

The establishment of new Municipalities in Kosovo

Budgetary implications and financial self-sustainability

EXECUTIVE SUMMARY

Following the local elections held in 2000, 30 municipalities became functional as basic units of local self-government. In 2005 UNMIK administration initiated the pilot project for establishment of new municipalities. Hani i Elezit, Junik dhe Mamusha, were established as pilot municipalities, whereas after the 2009 local elections acquired the status of municipalities with the right to exercise powers granted to other municipalities. In the meantime, in accordance with the Comprehensive Proposal for the Kosovo Status Settlement, four new municipalities were established, namely Graçanica, Partesh, Klllokot and Ranillug.

The existing Law on Administrative Municipal Boundaries (2008) created the framework for establishment of new municipalities. After the 2009 local elections, 11 groups of villages have submitted requests to the Ministry of Local Government Administration (MLGA), acquiring the status of municipality. Until May 2013, when the Kosovo Government decides to create two new municipalities in the Has region, these requests were not taken into consideration. However, current decisions for the establishment of new municipalities and promises for establishment of additional new ones, are not based on adequate assessment of relevant ministries, as required by the Law on Administrative Municipal Boundaries.

Although, the legal basis for establishment of new municipalities is not sufficient, ten requests of groups of villages submitted to the MLGA do not comply not even with the existing legal requirements set forth in the Law on Administrative Municipal Boundaries. The basic criteria on the minimum size of population and territory that each municipality should fulfill, is not provided. The requests submitted to the MLGA reveal that the size of population varies from 2.426 (Janjeva) to 24.639 (Komoran).

The requests for establishment of new municipalities submitted to the MLGA show that there are three main reasons behind these initiatives:

1. Historical reason or the fact that given territory used to have the status of municipality in the past;
2. The distance from the administrative centers and difficulties in reaching municipal services; and
3. The lack of capital investments in their area

The analysis conducted by GAP Institute, concludes that the establishment of new municipalities will reduce the overall budget allocated to municipalities. The impact will be greater in the municipalities within which new municipalities will emerge. The establishment of new municipalities will significantly increase the number of civil servants, thus increasing expenditures for salaries and consequently decreasing the budget for capital investments and subventions. Each new municipality will have at least 55 civil servants. The majority of potential new municipalities have relatively small number of houses and businesses, thus the base for their own source revenues is very small. Consequently, new municipalities will remain largely dependent on government grants. In addition, none of the new municipalities would become fully operational in the short run, as there is lack of basic infrastructure in administration, education, health and human resources.

GAP Institute recommends the Kosovo Government to not continue with the process of establishment of new municipalities. In the case of the three new municipalities established based on the decision of the Government (Municipality of Gjonaj, Rogove and Zhegra), local elections should not be organized in 2013. The Assembly of Kosovo should not legitimize Government's decisions for establishment of new municipalities, if such decisions do not include a feasibility study. The Ministry of Local Government Administration should initiate the process of amending and supplementing the legal framework that defines the criteria and procedures for establishment of new municipalities. Before acquiring full competencies, every new municipality shall be created as a pilot municipal unit and operate as such for a certain transitional period. Existing municipalities should create a fair system for distribution of investments, in order not to discriminate certain areas within their boundaries. In addition, existing municipalities in coordination with the central government should create adequate conditions in order to decentralize administrative services, and begin providing services related to administrative documents in areas outside urban zones. These measures aimed at providing fair services for the citizens and accommodate their demands within the existing municipalities, avoid the initiatives for creation of new municipalities.

1. Introduction

To an extent, the existing legislation, in particular the Law on Administrative Municipal Boundaries has set the legal basis for establishment of new municipalities in Kosovo. Since 2009 local elections, when elections were organized for the first time in seven newly created municipalities,¹ various groups of villages have officially applied at the Ministry of Local Government Administration (MLGA) to acquire the status of municipality. These requests, however, were not taken seriously into consideration up until May 2013.

During a Government meeting held on May 8, 2013, the Kosovo Government adopted the decision 08/129² through which it approved the request of the MLGA to initiate and proceed with legal procedures for establishment of the new Municipality of Has, to be centered in the village of Rogove. Although, the Government decision 08/192 creates the perceptions that it addresses the establishment of a single new municipality, namely that of Rogove, a meeting of the Assembly Committee on Education, Culture, Youth, Sports, Public Administration, Local Government and Media, held on June 19th, clearly revealed the plan for creation of two new municipalities, Rogove and Gjonaj, which currently have the status of villages within the region of Has in Prizren (Gjonaj) and Has in Gjakova (Rogove).³

On July 17th, 2013, the Kosovo Government adopted the decision for establishment of the Municipality of Zhegra, in accordance with the request of MLGA, initiated by the group of villages in the area of Zhegra.⁴ Kosovo's Prime Minister has also submitted a formal request in the Assembly of Kosovo to legitimize establishment of new

¹Hani i Elezit, Junik dhe Mamusha were established as pilot municipal units based on the UNMIK Administrative Direction nr.2005/11 dated 27 September 2005, whereas after the 2009 local elections, they acquired the status of municipalities with the right to exercise powers granted to other municipalities. In the meantime, in accordance with the Comprehensive Proposal for the Kosovo Status Settlement, four new municipalities were established, namely Graçanica, Partesh, Kllokot and Ranillug. The Municipality of Northern Mitrovica is not operational yet, although it has been established by the Law on Administrative Municipal Boundaries.

² The Government decision 08/129, dated May 8, 2013: http://www.kryeministri-ks.net/repository/docs/Vendimet_e_mbledhjes_se_129-te_te_Qeverise_2013.pdf

³ Assembly of Kosovo, Committee on Education, Culture, Youth, Sports, Public Administration, Local Government and Media, June 19th, 2013: <http://www.kuvendikosoves.org/?cid=1,128,5742>

⁴ Press release issued by the Government of Kosovo following the 140th meeting held on July 17th 2013. Source: <http://kryeministri-ks.net/?page=1,9,3658> (accessed last time on July 18, 2013).

municipalities. Moreover, such requests include areas whose inhabitants did not express the will to organize themselves into a separate municipality.⁵

Besides the three new municipalities expected to be established in the near future, the MLGA has received a number of similar requests from various groups of villages across Kosovo. According to the MLGA, nine other requests for establishment of new municipalities have been received so far including: Hogosht, Reçan, Janjeve, Kërprimëh, Komoran, Krushë e Madhe, Orllan, Zhegër and Pozheran.

Between May and July 2013, GAP institute conducted a research aimed at analyzing the criteria and procedures for establishment of new municipalities in Kosovo as well as economic, social, education and health activities in the areas in which new municipalities would be created. Based on the information gathered during the research, this report analyzes financial sustainability, the cost of establishment of new municipalities and their economic and administrative self-sustainability. The analysis also provides a set of concrete recommendations on how to proceed in the case of establishment of new municipalities.

2. Methodology

In writing this analysis, GAP Institute managed to have access to all official requests for establishment of new municipalities submitted in the MLGA. These requests have been reviewed in light of provisions of existing legislation and Government decisions, in order to assess whether they meet the criteria set forth in the Law on Administrative Municipal Boundaries. With the aim of accessing additional information on specific features of areas aiming to become municipalities and the reasoning behind their initiatives, GAP researchers conducted field visits and met with representatives of villages. Based on the MLGA response with regard to the official requests for establishment of new municipalities, 11 localities have submitted such requests: Has of Prizren, Has of Gjakova, Zhegra, Hogosht, Janjeva, Llapjas, Komoran, Krusha e Madhe, Orllan, Pozheran and Reçan.

In addition to the data acquired from the documents submitted to the MLGA and information gathered in the field, including interviews

⁵ Prime Minister insisted on creation of the new municipality of Kodra e Trimave, although the latter did not submit any request expressing their will to have their own municipality.

with key individuals in these localities, GAP researchers managed to access and utilize data from the Kosovo Agency of Statistics (particularly the data from the recent census) as well as businesses registered in these localities, number of students, health sector records etc. The formula applied by the Ministry of Finance for calculating the municipal grants, is used in order to come up with the calculation of Government grants for the new municipalities. In setting the criteria for the size of administration of these municipalities, we have used the Government's decision 10/46 on the criteria for the size of the administration in the local level.

3. The legal basis for the establishment of new municipalities

The Law on Administrative Municipal Boundaries⁶ provides the legal basis for altering boundaries of the current municipalities. Article 11 of the law specifies the content of proposals for establishment of new municipalities and the required supporting documents. In accordance with the law, proposals for any type of alteration of the administrative municipal boundaries shall include as a minimum:

- a) The map of the territory or territories whose administrative boundaries are proposed to be altered specifying the new proposed administrative boundaries;
- b) Rationale for the necessity of such alterations and the positive or negative effects on the citizens' access to the services provided by the municipality.
- c) An analysis of the effects of such an alteration upon the economic sustainability of the municipality;
- d) A reasoning proving that such alterations are in accordance with the principle of subsidiarity⁷ and will positively impact the exercise of municipal competencies ;
- e) Explanatory materials on the form of liquidation of debts or loans received by each municipality;
- f) The report outlining the manner of consultations of citizens, the results in favor and against emanating from such consultation; and

⁶ The Law 03/L-041 on Administrative Municipal Boundaries, articles 9-12. Source: http://www.gazetazyrtare.com/e-gov/index.php?option=com_content&task=view&id=135&Itemid=56&lang=en

⁷ The principle of subsidiarity has the meaning of being as close as possible to the citizen in providing public services; that is to say, local level institutions should be as close as possible in providing public services to the citizens.

- g) Other documents created by the respective authorities during the process
- h) The plan on the division of their properties, their rights, actions, debts and obligations;
- i) The plan on re-allocation of municipal staff which will be appointed in the new municipality;
- j) The certified list of citizens.

This is the only legal basis on the requirements and procedures for establishment of new municipalities. So far, MLGA hasn't issued any subsidiary legal acts that would provide additional instructions for those interested to initiate creation of new municipalities. In this regard, the law does not specify who is responsible for submission of documents to the Government: MLGA, representatives of citizens or any other body.

Therefore, as elaborated in the analysis below, all requests to the MLGA were submitted by representatives of these localities and none of them fulfills the requirements set forth in the law.

4. Requests for the establishment of new municipalities

To date, 11 localities have submitted requests to MLGA for acquiring the status of municipality: Has of Gjakova (Rogove), Has of Prizren (Gjonaj), Hogosht, Janjeve, Llapjas (former Kerpimeh), Komoran, Krusha e Madhe, Orllan, Zhegra, Pozheran and Reçan. As noted in the table below, requests for establishment of new municipalities did not fulfill the criteria set forth in the Law on Administrative Municipal Boundaries.

A review of the requests for acquiring the status of municipality submitted by Has of Prizren and Has of Gjakova (already approved by the Government), shows that they include the number of villages and their names, the number of inhabitants and private family businesses for each village, but not other data required by law. None of the requests includes information about the territory of the locality, the justification for establishment of new municipality, feasibility of economic sustainability, implications in terms of reallocation of municipal staff, or whether there were consultations with the citizens etc. However, it is important to note that given the lack of expertise and limited access to data, it is unrealistic to expect from representatives of these localities to provide such information.

Such an elaboration should have been done and formulated by the MLGA, but unfortunately, it wasn't the case.

When comparing the 11 requests, it is evident that the request for establishment of the Municipality of Komoran provides more information than others, and is closest to fulfilling the criteria set forth in the law. Besides the number and names of villages, and number of inhabitants, the request provides data related to the geographical size of each village, the map of the territory, reasoning behind the request for establishment of the municipality based on the economic sustainability and principle of subsidiarity (meaning the principle of bringing municipal services closer to the citizens), and additional explanations that support the general justification for establishment of the municipality.⁸

Different from that, requests for establishment of municipalities in Reçan and Orllan do not provide any data related to the criteria set forth by law. Although it refers to the Constitution, Ahtisari's Package and the Law on Administrative Municipal Boundaries, the request for establishment of the municipality of Reçan does not fulfill the requirements set forth in the law. The request does not provide a map explaining the boundaries of the new municipality of Reçan, the villages it will encompass, number of inhabitants, family businesses, financial sustainability etc.⁹ Similarly, the request for establishment of the Municipality of Orllan does not provide any data required by law that would justify the establishment of the new municipality.¹⁰

The requests for the establishment of municipalities of Hogosht, Llapjas (former Kërpimeh), Zhegra and Pozharan, provide more data in comparison with the Reçan and Orllan requests. All four requests have provided the exact number of villages and their names, number of inhabitants and additional information aimed at justifying the need for establishment of the municipality in accordance with the principle of bringing municipal services closer to the citizens. The request of the group of villages from Zhegra was submitted in 2006, before entry into force of the Law on Administrative Municipal Boundaries. Therefore, one could not expect that the request of Zhegra would meet the requirements specified in the law.

⁸ The project proposal for establishment of the Municipality of Komoran. The initiative of the inhabitants of Komoran and its suburbs, as received by the MLGA, on April 12, 2013.

⁹ The request for establishment of the Municipality of Reçan, as received by the MLGA, on September 19, 2011.

¹⁰ The request for establishment of the Municipality of Orllan, as received by the MLGA, on May 23, 2006.

An analysis of all requests for establishment of new municipalities submitted to the MLGA shows that there are three main reasons behind such initiatives:

1. **History.** Some of the localities want to have back the status of the municipality, which they held during certain periods (for example the villages of Hogosht, Pozhoran, Komoran, Janjeva etc).
2. **Facilitate access to administrative services.** For some of the localities the distance from the administrative center and difficulties in obtaining documents of administrative nature, presents a major problem (Hogosht, Komoran, Pozheran).
3. **Investments in public infrastructure.** Localities that have expressed the will to be transformed into new municipalities complained for being discriminated in terms of investments, as part of the existing municipalities. Therefore, by organizing themselves into new municipalities, they expect to have the opportunity to invest more in infrastructure, as the Government would provide them with significant grants and they would also benefit from foreign donations (Zhegra, Pozheran, Komoran, Hogosht).

Two main conclusions can be drawn based on the reasoning provided to support the requests for establishment of new municipalities: 1. Existing municipalities and the Kosovo Government have not sufficiently decentralized the administrative services in rural areas, in order to provide citizens with nearer services, and 2. Existing municipalities have not distributed public investments fairly in territorial terms.

However, in order to avoid these problems, the solution can be found within existing municipalities and the legal framework, but it requires a revision of criteria for investments and greater engagement in decentralizing administrative services in the areas far from the urban centers.

5. Villages and inhabitants in the new potential municipalities

The number of villages and inhabitants in the localities aiming to acquire the status of municipalities varies significantly. As noted in the table below, Has of Prizren, Has of Gjakova and Komoran have the highest number of inhabitants (over 20.000 each) and relatively large number of villages. In this regard it is important to highlight an element evidenced in the request for establishing the municipality of Hogosht, as it includes 25 villages but a small number of inhabitants, respectively 6.801. On the other hand, the request for the establishment of the municipality of Orllan does not specify the number of villages and inhabitants.

Table 2: Localities that have submitted requests for establishment of new municipalities in the MLGA, the number of inhabitants and their villages.

Localities	No. of residents	No. of villages	Villages
Hasi i Prizrenit	22.002	16	Dedaj, Gorozhup, Gjonaj, Kabash i Hasit, Karashengjergj, Kojushë, Krajk, Kushnin-Has, Lubizhdë e Hasit, Lukinaj, Mazrrek, Milaj, Planeje, Romaje, Tupec, Zym
Hasi i Gjakovës	20.038	22	Bishtazhin, Brekoc, Damjan, Deve, Dol, Firze, Fshaj, Gerqine, Goden, Guske, Kusar, Kushavec, Lipovec, Meglice, Pjetershan, Raqe, Rogove, Smaq, Ujz, Vogove, Zylfaj, Zhub
Hogoshti	6.801	25	Hogosht, Koperrnice, Shipashnice e Epërme, Shipashnice e Poshtme, Kolloleq, Dazhnice, Liskock, Zhuj, Poliçk, Velegllav e Eperme, Velegllav e Poshtme, Desivojce, Gjyrishevc, Shahiq, Konstadinca, Marovc, Lajçiç, Tërstenë, Vriqec, Gmicë, Svirçë, Tugjec, Kranidell, Sedllar, Qarrakoc.
Janjeva	3.426	9	Teqe, Akllap, Brus, Bokovice, Vokoqine, Peshterr, Honrovc, Janjeve, Shisharke
Llapjasi (ish-Kerpimeh)	8.588	20	Murgula, Trnavica, Recica, Slatina, Dvoriste, Potok, Pollate, Zitinje, Siljevica, Repa, Metohija, Pakasticë e Epërme, Revuce, Pakasticë e Ulët, Kerpimej, Zakut, Dobrotin, Doberdol
Komorani	24.639	14	Orllat, Fushticë e Epërme, Fushticë e Ulët, Kizharekë, Komoran, Korrotica e Eperme, Korrotica e Ulët, Llapushniku, Negroci, Nekoci, Sankoci, Zabeli i Epërm, Zabeli i Ulët, Vuçaku

Krusha e Madhe	7.119	3	Krushë e Madhe, Celinë, Nagavc
Orllani ¹¹			
Pozherani	16. 630	14	Pozherani, Sadovina e Muhaxherve, Tresteniku, Sllatina e Eperme, Sllatina e Poshtme, Ramjani, Novosella, Terpeza, Qifllaku, Ballanca, Zhitia, Devaja, Radiojci, Budrika e Epërme
Reçan	9.847	12	Pouskë, Jabllanicë, Reçan, Llokvicë, Nebregoshtë, Manastiricë, Pllanjan, Mushnikovë, Gornjasellë, Drajçiq, Lubinjë e Epërme, Lubinjë e Poshtme
Zhegra	6.440	13	Zheger, Nasalë, Lladovë, Llashticë, Muçibabë, Burincë, Lipovicë, Goden i Vogël, Pidiq, Çelik, Shurdhan, Dunav dhe Stanqic.

The annexes of this analysis include maps of these localities in comparison with the maps of existing municipalities.

6. The government grant for new municipalities and the implications on the existing municipalities

The government grant (or operating grants) for Municipalities is separated in three parts: general grant, specific grant for education and a specific grant for health.¹² These grants are allocated to municipalities in proportion to the size population, the size of their minority population, the number of students, the number of schools and the average cost for medical examinations. Based on this, the establishment of new municipalities will have a significant impact on the municipalities from which they will secede. This chapter provides an analysis of the impact of the establishment of new municipalities on the general grants. This calculation does not include grants for education and health.

According to the Law on Local Government Finance, the amount of the general grant is 10% of budgeted central government total revenues, excluding revenues from the sale of assets, other extraordinary revenues, dedicated revenues and proceeds from borrowing.¹³ Each municipality receives a lump-sum amount of

¹¹There were not any contacts in the request for the establishment of the Municipality of Orllan that has been submitted to MALG.

¹² Law No. 03/L-049 on Local Government Finance , Article 23

http://www.assembly-kosova.org/common/docs/ligjet/2008_03-L049_en.pdf

¹³Law No. 03/L-049 on Local Government Finance , Article 24.2

€140,000 per year less €1 for each member of the population, whereas the remainder is allocated among municipalities in proportion to the size of their total population (89%), the size of their minority population (3%), whether a majority of their population is composed of national minorities (2%) and the size of their geographical area (6%).¹⁴ Based on this formula and the recent census in Kosovo, the table below provides figures on the general grants for all municipalities before and after the establishment of new municipalities.

Table 3: Current municipal grant, grant following the secession of localities and creation of new municipalities, potential grant for new municipalities and the general impact on the grants of all municipalities

Municipality	General Grant ¹⁵		
	Current Grant	Grant after creation of new municipalities	Difference in %
Gjakovë	€10.245.285	€8.076.672	-21,17%
Drenas	€6.079.738	€3.577.218	-41,16%
Kamenicë	€4.174.042	€3.289.351	-21,20%
Lipjan	€6.219.191	€5.785.012	-6,98%
Rahovec	€5.908.807	€5.193.634	-12,10%
Podujevë	€9.398.829	€8.365.749	-10,99%
Prizren	€19.648.725	€15.781.251	-19,68%
Viti	€4.973.787	€3.270.894	-34,24%
Gjilan	€9.373.532	€8.608.872	-8,16%
Komunat tjera	€123.972.659	€123.914.965	-0,05%
Reçan	-	€1.787.538	-
Hogosht	-	€1.022.883	-
Kërpimëh	-	€1.168.927	-
Pozheran	-	€1.840.725	-
Komorani	-	€2.639.855	-
Krushë e M.	-	€852.585	-
Janjevë	-	€571.453	-
Rogove	-	€2.304.081	-
Gjonaj	-	€2.404.432	-

¹⁴ Law No. 03/L-049 on Local Government Finance , Article 24.5

¹⁵ The general grant is calculated based on three assumptions: 1) the amount of central government total revenue excludes revenue from the sale of assets, other extraordinary revenue, dedicated revenue and proceeds from borrowings is estimated to be 2 billion Euro 2) the difference between the size of the total population used by the Government of Kosovo for distributing the general grant and the data provided by the recently conducted census, was equally applied for the municipalities of the northern Kosovo , and 3) the size of minority population for the municipalities in the north used by the Kosovo Government when distributing the general grant was not changed.

Zhegër		€900.213	
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Table 3 shows that creation of new municipalities mostly affects the Municipality of Drenas, as its general grant would potentially have a decline by 41.16%. In the case of the Municipality of Prizren, despite the relatively small number of population that secedes from it, the impact is greater than in other municipalities, considering the fact that a potential Municipality of Reçan, would encompass in its demographics a majority of Bosnian community.

Due to the formula applied for the allocation of the general government grant for municipalities, where 10% of the state budget regular revenue is distributed among municipalities, the increase of number of municipalities leads to reduction of municipal grants for all municipalities in general.

7. The size of local administrations in new municipalities- implications on the existing municipalities

In 2008, the Kosovo Government established an inter-ministerial working group responsible for setting the criteria for the size of municipal administration. After several months, the group came with the conclusion on the number of civil servants that each municipality should have. The report of the inter-ministerial working group was approved by the Kosovo Government on December 3rd 2008. The decision of the Government 10/46¹⁶ sets two key criteria for setting the size of the local administration:

1. **Basic criteria:** regardless of their size and in accordance with the obligations deriving from the legal framework, all municipalities shall have a minimum of 55 civil servants;
2. **Supplementary criteria:**
 - a. The municipalities of the Republic of Kosovo with over 100.000 inhabitants, shall have one civil servant serving 620 inhabitants;
 - b. The new municipalities with less than 100.000 inhabitants, shall have one civil servant serving 780 inhabitants;

¹⁶ Decision of the Government of the Republic of Kosovo 10/46, dated December 3, 2008 http://www.kryeministri-ks.net/repository/docs/Vendimet_e_Mbledhjes_se_46-te_te_Qeverise_2008.pdf

Based on this formula, every newly created municipality should have a minimum of 55 administrative positions. Consequently, in accordance with the decision of the Government, the number of civil servants in the existing municipalities would be reduced. For instance, upon the establishment of the Municipality of Rogove, the Municipality of Gjakova must reduce the number of civil servants.

Decision of the Government 10/46 on the criteria for setting the size of local administrations has not been respected by Municipalities. All Municipalities in Kosovo have exceeded the number of civil servants. Considering this fact, the number of civil servants in the existing municipalities is less likely to be reduced, following the alteration of existing Municipal boundaries and part of the population. This is illustrated in the municipalities of Kamenica, Gjilan, Prizren, Prishtina, Viti and Kaçanik, where despite the establishment of new municipalities within their boundaries (Killokot, Partesh, Ranillug and Graçanica), which resulted to have less territory and population, the number of civil servants was not reduced, but was increased over the past years.

Table.4: Trends of civil servant positions in the local administration of municipalities in which the territory and the population was reduced following the 2009 local elections

Municipality	No. of civil servants before decentralization (2009)	No. of civil servants after decentralization	
		2011	2012
Gjilan	258	339	356
Prishtinë	651	705	728
Kamenicë	177	206	209
Kaçanik	107	127	127
Prizren	286	331	341
Viti	168	176	182

Source: The official data of the Department for Administration of Civil Service, at the Ministry of Local Government Administration.

However, even if municipalities would comply with the decision of the Government 10/46, the number of civil servants would still be increased.

In the worst case scenario, if the Government approves the requests of 11 localities to establish new municipalities,¹⁷ the number of civil servants in Kosovo would be increased for approximately 605.

¹⁷ The request submitted by the group of villages for establishing the municipality of Orllan has not been included in these calculations, as they did not provide any relevant information, and made it difficult to assess the impact of its establishment.

Since the local administration in most municipalities already exceeds the allowed number of civil servants,¹⁸ the decision for establishment of new municipalities would worsen the situation only. If we refer to the average salary in the public sector,¹⁹ as an average salary for the civil servants that will be employed following the establishment of new municipalities, it can be concluded that it will burden the budget of municipalities with 2.9 million Euros in salaries. If per diems would be included in this calculation, this amount will be significantly increased. With the budget allocated to municipalities being set beforehand (10% of the government revenue), a decision to increase salaries for 2.9 million Euro would decrease the budget for other expenditures. But, since the expenditures for goods and services and municipal services have very little flexibility, the burden for covering the increase of the budget for salaries and per diems will fall under the expenditures for subventions and capital investments.

8. The effect on municipalities own source revenues

In accordance with the Law on Local Government Finance, municipalities of Kosovo should have adequate resources to efficiently exercise their competencies. The following sources are considered to be municipality's own source revenues:

- a) Municipal taxes, fees, user charges, other payments for public services provided by the municipality, and regulatory charges and fines authorized by the present law;
- b) Rents on immovable property situated in the municipality and under the administration or ownership of the municipality;
- c) Revenues from the sale of municipal assets;
- d) Revenues from undertakings wholly or partly owned by the municipality;
- e) Co-payments from consumers of education and health services provided by the municipality;
- f) Revenues collected by any agency, department or organization of the municipality as a result of the provision of any good or service;

¹⁸ GAP Institute, [Population Census Data and their Impact on Public Policies](http://www.institutigap.org/documents/14834_ASK%20(1).pdf). 2012, [http://www.institutigap.org/documents/14834_ASK%20\(1\).pdf](http://www.institutigap.org/documents/14834_ASK%20(1).pdf)

¹⁹ According to Kosovo Agency of Statistics, the average salary in the public sector for general services is estimated to be 402 Euro. <http://esk.rks-gov.net/tregu-ipunes/tabelat>

- g) Interest on municipal deposits, if any;
- h) Grants and/or donations from foreign governments (except for financial assistance from the Republic of Serbia), and
- i) Any other category of revenues that is designated as municipal own source revenue in a law of the Republic of Kosovo.²⁰

The immovable property tax presents the primary revenue for the majority of municipalities. With the aim of assessing the capacities of newly established municipalities to generate revenues from this tax and the impact in the existing municipalities, the following table provides the total number of houses in the group of villages that have submitted the request to acquire the status of municipalities. Based on the data provide in the table, it is obvious that in the case of establishment of new municipalities, the Municipality of Komoran and Municipality of Pozheran have the greatest potential to generate revenues from immovable property tax. Consequently, this will negatively affect the existing municipalities (Drenas and Vitia) in terms of immovable property tax revenue, as close to 40% of the houses are located in the villages that will be joining the new municipalities. In the other end, the Janjeva and Krusha e Madhe would have less potential for generating revenues from the immovable property tax. As such, Janjeva and Recan would have the least impact in revenues of the respective municipalities.

Table 5: Number of households in the existing municipalities and the potential new municipalities

Municipality	Buildings with at least 1 occupied conventional dwelling	New municipality	Buildings with at least 1 occupied conventional dwelling	% of businesses that will secede from current municipalities	
Prizreni	24.338	Hasi i Prizrenit	2.185	9%	17%
		Reçani	1.868	8%	
Gjakova	12.990	Hasi i Gjakovës	2.514	19%	
Kamenica	5.727	Hogoshti	1.026	18%	
Lipjani	8.695	Janjeva	578	7%	
Podujeva	12.372	Llapjasi	1.158	9%	
Drenasi	8.096	Komorani	3.398	42%	
Rahovec	7.691	Krusha e Madhe	939	12%	
Viti	7.163	Pozherani	2.647	37%	

²⁰The Law No 03/L-049 on Local Government Finance, Articles 2 and 8.

Source: Kosovo Agency of Statistics

Besides the immovable property tax, the fee for obtaining or maintaining business licenses presents another important source for municipality's own revenues. According to the Law on Local Government Finance "A municipality may establish an annual fee that must be paid by registered business organizations to obtain or maintain such business license".²¹

With a significant number of registered businesses, the municipalities of Komoran and Pozheran would have the greatest potential to generate revenues from business license fees. In the meantime, these two municipalities would cause major budgetary gaps for the existing municipalities, since 31% of businesses, respectively 24% would be transferred to the new ones. On the other hand, Has of Prizren and Janjeva would have the lowest impact on the revenues of existing municipalities, as businesses registered in these villages comprise only 2%, respectively 3% of the total number of businesses. In comparison to other municipalities, the municipalities of Janjeva and Hogosht would end up with the smallest number of registered businesses.

Table 6: Number of business in the existing municipalities and the number of businesses and employees in the potential new municipalities

New municipality	No. of businesses	No. of employees	No. of total businesses (existing municipalites)
Hasi i Prizrenit	230	331	10757
Reçani	383	610	
Hasi i Gjakovës	396	866	6528
Hogoshti	179	320	2149
Janjeva	99	245	3409
Llapjasi	205	327	3752
Komorani	903	1843	2933
Krusha e Madhe	250	467	2561
Pozherani	729	1267	2980

Source: Business Registration Agency

²¹The Law No 03/L-049 on Local Government Finance, Article 10.

9. Some additional challenges related to the effective functioning of new municipalities

Besides financial sustainability and challenges in building the local administration, new municipalities would face at least five crucial problems related to the infrastructure:

1. **Facilities for the new local administrations.** None of the localities that applied to acquire the status of municipality has adequate public facilities that would house the new local administration.
2. **Building a professional civil service.** The experience of newly created municipalities following the 2009 local elections illustrates best the challenges in building and running certain sectors within local administration. All newly created municipalities faced problems in identifying qualified and certified staff capable of running the public procurement offices. Consequently, reports of the Office of the Auditor General on these municipalities revealed numerous violations of procedures on revenues and spending of public funds. As such, there is a higher risk for increasing the mismanagement of public funds.
3. **The lack of public property.** The new municipalities will not have sufficient public property. Municipalities of Partesh, Klllokot and Ranullug faced serious problems in the absence of public property.²² Under such circumstances, new municipalities will face difficulties in implementing plans for building new schools, administrative centers or health units.
4. **The lack of facilities for secondary schools.** In the majority of existing municipalities, secondary schools are located in the urban centers. Students from the suburbs have to travel to the nearest urban center. Even if the new municipalities are established, students would still have to continue their education in the existing municipalities.

Considering the above facts, the establishment of new municipalities does not present a process which begins and ends with the creation of new municipalities as a result of the decision of the Government or adoption of the law in the Assembly. Every new municipality will need several years in order to become fully operational and reach the level of existing municipalities.

²² GAP Institute. Report on the governance of four Serb dominated municipalities: Gračanica, Ranillug, Klllokot and Partesh. July, 2012. Source: http://www.institutigap.org/documents/600_RAPORTIPERKOMUNATEREJA.pdf

10. Conclusions

Based on the above elaborations, we can conclude the following:

1. Legislation relevant to the local governance in Kosovo does not include provisions that clearly define the manner in which new municipalities can be established. The Law on Administrative Municipal Boundaries presents the sole legal basis, and does not clearly outline the criteria for establishment of new municipalities, the manner in which the request should be proceeded and the institution where it should be submitted.
2. Requests of localities acquiring the status of municipality submitted to the MLGA, did not comply with the criteria set forth in the Law on Administrative Municipal Boundaries, which to date remains the sole legal basis for establishment of new municipalities. Not even requests from Has of Gjakova, Has of Prizren and Zhegra that have already been endorsed by the Government complied with these criteria.
3. In the absence of analysis or assessments on the budgetary impact, or financial and administrative sustainability, the decisions of the Government for establishment of new municipalities have not been well informed. MLGA and other ministries did not conduct any assessment with regard to establishment of new municipalities. Establishment of new municipalities is being used politically by the Kosovo Government, as the decisions in this regard are not based on certain criteria that justify the need for establishment of such municipalities.
4. Establishment of new municipalities carries budgetary implications for the existing municipalities from which they are seceding and of itself as a new administrative unit. These implications include the reduction of the government grant and the own revenues of existing municipalities, as well as the increase of fixed amount of budget allocated to all municipalities.
5. The establishment of new municipalities carries implications for creating local administrations, respectively an increase of the number of civil servants, and financial cost for covering their salaries and per diems. Since every new municipality will have at least 55 positions for civil servants, the establishment

of 11 new municipalities (base on the number of requests to date), would burden the budget for at least 2.9 million euro for covering their salaries. Consequently, bearing in mind the formula used to calculate grants for municipalities, the increase in salaries will negatively affect capital investments.

6. Considering the reasoning behind the requests for establishment of new municipalities, it is obvious that citizens are highly dissatisfied with the territorial distribution of capital investments and administrative services provided by local authorities. These problems, however, could be avoided or solved within the existing municipalities, through better management of resources.
7. Based on the performance of newly established municipalities following the 2009 local elections, every new municipality will need several years to become fully operational and reach the level of existing municipalities. Therefore, in the absence of adequate oversight, the capacity building processes could cause misuse of the budget.

11. Recommendations

Based on the above conclusions, GAP institute recommends:

The Central Election Commission:

- The CEC should not announce elections for municipalities established by the decision of the Government after May 2013, regardless if the Assembly supports such decisions.

The Kosovo Government:

- The Kosovo Government should provide a clear legal basis for establishment of new municipalities, either by amending the existing Law on Local Governance and the Law on Administrative Municipal Boundaries (which are envisaged to undergo through amending procedures this year), or by issuing a subsidiary legal act that addresses this issue.
- The Government of Kosovo should not proceed with establishment of new municipalities, unless a feasibility study is conducted for every potential new municipality. MLGA,

Ministry of Finance and other ministries should assess the requests of every group of villages for acquiring the status of municipality, if the new municipality fulfills the criteria set forth in the law, is financially sustainable, does not cause burden on the budget and also conduct an assessment of the situation in the education and health sector.

- Before acquiring full competencies, every new municipality shall be created as a pilot municipal unit. Functioning as a pilot municipality is not only needed as a transition period, but it also provides the opportunity to gradually build the administration, human resources, create conditions for independent operation of primary and secondary education, as well as the primary health units.

The Assembly of Kosovo:

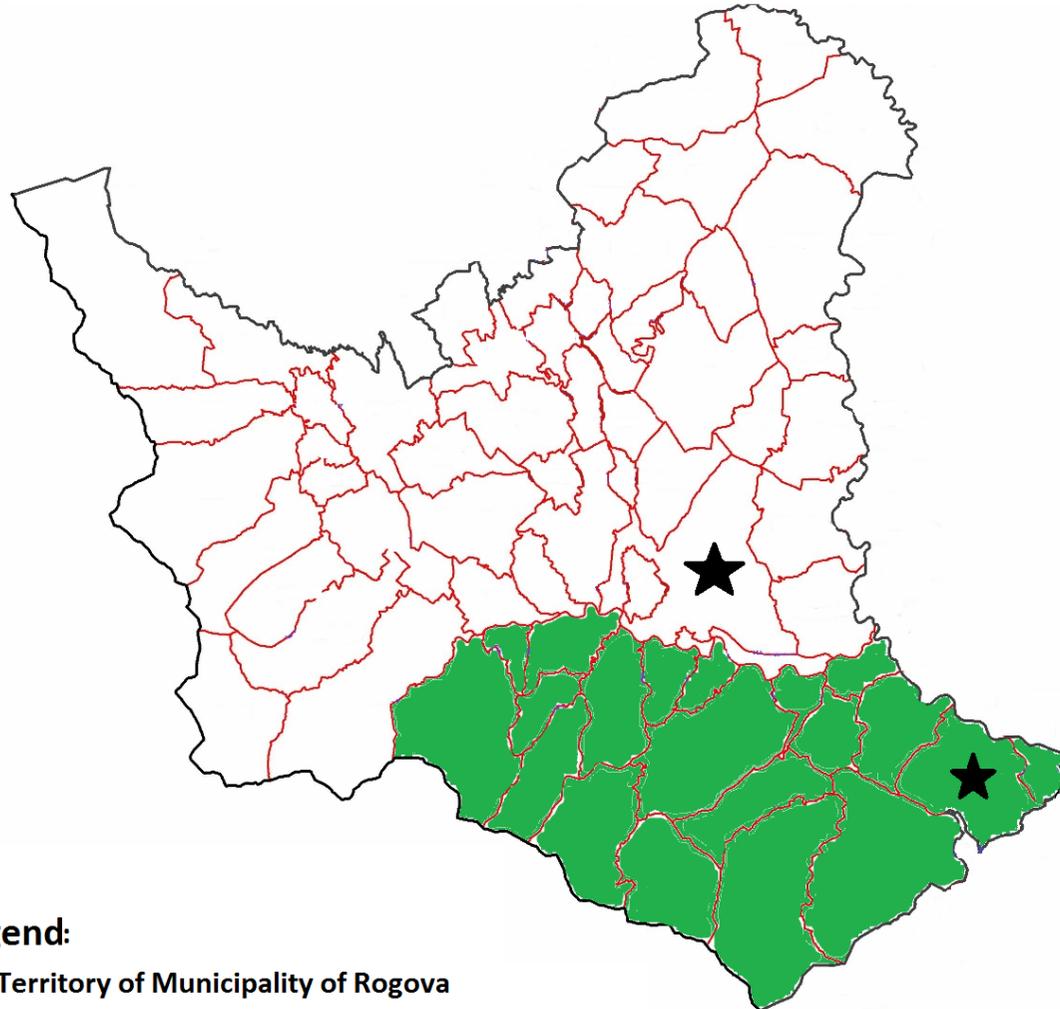
- Initiatives of the Kosovo Government for amending the legislation related to local government, which aim to create new municipalities, should not be taken into consideration by the Assembly, unless they include a detailed study justifying the need for establishment of new municipality and the financial sustainability.

Kosovo municipalities:

- When deciding on capital investments in infrastructure, municipalities should provide for fairer distribution of investments territorially, in order to equally treat all areas within municipal boundaries
- Municipalities, in cooperation with the central government, should provide services in the rural areas, particularly those located far from the urban center.

12. Annex

Municipality Profile of Rogova



Legend:

- - Territory of Municipality of Rogova
- ★ - Administrative Center
- - - Border of the Municipality of Gjakova
- - - Village Border

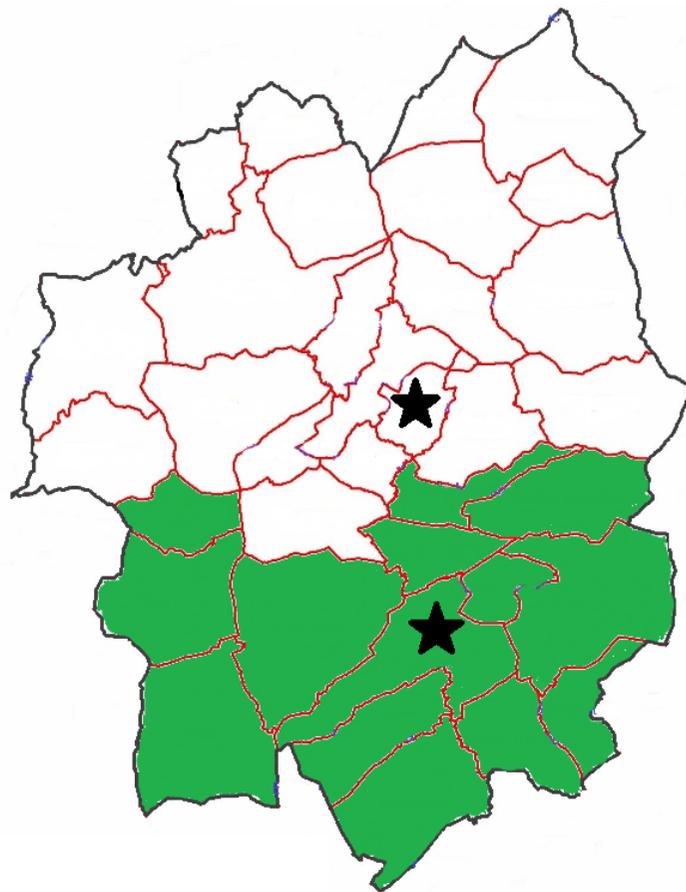
Rogova

Population: 20,038
Minority population: 1,116
Voting for Mayor 2009:
AAK: 79.5%
AKR: 8.8%
LDK: 8.6%
Others: 3.2%

Gjakova (including Rogova)

Population: 94,556
Minority population: 6,884
Area: 587 km²
Voting for Mayor 2009:
AAK: 51.9%
AKR: 41.5%
LDK: 4.9%
Others: 2.0%

Municipality Profile of Komoran



Legend:

- Territory of Municipality of Komoran
- ★ Administrative Center
- ⤵ Border of the Municipality of Gllogovc
- ⤵ Village Border

Komorani

Population: 24,639

Minority Population: 31

Voting for Mayor 2009:

PDK: 89.1%

AAK: 10.9%

Gllogovc (including Komoran)

Population: 58,531

Minority Population: 86

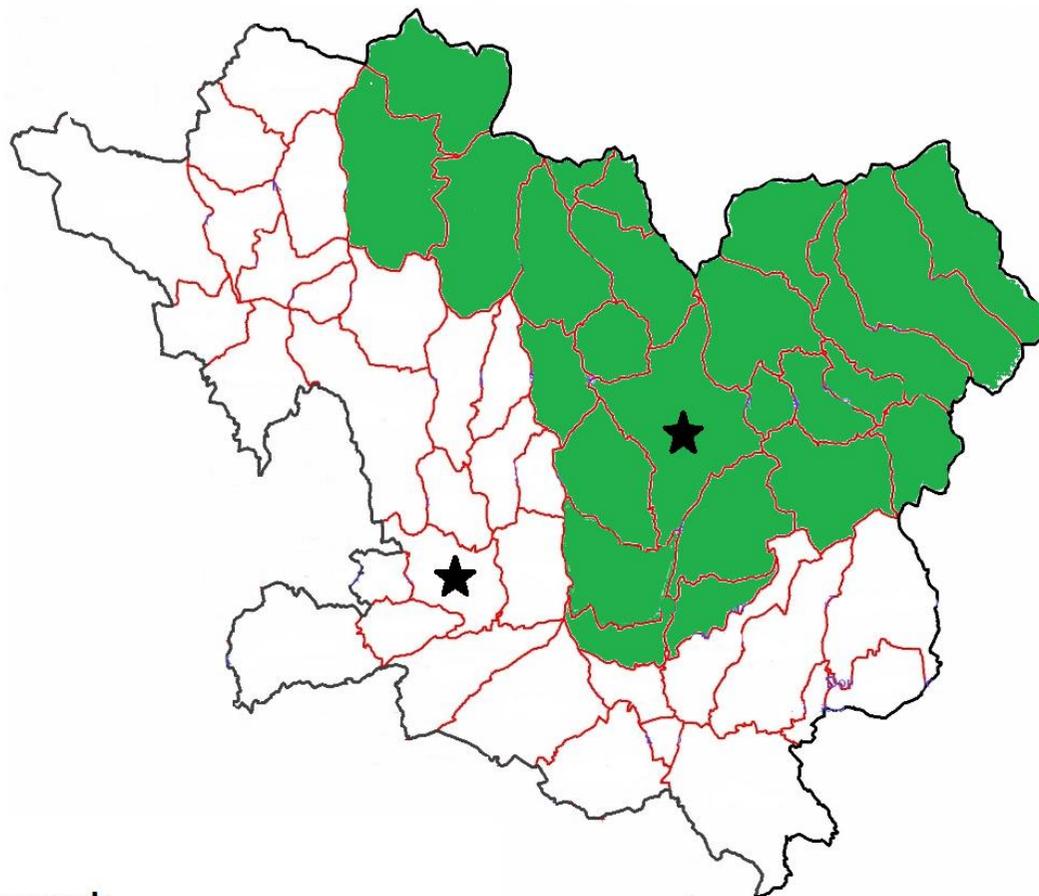
Area: 276 km²

Voting for Mayor 2009:

PDK: 90.5%

AAK: 9.5%

Municipality Profile of Hogosht



Legend:

- - Territory of Municipality of Hogosht
- ★ - Administrative Center
- - - Border of the Municipality of Kamenica
- - - Village Border

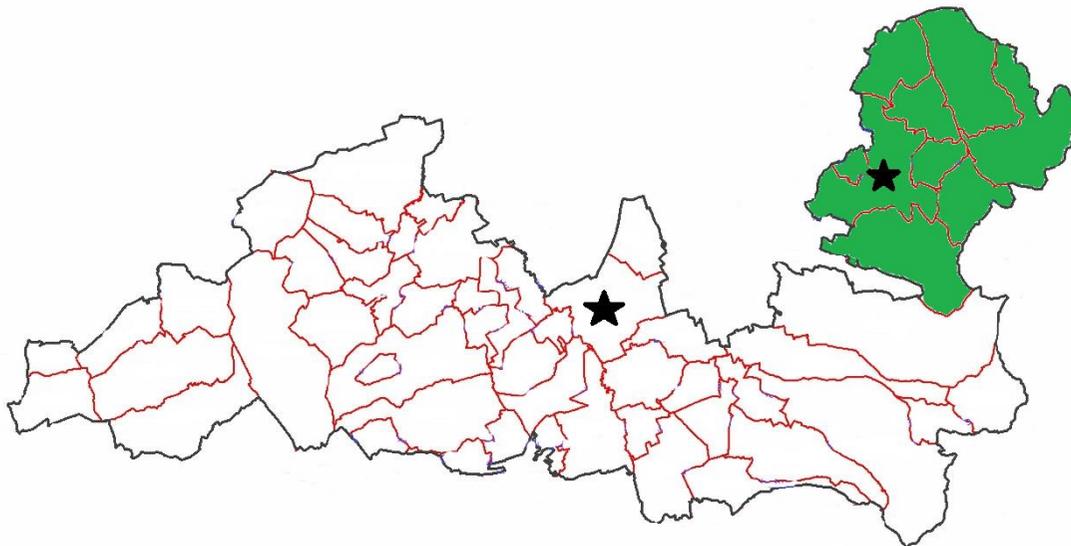
Hogoshti

Population: 6,801
 Minority Population: 229
 Voting for Mayor 2009:
 PDK: 45.3%
 LDK: 22.8%
 AAK: 17.5%
 Others: 14.4%

Kamenica (including Hogosht)

Population: 36,085
 Minority Population: 1,899
 Area: 424 km²
 Voting for Mayor 2009:
 PDK: 33.2%
 LDK: 21.7%
 AKR: 21.4%
 Others: 23.8%

Municipality Profile of Janjeva



Legend:

- - Territory of Municipality of Janjeva
- ★ - Administrative Center
- ⋈ - Border of Municipality of Lipjan
- ⋈ - Village Border

Janjeva

Population: 3,426
 Minority Population: 553
 Votings for Mayor 2009:
 PDK: 42.9%
 LDK: 34.2%
 AKR: 15.0%
 Others: 7.9%

Lipjan (including Janjeva)

Population: 57,605
 Minority Population: 3,138
 Area: 338 km²
 Votings for Mayor 2009:
 PDK: 42.7%
 LDK: 39.1%

Municipality Profile of Kërpimeh



Legend:

- Territory of Municipality of Kërpimeh
- ★ Administrative Center
- ⋈ Border of Municipality of Podujeva
- ⋈ Village Border

Kërpimehu

Population: 8,588

Minority Population: 24

Voting for Mayor 2009:

LDK: 48.0%

PDK: 40.4%

Others: 11.6%

Podujeva (including Kërpimeh)

Population: 88,499

Minority Population: 976

Area: 663 km²

Voting for Mayor 2009:

LDK: 49.9%

PDK: 30.6%

Others: 19.5%

Municipality Profile of Gjonaj and Reçan

Gjonaj

Population: 22,002

Minority Population: 32

Votings for Mayor 2009:

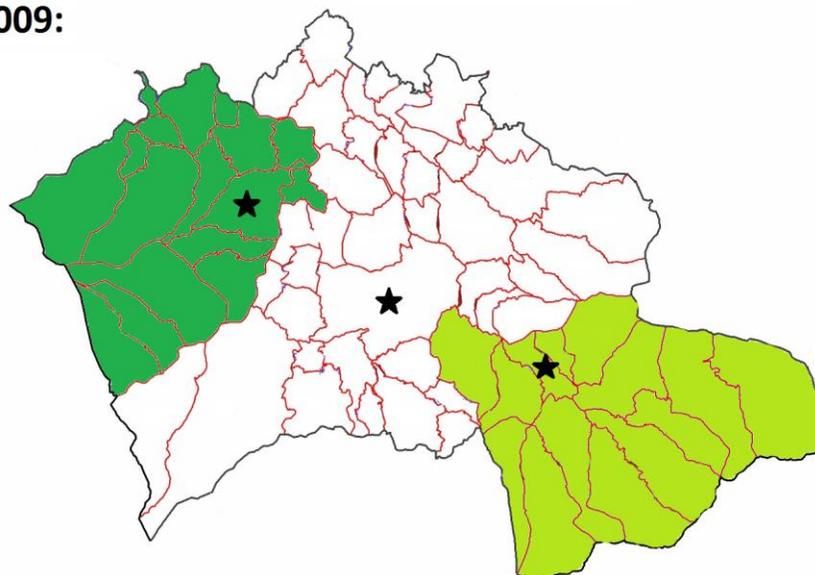
PDK: 28.4%

LDK: 48.2%

VAKAT: 0.0%

NDS: 0.0%

Others: 23.4%



Legend:

■ - Territory of Municipality of Reçan

■ - Territory of Municipality of Gjonaj

★ - Administrative Center

⋈ - Border of the Municipality of Prizren

⋈ - Village Border

Reçani

Population: 9,843

Minority Population: 1,219

Votings for Mayor 2009:

PDK: 3.9%

LDK: 5.1%

VAKAT: 24.3%

NDS: 39.7%

Others: 26.9%

Prizren (including Gjonaj and Reçan)

Population: 177,781

Minority Population: 32,063

Area: 603 km²

Votings for Mayor 2009:

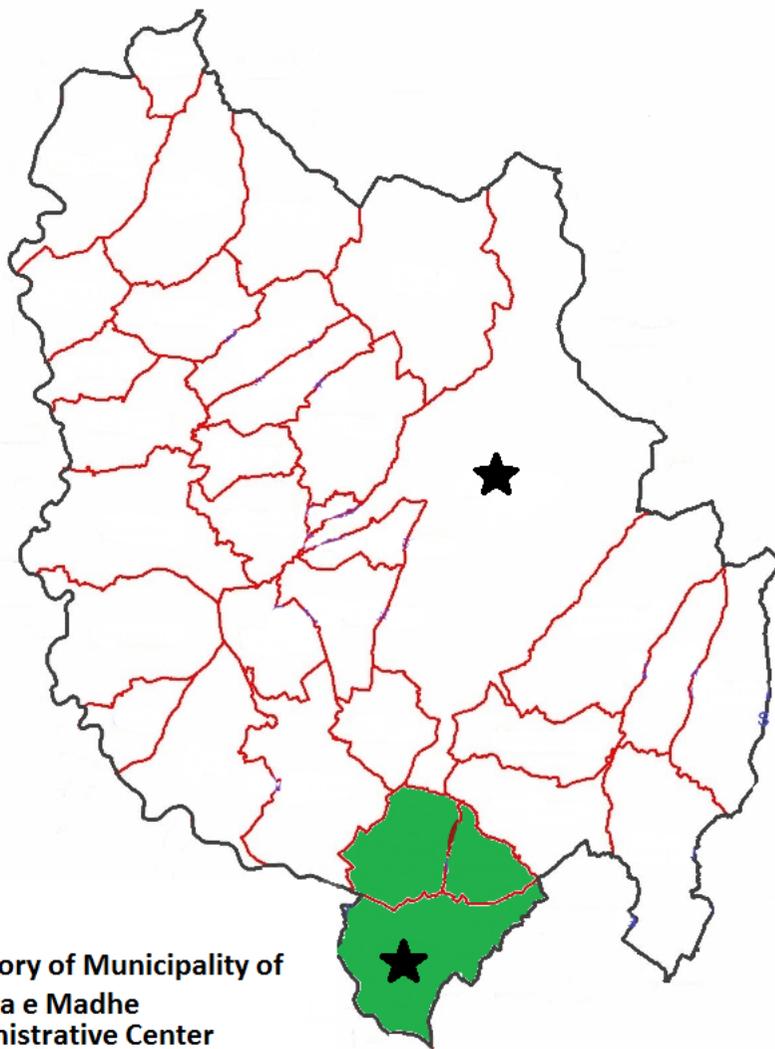
PDK: 32.3%

LDK: 29.7%

VAKAT: 2.2%

NDS: 3.1%

Municipality Profile of Krusha e Madhe



Legend:

- Territory of Municipality of Krusha e Madhe
- ★ Administrative Center
- ⋈ Border of the Municipality of Rahovec
- ⋈ Village border

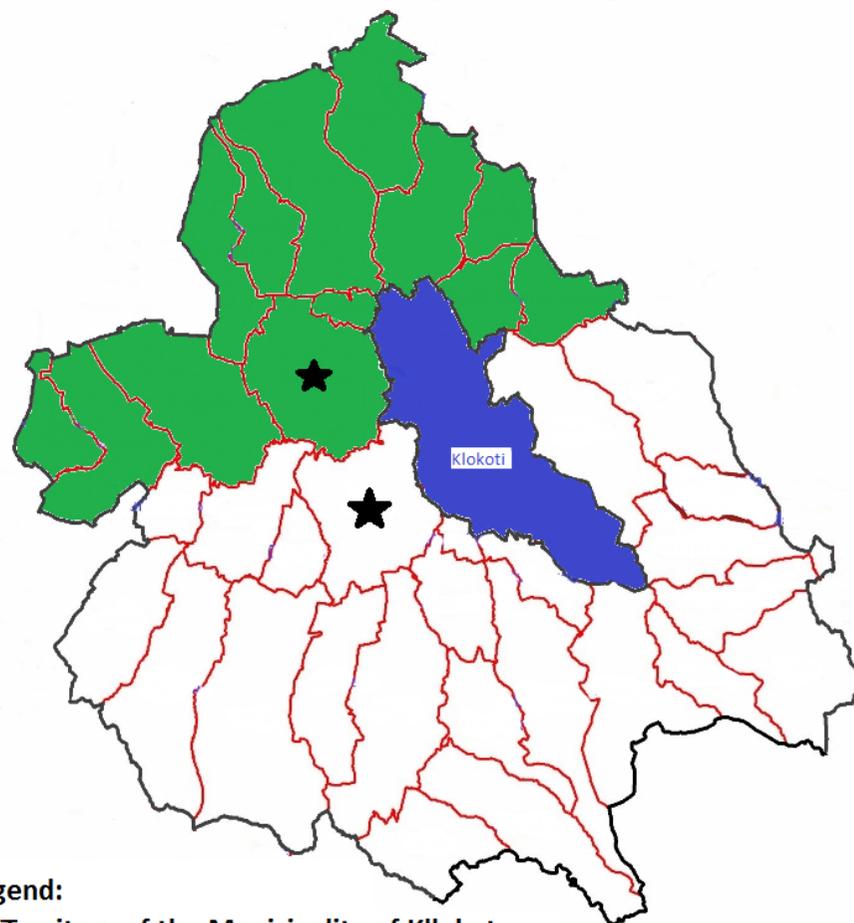
Krusha e Madhe

Population: 7,119
 Minority Population: 87
 Voting for Mayor 2009:
 AAK: 57.5%
 PDK: 22.7%
 LDK: 15.7%
 Others: 4.1%

Rahovec (including Krusha e Madhe)

Population: 56,208
 Minority Population: 1,042
 Area: 278 km²
 Voting for Mayor 2009:
 AAK: 18.8%
 PDK: 36.0%
 LDK: 22.8%
 Others: 22.3%

Municipality Profile of Pozheran



Legend:

- - Territory of the Municipality of Klokoti
- - Territory of the Municipality of Pozheran
- ★ - Administrative Center
- - - Border of the Municipality of Vitia
- ~ Village Border

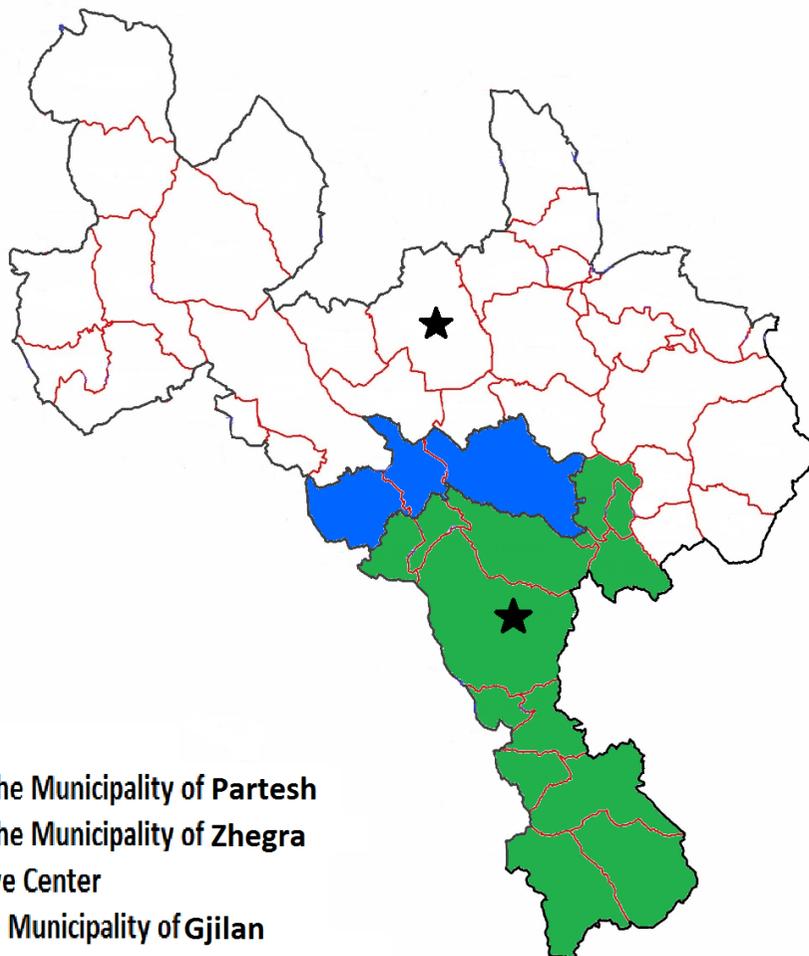
Pozherani

Population: 16,630
 Minority Population: 50
 Voting for Mayor 2009:
 PDK: 35.2%
 LDD: 28.2%
 AAK: 19.2%
 Others: 17.5%

Vitia (including Pozheran)

Population: 16,630
 Minority Population: 50
 Area: 270km²
 Voting for Mayor 2009:
 PDK: 30.0%
 LDD: 33.3%
 AAK: 21.5%
 Others: 15.2%

Municipality Profile of Zhegra



Legend:

- Territory of the Municipality of Partesh
- Territory of the Municipality of Zhegra
- ★ Administrative Center
- - - Border of the Municipality of Gjilan
- - - Village Border

Zhegra

Population: 6,443
 Minority Population: 10
 Voting for Mayor 2009:
 PDK: 36.7%
 LDK: 23.3%
 LDD: 26.1%
 AAK: 8.7%
 Others: 5.1%

Gjilan (including Zhegra)

Population: 90,178
 Minority Population: 2,364
 Area: 392 km²
 Voting for Mayor 2009:
 PDK: 38.7%
 LDK: 27.6%
 LDD: 8.9%
 AAK: 13.9%



Instituti për Studime të Avancuara GAP është një Think-Tank i themeluar në tetor të 2007. Qëllimi kryesor i GAP-it është të tërheq profesionistë për të krijuar një ambient të zhvillimit dhe hulumtimit profesional, që haset në institucione të ngjashme në shtetet perëndimore. Kjo gjithashtu u ofron mundësi kosovarëve për hulumtimin, zhvillimin dhe implementim e projekteve me qëllim të avancimit të shoqërisë kosovare. Prioritet për këtë Institut është mobilizimi i profesionistëve në adresimin e sfidave ekonomike, politike dhe sociale të vendit. Qëllimet kryesore të GAP-it janë të mbush zbrazëtitë në mes të qeverisë dhe qytetarëve, si dhe të mbushë zbrazëtitë në mes të problemeve dhe zgjidhjeve.