020), in some cases capital investments took four times longer than planned, GAP, 2021; PEFA, 2022)

Financing sources of municipal investments is a combination of capital grants, own source municipal revenues, general grants and grants provided by the line ministries. During the period of 2020-2023 municipalities received investment grants of EUR 27 Million annually on the average, which represented 4,5% of total budget revenues (NALAS Observatory data). Municipalities use most of their own source revenues for financing capital investments. According to 2025 budget estimates 32% of local capital expenditures are financed by municipal own source revenues. This EUR 73 Million amount represents 63% of municipal own revenues. The remaining part (EUR 153 Million) is from general and other grants (KCB, 2025).

Complex financing schemes require *effective coordination* of capital investment planning and management. Evaluation of municipal practice shows, that the high local contribution to

capital budgets is not harmonised with the central government, the maintenance costs are underestimated and mandatory prior transfer of municipal resources to the Treasury might cause delays in spending (IMF, 2023).

Municipal borrowing

Municipal borrowing is an indicator of local financial autonomy as it presents how a responsible local leadership can use long term financing for capital investments. The Law on Local Government Finances specifies rather *strict debt rules* in Kosovo. The entire process is further regulated by Law on State Debt and State Guarantees. Municipalities are allowed to borrow only on the domestic market with the authorisation of the MFLT. Debt financing can be used only for capital investment projects reviewed by the Grants Commission. Municipalities are allowed to borrow only for financing projects aligned with municipal development strategies or for co-financing inter-municipal infrastructure projects. Issuing securities or guarantees is prohibited.

Some terms of municipal borrowing are also regulated by law on State Debt and Guarantees: no grace period is allowed and municipality owned immovable property is always needed as a collateral. Municipal debt is subject to strict limits: short-term debt cannot exceed 5% of the annual municipal budget, while long-term debt stock over a three-year period cannot exceed 50% of prior-year own-source revenues. Total outstanding debt is capped in 100% of own revenues. New borrowing is not permitted within the last six months of the Mayor's term, and long-term debt cannot exceed the useful life of the financed investment, limited to 20 years.

Under these rules municipalities are reluctant to borrow. The planned total local borrowing in 2025 is only EUR 2,5 Million, which is app. 0,3% of the total municipal budget revenues. However, municipalities accumulated relatively large amount of *arrears and unpaid invoices*. According to the 2023 budget reports, municipalities had EUR 25 Million of outstanding invoices and in addition contingent liabilities of EUR 140 Million (KCB report, 2023). Half of the arrears exists for longer than 30 days, although the share of long term obligations declined during the past three years (in 2021 it was 67%).

Contingent liabilities are the major hidden burden on municipal budgets. The amount increased sharply since 2021, when it was only EUR 57 Million. The municipal contingent liabilities represent 42% of total government burden (increased from 24% in 2021). The contingent liabilities are concentrated in the case of *capital expenditures* (e.g. Prishtina, EUR35 M, Gjilan EUR15 M), while more equally disbursed on wages, salaries (e.g. Prishtina EUR4 M, Prizren EUR5 M, Gjilan EUR4 M) Ferizaj is an exception with EUR 9 Million contingent liability on goods and services.

Financial management

This is not a comprehensive review of the entire public financial management (PFM) system and local practices. Here only those components of PFM will be briefly evaluated, which are the most relevant for municipal financial autonomy. They are the fiscal planning and budget amendment practices, public sector employment, local asset management, the information system and the municipal external audit. Important aspects of PFM such as revenue collection, capital investment planning, budget transparency were evaluated in other parts of this

review. Some other areas of PFM, such as management of public companies, debt management are outside the scope of this review.

Various comprehensive overviews of local financial management present a diverse picture of municipal practices. The overall impression is that planning and budget implementation rules, the control mechanisms are in place in Kosovo. (SIGMA, 2025) Availability of financial information and budget predictability are also evaluated at high level (PEFA, 2022). However, both of these assessment reports and the Public Financial Management Strategy, 2022-2026 identify *problems with the implementation*. They are inefficiencies of the procurement system, management of arrears, linkages of capital investments to future expenditures and donor finances.

The draft Public Finance Management Law intends to manage some of the present PFM issues. It explicitly refers to the Law on Local Government Finance respecting the legal framework that guarantees municipal fiscal autonomy. It clarifies the procedures for transferring competences between central and local levels. Specific provisions of the draft law target budget reallocations in case of court rulings by allocating the primary responsibility on the respective municipality. It introduces a more structured and transparent regulation of the budget process and gives more flexibility in co-funding donor-supported projects.

i. Budget planning and amendment

Budgeting methods and timing of the fiscal planning process are regulated in details. (see Box 7.) These mandatory rules are followed in the municipal practice, because the ministries (“budget analyst” at the MFLT) have the ultimate powers to intervene in the local draft budget proposals, if irregularities are identified. Budget Development and Management System (BDMS) supports the budget formulation and expenditure planning for all expenditure categories.

Throughout the planning process the *budget circular* as a sub-legal act (administrative instruction) plays a critical role. The budget circular provides detailed guidance on expenditure ceilings for the budget plus two additional years, on municipal deficit limits and standardised information for preparation of budget proposals. They are issued in two rounds and set the budget preparation procedure with deadlines. Time of issuance of budget circulars (15th of May and 15th of August) leave little time for municipalities to consult their citizens and integrate the proposal in their budgets, especially after the second circular is issued when very little time is left to approve the budget by the executive before 1st of September.

Box 7. Stages of budget preparation

The budget cycle consists of several phases, as outlined in Articles 19-24 of the PFM law. The process begins with the preparation of Medium-Term Expenditure Framework (MTEF), which must be approved by *April 30* each year by Government and submitted to Assembly. Ministry updates MFEF on annual basis to make it possible preparation of annual budget. MTEF sets macroeconomic limits and financial priorities on a three-year basis.

The first budget circular is issued by *May 15*, providing detailed budget guidelines for budgetary organisations. The budget circular provides detailed guidance on expenditure ceilings. It is mostly based on MTEF, municipal deficit limits and budget preparation procedures, with deadlines and standardised information for preparation of budget proposals. CFO of municipality is obliged to issue budget circulars for all departments of municipalities with standardized formats for submitting budget proposals by all departments. Municipal budget requests with a medium term expenditure forecast are compiled by *30 June*.

It is followed by next budget circular on *15 August* with detailed final budget and grant level (t+2 years). Municipalities must adhere strictly to this budget circular requirements ensuring their budget proposals comply with fiscal constraints and grant allocation criteria based on Law on Local Government Finance. Failure to meet these requirements can lead to rejection by MFLT or mandatory revisions.

The final step of local budgeting is municipal assembly approval by *30 September*. While the process ensures financial discipline sometimes is challenging for municipalities, having in mind that the Municipal Budget is firstly approved by Municipal Assembly within these deadlines prior to submission as budget appropriation request to MoF. Budget requests are reviewed and consolidated by the Ministry of Finance before the draft budget is submitted by the government for the Assembly of Kosovo by *October 31*.

Ministry of Finance is authorised to draft the municipal budget in case the assembly fails to approve it on time. This temporary budget should be based on, but not exceed, the budget allocations of the municipality for the current fiscal year. This was the case with three municipalities in 2025 (Prishtina, Zubin Potok, Gjilan), which had not approved their budgets by the start of the fiscal year.

The chief financial officer of a municipality is obliged to *issue budget circular internally* for all municipal departments. Their budget proposals and requests for budget appropriations are submitted in standardized format. Municipalities must adhere strictly to MFLT budget circular requirements ensuring their budget proposals comply with fiscal constraints and grant allocation criteria.

Failure to meet these requirements can lead to *rejection by MFLT* or mandatory revisions with strict oversight and control imposed on local governments. While the process ensures financial discipline, it is challenging for municipalities to get municipal budget approved by Municipal Assembly first and then submit the budget request to MFLT.

At the end of the budget planning, the Kosovo Consolidated Budget specifies how the main expenditure categories are financed (Table 19). The labour costs are predominantly financed by grants, while own source revenues finance subsidies and transfers (62%), capital expenditures (32%) and contribute to goods and services (13%).

Table 19. Financing sources of expenditures, 2025

	Municipal expenditures	Financed by grants	Own source revenues	Ratio of OSR financed expenditures
<i>Wages and allowances</i>	370 265 229	369 211 170	1 054 059	0,3%
<i>Goods and services</i>	130 799 296	114 075 124	16 724 172	12,8%
<i>Utilities</i>	15 867 392	14 681 741	1 185 651	7,5%
<i>Subsidies and transfers</i>	35 274 313	13 440 089	21 834 224	61,9%
<i>Capital expenditure</i>	225 905 005	152 688 720	73 216 285	32,4%
<i>Reserve</i>	574 695	305 249	269 446	46,9%
Total	778 685 930	664 402 092	114 283 838	14,7%
Source: KCB, 2025				

The *staff positions* are critical elements of the municipal budgets. They are strictly controlled and the public sector recruitment rules have to be followed. The staff positions under the specific grant are approved, the others are based on local plans. Support staff – part time or temporary employees - can be hired through service agreements from the goods and service budget. Municipalities have to declare the number of vacant positions, which should not be budgeted.

Kosovo's budget system includes several *fiscal rules* on budget deficit, on wages, budget ceilings and expenditure limits. Public budget deficit is set at a maximum of 2% of GDP (excluding municipal own source revenues, among others) and the public debt limit is 40% of GDP. Wage expenditures cannot increase in a budget year beyond the GDP annual growth rate. Share of capital expenditures is fixed (30%) regardless of local needs.

The law allows *some flexibility* for capital investment reallocations and emergency spending, provided they do not affect the medium-term fiscal balance. Co-payment in primary health care or education should be used for the particular service it was paid for. Revenues from immovable property tax are to be used mostly for capital expenses. There is no limitation to carry forward unused budget appropriations of own source revenues. Any unspent own source revenue - but not the general or specific grant - becomes a budget appropriation for the following fiscal year.

Despite the strict control by economic categories of major expenditures, municipalities often fail to report actual costs by the proper categories (NAO 2022). So audit reports found, that capital investments sometimes were reported in the case of road maintenance, public lighting or even salary payments by court rulings instead of expenditure on goods and services.

Annual *budget amendments* are subject to strict regulations to ensure fiscal discipline and compliance with financial planning. According to Article 25 of the PFMAL, the Minister of Finance is authorized to propose amendments to the budget when there is a significant deviation between actual revenues and expenditures compared to the approved budget. Such amendments must be justified based on economic constraints and revenue forecasts.

Furthermore, the Minister is required to consult with affected budget organizations before submitting amendments to the Government and the Assembly for approval. This process ensures that any changes align with deficit limits and do not disrupt financial stability.

Municipalities are *authorised to reallocate* the already approved budget appropriations – except specific operating grant and wages, salaries - within limits. The *practice* is that less than 5% of budget reallocations requires municipal assembly decision, only, while over 5% to 15% a MFLT approval is required. While based on provisions of Article 30 of PFM Law, in the case of municipalities the approval of MFLT is needed for transfers over 15% of a budget allocation within the same economic category, while in practice a stricter measure is applied for all transfers over 5%. Transfers exceeding 15% but below 25% require both Ministerial and Government approval, while reallocations above 25% must be approved by the Assembly of Kosovo. This authorisation process needs quite active cooperation between the two government tiers: a MFLT budget analyst on a daily basis communicates usually with a group of 3-4 municipalities.

ii. Public sector employment

Another critical aspect of multi-level governance is the *civil service and public sector employment*. From fiscal point of view the staffing standards, the employment and salary rules are the most important regulatory issues.

Half of public sector employment is at the local level: 45,444 municipal staff positions in 2024 out of the approximately 88,000 total positions (KCB, 2024; World Bank, 2023). The local level employment started to increase with decentralisation in 2008 and stabilised in a decade by 2018. The total number of public employees is strictly regulated by the Kosovo Consolidated Budget.

The Law on salaries in the public sector (2023) set the general standards for compensation. It was combined with re-systematization of positions and salaries by regulating organizations across central government and public agencies. Changes in public sector wage spending is adjusted to the nominal GDP growth. It cannot be higher than the GDP increase in two years before the budget year. This *capped expenditure on labour* is further regulated downwards through specific employment targets by municipalities.

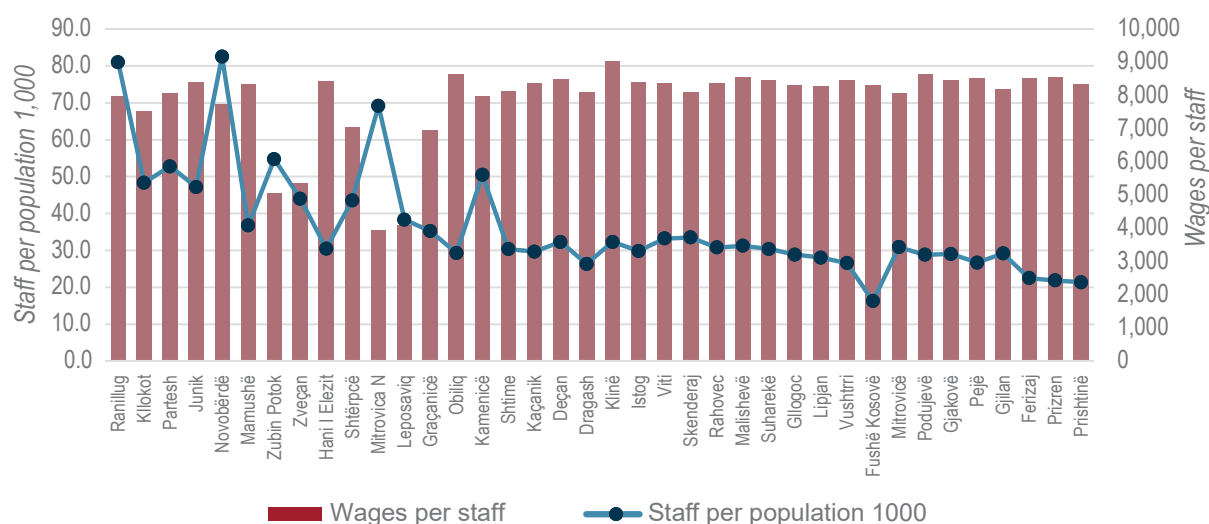
The salary of elected municipal officials, the municipal directors and the assembly members are paid from the municipal budget, that is financed by the general grant and the own source revenues. Within this framework on labour regulations municipalities are free in their employment decisions.

Majority of municipal employment is in the education sector (65% of the total) and in the health care and social services (16%). The remaining 8,5 thousand public employees work primarily in the municipal administration (1,484), public services (1,239), budget and finance (752). Labour costs dominate the local budget expenditures: 48% of total municipal expenditures are spent on wages and salaries, which is two-thirds of local current budget.

Due to the strict regulations municipal staff in the larger municipalities is *proportional to the population*. (Chart 9, municipalities are ordered by population size) In the small size municipalities the fluctuation is explained by the presence of schools and the ethnic composition (unreliable population numbers in municipalities with Serbian majority). Otherwise the staffing ratio is slightly declining by higher population, with some exceptions, such as the municipality with extreme population increase (Fushë Kosovë). The wages are rather equal

across the municipalities with an average of EUR 7,847 per regulated staff. In the case of municipalities with Serbian majority this ratio is lower.

Chart 9. Wages and staffing by municipalities



Source: KCB, 2025

The Law on Salaries in the Public Sector (No. 08/L-196) establishes a *unified and mandatory salary system* for all public sector employees in Kosovo. This law applies broadly to a wide range of public servants paid through the state budget, including teachers, doctors, municipal officials, and administrative staff. Annex 10.7 of the Law on Salaries calculates the salaries using a standardized coefficient system that takes into account the complexity of the position, qualifications required, and the size of the municipality. The law also regulates various allowances, such as performance-based bonuses, extra duties, or challenging working conditions and outlines how salaries are adjusted for work experience.

However, the system is centrally managed, and municipalities have *no discretion to alter salary levels or offer local incentives*, apart from those mentioned by the law. Secondary legislation on the implementation of the law is issued by the Ministry of Finance and the Ministry of Public Administration. While this centralized approach ensures uniformity and transparency, it limits local government flexibility. Particularly when it comes to addressing local workforce needs or attracting and retaining qualified staff in education, healthcare, or technical services. This can be a constraint for municipalities that operate in more challenging environments or with specific service needs.

Collective agreements

Since 2014 the Government of Kosovo signed general and sector specific agreements with the labour unions on various financial benefits. (Salihi, 2024) These collective contracts in the education and health sector effect municipalities as teachers and doctors are local em-

ployees. The financial burden is on local budgets, although municipalities were not involved in the negotiations of these agreements.

Table 20. Payments by court and enforcement decisions, EUR Million	
2023	40,2
2022	36,4
2021	31,9
2020	14,6
<i>Source: Salihu, 2024</i>	

Based on court decisions public employees are eligible for these extra payments, such as retirement bonuses, jubilee salaries, travel expenses and other benefits. According to budget reports this court based payment is increasing and in 2023 it was already EUR 40 Million (Table 20). Most of the forced payments are at local level (68% of total) and they represented 12% of the municipal wage bill (2023).

Some government officials argue, that the collective agreements have a clause, which states that the compensation can be paid only when the funds are available at the Ministry (through the specific grant). Despite this interpretation of the collective agreement, municipalities are obliged to pay from their own budgets or the Treasury has the right to deduct the amount from the municipal grant and to compensate the beneficiary directly.

Municipal specific grants partially include some costs of the compensation, but still municipalities have to spend from their own budgets. This is a significant burden on municipalities and they should cover these costs from other than employment budget. Municipalities often pay these labour expenses from the budget categories of goods and services or from capital budget. These transfers limit the fund available for other expenditures. It might be against the financial regulations which causes qualified audit opinion, thus preventing municipalities to apply for performance-based grants.

Municipalities as employers do not prefer the termination of these contracts, as it will be harmful for their own staff. At the end the collective contract significantly limits municipal fiscal autonomy, so the financial burden should be shared between the national and local governments.

iii. Local asset management

Table 21. Non-financial assets of budget organizations, 2023 (EUR Million)			
	Local level	of this: Prishtina	Local as a % of total
Original amount	7 520	2 648	61,9%
Amortization	892	132	37,8%
Net Amount	6 628	2 516	67,7%
Assets with a value over €1 000			
Source: KCB report, 2023, KCB, 2024			

Local governments and their budgetary organisation own significant amount non-financial assets (Table 21). Net amount of non-financial assets with value over EUR 1,000 was EUR 6 628 Million, which represented two-thirds of total central and local budgetary organisation assets in 2023. Out of these assets 38% are concentrated in Prishtina (much more than the 15% share of the capital city budget expenditures of the country total).

Management of this large stock of government assets puts a huge burden on local governments. Maintenance, reconstruction and ultimately replacement of buildings, land, infrastructure, equipment and other operational assets requires significant amount of capital expenditures. The value of calculated amortisation is 12% of the original asset value. However, the annual capital investment in 2024 represented only 25% of the total amount of municipal asset amortisation. This *low replacement ratio* leads to major losses in municipal asset value. (KCB, 2024)

The law on public property regulates the critical conditions of municipal ownership, the local tasks and responsibilities for managing assets. Definition of local assets emphasises, that they are used primarily for public purposes. Public ownership is protected by the *prohibition of mortgages on public property*. But it is obligatory to transfer public property to and from municipalities for “realisation of public interest” without compensation. This provision of the law is a serious restriction on local autonomy.

Otherwise municipalities have *wide-ranging powers in asset management*. They have the right to transfer their assets through exchange of ownership and other forms of property management for revenue making: leasing, concession, rent and public-private partnership. Municipal assembly decision is needed for ownership transfer, following transparent and competitive procedures. It is emphasized by the law, that only property exchange of equal value is possible. It should serve the public interest, which is a broadly defined term, which is followed in a flexible way in the municipal practice.

However, at the same time the local autonomy is also limited by the *approval of long term lease* (beyond 15 years), or property exchange by the Assembly of Kosovo, following the *consent of the Unit for Public Property Administration*.

Local property management tasks range from keeping registers through purposeful usage, contract management till the protection and inspection of assets. According to National Au-

dit Office report municipalities often do not properly report their assets, which could lead to understatement of asset value (although the difference is less than one percent in a sample of municipalities, see NAO, 2023).

Here the most important task is to harmonise the accounting information with inventories and to establish internal rules and procedures for property management. Lack of contracts for the use of public property, missing enforcement practices and low rent setting could also lead to financial losses. (GAP, 2021)

iv. Information systems

Kosovo Financial Management Information System (KFMIS) was built from the early years of independence. It includes the *Treasury* with a staff of 70 as part of MFLT. Treasury Single Account operates since 1999, although municipalities use their commercial bank accounts managing petty cash. The Treasury works at Budgetary Organisation (municipality) level providing control and ensuring liquidity. Certified authorisation of payments is made by the Ministry Budget Department. Payroll management is an extended role of the Treasury.

Cash based accounting principles are followed in the public sector. International Public Sector Accounting Standards (IPSAS) were adopted in 2004. Administrative, economic, and functional classification using GFS and COFOG standards are used at all levels, supported by unified chart of accounts.

The *Budget Development and Management System* is connected to KFMIS as the planning module. It is operated on *FreeBalance* for municipalities. Information on revenues is reported through the Central Bank connection. *Public Investment Programme* ensures that until a capital project is completed no new one can be started.

The latest PEFA report appreciated the high standards of budget documentation, accuracy of electronic data management, the supervision and monitoring authorities. (PEFA, 2022). At the overall budget level PEFA indicators were scored low only at the following auxiliary areas of financial management: performance information for service delivery, fiscal risk reporting, public investment management, asset management, legislative scrutiny of budgets and audit reports.

v. External audit

The National Audit Office (NAO) provides regular audits of 34 municipalities (without the four municipalities in the North) and 10 regional Publicly Owned Enterprises. 80% of the NAO 170 member audit staff are auditors, with majority of financial auditors. The planned municipal audits are completed by the middle of the year once the financial statements are reviewed in February. An audit team leader plus 2-3 auditors spend 3-4 weeks on the field to prepare a municipal report. Auditors have electronic access to Treasury data. Mayor has the opportunity to review municipal audit report. The local council receives 30 days to approve the action plan of the audit report.

In 2023 majority of municipalities had some issues with the compliance audit reports (88% received “qualified audit conclusions”). (NAO, 2024) The main problems were with the municipal service management and the related financial decisions: contract management, procurement procedures, misuse of funds, subsidising NGOs without an open call, delayed payment of invoices. Issues of revenue raising are the failure to verify one fifth of property tax base, handling construction permits and municipal asset management.

Challenges and recommendations

Based on the review of local government finance some recommendations will be formulated in this closing chapter. They are primarily policy proposals to support future legislative changes and to improve rules, procedures and practices of intergovernmental fiscal relations.

These proposals focus mostly on municipal financing mechanisms, that is own source revenues, intergovernmental transfers and selected areas of financial management. They aim to enhance municipal fiscal autonomy, but most of the proposed fiscal techniques require a new balance between administrative control and social accountability at local level. Fiscal incentives for efficient municipal service provision will work only if there are effective feedback mechanisms between municipal leadership and the local residents, businesses.



Move towards a new level of decentralisation

As it was presented earlier, nation building is in its third stage through public sector development and formation of multi-level government system in Kosovo. The first post war recovery period under international control was followed by active institution building after declaration of independence. This era was characterised by learning and adaptation of governance mechanisms to balance deconcentration and decentralisation in service provision and public finances.

Start of the present, third stage is indicated by the move towards real devolution, aiming efficient service provision. It is accompanied by the need for equity at a higher level, when municipalities in different positions are treated differently. Instead of targeting municipalities identically, formally in the same way, financing and management methods should be replaced by diverse techniques. Local incentives for better service provision will work only when municipalities move out of the regulatory framework supporting uniformity to ensure basic level of services.

In the field of local government finances those countries were able to implement this transition successfully, which introduced a fundamentally new strategy in intergovernmental fiscal relations. They left behind the traditional expenditure control and supplemented or replaced it with regulations which focus on the revenue side of the budget. Vertical dependency within the hierarchical central-local government relations (e.g. control over municipal staff number)

is being gradually replaced by new forms of planning, financing, supervision of the lower government tier. They aim to provide standardised conditions for municipalities, but regulating through economic incentives and leaving greater management autonomy.

Governance framework for greater local accountability

This new level of decentralisation can be achieved by further developing the governance framework. In the three areas reviewed earlier there are several actions, which would improve municipal accountability.

The *administrative-territorial structure* in Kosovo is based on large size municipalities. However, in this amalgamated local government model there are some small size municipalities. Their unique needs and lower fiscal capacities cannot be managed by the standard financing techniques, which usually target the typical, average size municipalities. However, specific measures can be designed for these small municipalities, because their financial weight is low, they represent less than 3% of the country total population.

The typically large size municipalities of Kosovo cover several dozens of villages and urban quarters. These communities have diverse social background with different service needs and economic bases. These differences should be managed in budgeting, service delivery and through specific forms of representation. The local communities have greater potential, which is not utilised sufficiently. They are closer to citizens, which would help the two-way communication and also would better target the personal and administrative services.

Among the broad municipal responsibilities *pre-university education* is the major local service task. The primary school network is quite extended (22 schools in an average municipality), which cannot be managed efficiently from the center. Relaxing the strict municipal staffing regulations and the specific grant rules require new education network management practices and capacities.

On the *political scene* the accountability mechanisms can be improved by changing the mayor's strong position and his dependence solely on the nominating political party. More balanced local decision making can be achieved by allocating more powers to the elected council or its committees and by introducing the chief administrative officer position, appointed by the mayor. The CAO would take over some of the legal-administrative tasks of the mayor.

Increase of own source revenue raising potential

Municipalities in Kosovo are authorised to levy numerous taxes, fees and charges. However, many of these own resources produce very small amount of revenues. The only large municipal own revenues are the property tax and the construction permit fee. These two major revenues dominate in urban municipalities (and they are concentrated especially in Prishtina), which creates significant differences among municipalities.

For making the municipal own source revenue capacities more balanced, weight of other taxes should be increased. More diverse revenues will create more equitable municipal resource base. Our review of major own source revenues showed the underutilised local

revenue potential of tax or *charge on local businesses* and the *tax on tourism* (accommodation). The motor vehicle tax and the various land related revenues can be also important local revenues.

Characteristics of future possible own source revenues are summarised below in Table 22.

Table 22. Future possibilities of major municipal own revenues						
	Significance (size)	Related to benefits received	Local autonomy	Follows economic changes	Stability, predictability	Administration costs
<i>Property tax</i>	xx	x	xx	x	xx	xx
<i>Construction permit fee</i>	xx	xx	xx	o	x	x
<i>Land related revenues</i>	x	x	xx	x	x	x
<i>Motor vehicle tax</i>	x	x	xx	x	xx	x
<i>Local business tax</i>	xx	xx	x	xx	xx	xx
<i>Tax on tourism</i>	x	x	xx	x	x	
<i>Service user charges</i>	x	xx	xx	o	xx	x
x: low xx: high o: not applicable, insignificant						

Municipalities will be more interested in own source revenue raising if the present *limitations on revenue management are terminated*. The informal pressure by MFLT in the budget process to use property tax exclusively for capital investments is an unnecessary obligation and it is not in line with the legislation. Greater local autonomy in spending own revenues will create new incentives for municipal revenue raising.

Changing the *method of defining the basis of general grant* will be an additional motivation at the aggregate, country level for raising own source revenues. Presently the property tax is deducted from the total amount of general government revenues, used for calculating the municipal general grant. Changing this 10% rule will set new targets for municipal revenue policy and it will require legal amendments to the Law on Local Government Finances.

The *property tax* legislation with the latest amendments on progressive taxation is well designed. Here various recommendations for improvement already targeted the tax administration. Better registration of properties will broaden the tax base. It will require support to municipal tax departments in the form of capacity development and internal reorganisation by making them separate units. Flexible usage of tax revenues and relaxed staffing rules will also help the tax administration.

Construction permit fee can be also increased by more proactive municipal tax administration. Regular supervision of construction projects, issuing construction and use permits on time and timely tax collection will help to raise more revenue, primarily in large cities.

Charges on businesses do not take into account sufficiently the taxpayer's ability pay. The annual license fee is differentiated presently by categories of businesses or by types of their premises. In countries, where business tax is used for financing local governments (e.g. Germany, Italy, France, Hungary) the tax base assessment mainly focuses on economic powers of the taxpayer. It is measured by company net turnover, added value, income with modification coefficients. Local governments have powers to set the tax rates within limits. The local business tax is a contribution to the cost of local infrastructure by the companies, entrepreneurs who benefit from these services. It is proposed to move the present charges on businesses in Kosovo towards these models of local business taxes. This option requires specific provisions under the Law on Local Government Finance, enabling municipalities to introduce a business tax based on turnover.

Tourism tax is a widely used municipal revenue source in decentralised countries. It has a great potential also in Kosovo, as it establishes a direct financial relation between the locally financed tourism promotion, city marketing and the hotel businesses. It creates a stable revenue flow and the administration costs of tourism tax on municipalities are minimal. However, earmarking this municipal own-source revenue exclusively to local tourism development is a needless limitation on municipal autonomy. Seasonal local tourism can be supported by a matching grant, which supplements the locally collected tax by a national transfer in a set ratio (e.g. adding EUR X to each EUR collected). It will compensate the municipalities for the high short term costs of non-resident population. While municipalities are currently able to define the purpose of tax revenues through their own regulations, making this tax non-earmarked would require legal amendments to the Law on Tourism.

Better utilisation of motor vehicle tax and land related revenues will produce additional revenues for municipalities. *Motor vehicle tax* base is centrally regulated, municipalities should have flexibility only in rate setting. When tax rate is differentiated by environmental criteria (such as type of fuel, electric car, emission proxies like engine capacity or weight of the vehicle), then motor vehicle tax will be a local regulatory tool for environmental protection. Earmarking the collected tax to a dedicated fund for local transportation or road development and maintenance will make this tax locally more acceptable. Any modification to these types of taxes requires amendments to the legislation governing vehicle registration. Such amendments should define the resulting revenues as municipal own-source revenues and further establish the authority to determine applicable tax rates.

Urban *land related revenues* aim to share the costs of local infrastructure and the land owners, developers, who benefit from municipal spending. Beyond the property tax there are urban planning regulatory tools and development agreement based payments, charges under various organisational schemes. They can be used effectively when urban planning and accounting rules are developed.

User charges and utility service fees have already been introduced in Kosovo. To increase their financial weight and impact on service provision – both at the users' and the service companies' side – the general principles of price setting should be followed. So instead of uniform, flat charges the fees should be related to volume of services consumed. Differences in ability to pay for services can be managed by progressive prices and social allowances.

Municipal revenue administration costs can be lowered by *eliminating some minor fees* and charges or transferring them to central government. These nuance revenues might not produce sufficient returns, even to cover the costs of local administration.

Improved intergovernmental fiscal relations

Grants from the national budget dominate municipal revenues. They are mostly specific earmarked transfers and allocated typically by the number of resident population in a municipality. These grants meet only partially the objectives of an intergovernmental transfer system. The municipal grants should (i) guarantee the *minimum (or average, standard) level of services* for local governments that are in different positions. Differences are caused by various factors: special needs, differentials of service costs, size and composition of the population, geographical conditions, etc..

Secondly, the grant system should (ii) *compensate municipalities for the unequal distribution of local revenue bases*, caused by differences in fiscal capacities. The third objective is to (iii) *create incentives* for rational municipal spending, promoting efficient local service provision and stimulate municipalities to increase their efforts for own source revenue raising. This complex set of objectives can be met only with several different types of grants and transfers.

The total amount of *general grant* is determined as a percentage of a group of general government revenues. This rule guarantees that municipal general grant follows the overall public revenue trend. The pool of general government revenues comprises the major national taxes, such as VAT and PIT. Combining them all for the calculation of general grant equalises the possible fluctuation of these budget revenues.

However, deducting the largest municipal own revenues from this group of general grant *creates a wrong incentive* at the aggregate municipal level. Municipalities benefit more from minimising the local tax effort, because less will be deducted from the basis of general grant. It would be more transparent and predictable to specify the total amount of general grant as a percentage of one or several major national budget revenues. Other countries following similar regulations use VAT, personal income tax or corporate income tax as the bases of defining the grant envelope.

General grant is allocated among municipalities mostly by population number. However, population is not the best indicator of the needs for the municipal services financed by the general grant. Even the costs of administration will be different in municipalities of similar sizes but with diverse urban structures because of larger distances. Costs of other services - which are not compensated by the specific grants - such as public transportation, water and sanitation, road maintenance are not correlated with population number, only.

Other measurable objective statistical indicators, as proxies of local demand *should be introduced*. They might be population age groups, length of roads, number of communities served, use of coefficients for compensating higher elevation, etc. Weight of these indicators should be proportional to the cost (expenditures) supported by the general grant.

Impact of the difference between annually registered (or extrapolated) population numbers and the actual population data of the latest census should be minimised. Municipalities with drastic population loss should be compensated with by *gradually introducing the census data* for example in a period of 3 years.

Specific grants for education and health care services are allocated by input indicators of measuring standardised needs (in the case of education) and the actual service capacity (health care). Both allocation methods are connected to actual service organisations in the municipality (measured by the number of registered pupils in education, the number of family medicine centers, ambulances, home visits in health care). The related unit costs reflect the total budget available for the specific service.

These financing norms, together with the compulsory staff numbers, guarantee the minimum service performance, but do not compensate for differences in service costs and local revenue capacities. They work as expenditure appropriations for the municipalities and do not support service network rationalisation or contracting alternative service providers.

The allocation methods of these specific grants can be improved in two ways. New grant allocation criteria should be added, which are *proxies of demand for services* and are not connected to the actual service units in a municipality. For example population number of targeted age groups (youth, elderly) measures the need for services, without connecting the grant to the existing service units. The specific grant should be *transformed to a block grant*, when the received funds can be reallocated in the same sector among service producers of different types. Greater flexibility in service provision will lead to better services and lower costs.

Any changes to the allocation method of the general or specific grants, regulated under the Law on Local Government Finance, require amendments to the law, including redefinition of the grant allocation formulae.

The planned *social grant* might follow similar allocation methods combining service capacity indicators and proxies of demand in a block grant. The plans for connecting the total sum of social grant to an economic indicator would make the financing system too rigid, so it is not preferred. The social grant policy will not be able to respond on changing priorities or to finance new types of services. Introduction of a social grant will also require corresponding legal amendments to the Law on Local Government Finance.

Capital investments planning and financing should be integrated in the national development programming and the Medium-Term Expenditure Framework design. The Public Investment Program is the appropriate mechanism to ensure the availability of budget funds for priority projects. The role of central government should be limited to planning, coordination and providing financing schemes for municipal capital expenditures. Here diverse financing mechanisms might be introduced on a program basis: matching grants with local co-financing, preferential financing mechanisms for targeted groups of municipalities (small or rural ones, remote regions, etc.), subsidised loans. It is critical to establish transparent rules of grant allocation, project selection and ranking of municipal proposals. Capital investment financing should be based on contractual obligation of both parties (the donor central and recipient local government). New capital investment financing methods require improved municipal capacities and support from ministry budget advisors.

While the above measures can be implemented through improved capacities and sound planning, the introduction of a dedicated capital grant will require legal amendments to the Law on Local Government Finance. At the same time, the provisions of the Public Financial Management Law and relevant secondary legislation should be made more flexible to enable joint capital investment projects.

Revenue sharing is missing from the present system of intergovernmental finances in Kosovo. Dividing a major tax between national and local governments by a set rule could provide sound revenue base for the municipalities. Revenue sharing reflects the joint, complementary central-local responsibilities for public services. Depending on the sharing method (formula, origin based or surcharging) the tax or fee is allocated to municipalities in a predictable way, limiting the national government discretion. Obviously, the risks are also shared, but municipalities have some indirect influence on most of the shared taxes allocated centrally.

In Kosovo the *personal income withholding tax* (EUR 181 Million in 2023) might be a good candidate for tax sharing. If it is allocated by the place of the taxpayer's residence or by a local surtax, then it will connect the personal wealth to municipal revenues and ultimately to the services received.

Per capita PIT revenue is also a good indicator to measure differences so it can be used for equalisation purposes. It might replace the present equalisation grant (connected to population number below 140,000) or could be deducted from the general grant. This way the impact on national budget will be neutral.

Any proposal to move towards revenue sharing will require legal amendments, primarily to the Law on Local Government Finance, in order to classify any portion of these revenues as municipal resource. Additionally, amendments to the Law on Personal Income Tax and the Law on Corporate Income Tax will be necessary to define the parameters of such revenue sharing.

Grants Commission is an influential intergovernmental body effectively coordinating fiscal policies towards municipalities and at the same time supporting dialogue between the government tiers. Its functions of being a technical coordinating body and a forum of political negotiations can be supported by stronger analytical capacities. Presently the Budget Department of MFLT serves as the permanent secretariat. Establishing the Grants Commission's own support staff will improve its independence and make its technical role more influential.

Continuous development of financial management practices

Modernisation of public financial management should be in line with the reform of intergovernmental fiscal relations. The most critical elements of developing local financial management are the budget planning and amendment practices.

The national budgeting practice is adjusted to the rather centralised system of financing municipalities. The new draft legislation on public financial management will improve the budget process including stricter rules on *multiyear capital investment planning* and clarify the roles and responsibilities of all parties involved. The budget process detailed rules will increase transparency, introduce structured budget hearings and *strengthen consultation process* with all budget organisations, such as municipalities.

It is proposed to move these budget negotiations away from control over expenditures and staff number limits towards the *agreement on revenue targets*, financing options and equalisation methods. Despite the fact that labour costs dominate the local budget expenditures the hard budget constraint at macro level (public sector wage spending is limited to the nominal GDP growth) can be ensured in a decentralised system through revenue control.

Easing the staff regulations down to service organisation level will make public employment more efficient and better targeted. It might create risk of salary increase in the short run, but local priority setting will result balanced budgets on labour, operation and capital investments.

More flexible and autonomous municipal fiscal planning practice will need *less regulations on budget amendments and transfers*. The present central government approval of budget reallocation within the same economic category is not needed.

Responsible budget planning with the option to use unspent appropriations in the following year (based on assembly approval) will limit the need for budget reallocation. It will change the authorisation process and make the present active ministerial control unnecessary.

In addition to the necessary legal changes to the Public Financial Management Law and relevant secondary legislation deriving from this law, transition to a program and performance-based budgeting system can also contribute significantly to achieving these objectives. Under the new draft PFM law, the basis for such transition is set when capacities are built.

Annex Education grant allocation criteria

Table A)

1. The number of students registered for the year 2023/2024;;
2. Student-teacher ratio for primary and secondary education for majority students 1:21.3
3. Student-teacher ratio for primary and secondary education for minority students 1:14.2;
4. Student-teacher ratio for preschool education 1:12;
5. Student-teacher ratio for vocational secondary education for majority students 1:17.2, and for minority students 1:11.5;
6. Student-teacher ratio for mountainous areas 1:14.2;
7. Calculation for the teaching staff of the English language for classes I and II;
8. Calculation for administrative technical staff for 630 students 1 staff in pre-primary and primary education;
9. Calculation for administrative technical staff for 470 students 1 staff in secondary education;
10. Calculation for support staff: One staff member (cleaner) per 170 students, along with one staff member per school (guard)
11. Calculation of salaries and allowances: Based on the Law on Wages in the public sector.
12. Professional pedagogical/psychological services
13. Quality coordinators
14. Goods and services are calculated based on the criteria of 23 euros per majority student and 25 euros per minority student. For schools, the calculation is 1,500 euros for preschool and primary schools, and 3,250 euros for secondary schools;
15. Funds are calculated according to the criteria of 7 euros per student;
16. Assistant for children with special needs;
17. Professional practices;
18. Cost of payment for validation and accreditation procedures for vocational high schools (8 schools)
19. School-based career counsellors for grades 6 to 9;
20. IT specialists

Source: MoESTI

Table B. Distribution of the specific grant for pre-university education, 2025	
NUMBER OF PUPILS	322 687
Number of teachers in special education	411
The number of teachers in special education on medical and maternity leave	16
Number of pre-primary teachers	2 400
The number of teachers in sh. preprimary on medical and maternity leave	162
Number of primary teachers	8 691
The number of teachers in sh. primary on medical and maternity leave	581
The number of teachers of secondary school	3 614
No. of teachers at the Correctional Center in Lipjan/SHMLP "Rudina" Dubrave/Istog	6
The teachers of secondary school on sick leave and to give birth	243
Additional teachers for mountain areas	2 544
Number of English language teachers	305
Number of second language teachers according to KKK	394
Number of quality coordinators	674
Number of quality coordinators	862
Assistant for children with special needs	500
Student Assistant in Pre-University Education	337
Number of school-based career counselors from 6 to 12	314
The number of deputy directors for cooperation with the enterprise	64
Number of educators (4-5)	490
TOTAL NUMBER OF HIGH SCHOOL SCHOOLERS	20 823
The number of administrative personnel for cards and primary school	1 191
The number of administrative personnel for secondary school	289
Professional Pedagogical/Psychological Service	520
Number of support staff per student	3 067
Number of IT specialists	30
Number of school-based career counsellors in grades 6 to 9	59
TOTAL NUMBER OF TEACHERS, ADMIN STAFF AND ASSISTANTS	25 980
TOTAL SALARY AND ALLOWANCES	233 808 844
TOTAL GOODS AND SERVICES	13 098 006
CAPITAL EXPENSES	2 224 901
TOTAL BASIC EDUCATION GRANT FOR 2025	249 131 751
Source: MEST 2025-2027	

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