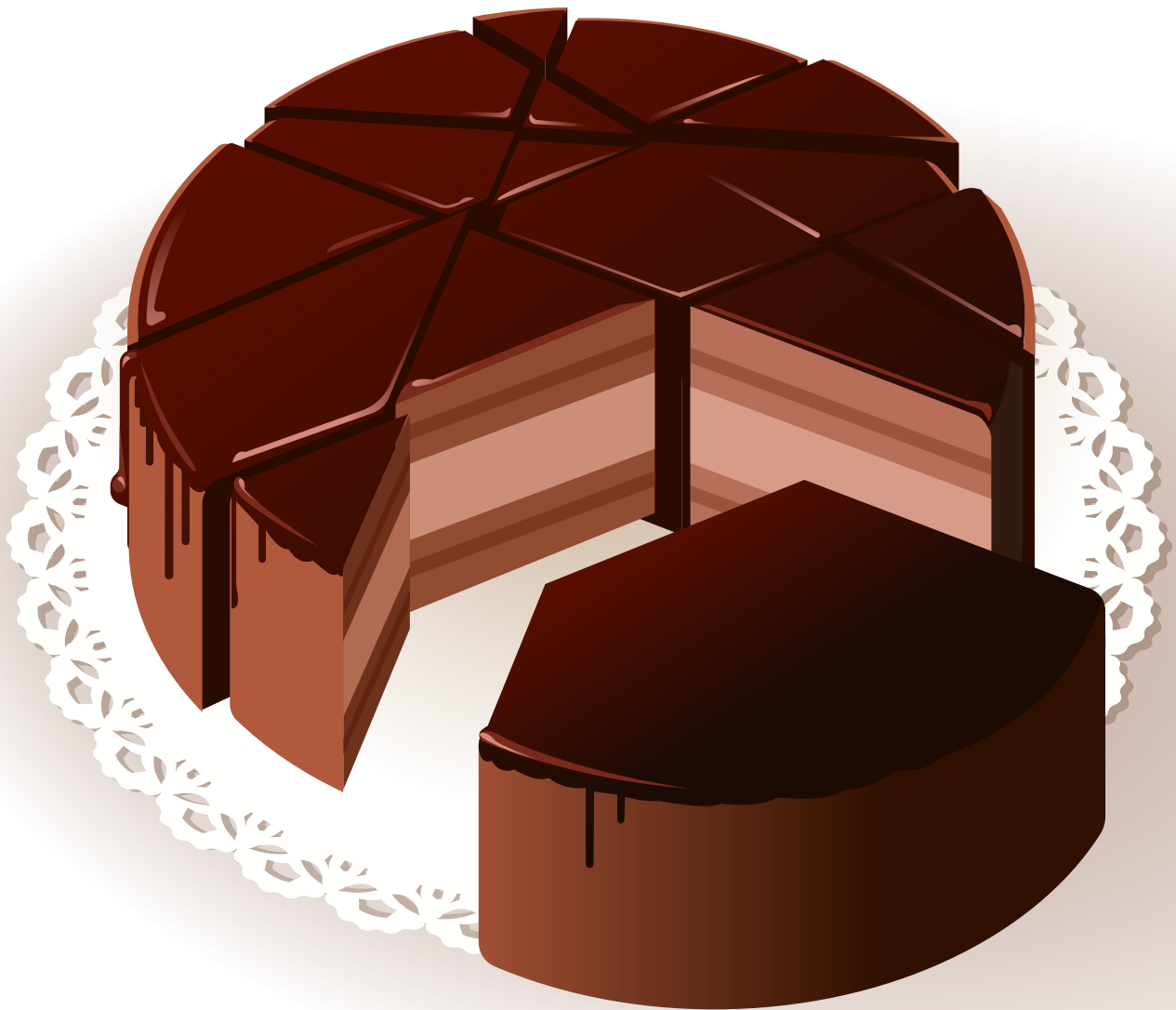




*Empowered lives.
Resilient nations.*



Winners and losers of capital investments: a local government perspective of the **2021 Draft-Law on State Budget**



December 2020

Supported by



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Cooperation Office Kosovo



Sweden
Sverige



*Empowered lives.
Resilient nations.*



Winners and losers of capital investments:
a local government perspective of the
2021 Draft-Law on State Budget

December 2020

Table of Contents

3 Executive summary

4 Budget allocated for ministries
and municipalities in the draft
budget 2021

6 Capital investments from
ministries in municipalities

Disclaimer:

The opinions expressed in this publication are those of GAP Institute and do not reflect the official views of UNDP or donors.

Supported by



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Cooperation Office Kosovo



Sweden
Sverige

Executive summary

On October 30, 2020, the Government of Kosovo adopted the Draft Law on the Budget 2021.¹ This report analyzes the distribution of capital investments of ministries in municipalities, to check for favoritism or discrimination against municipalities on a partisan basis. Capital investments are an important source for the development of municipalities. The Draft Budget provides no explanation on the applicable criteria when deciding on central level investments in municipalities.

According to the Draft Budget 2021, ministries will manage about 1.54 billion Euro, of which 452 million (29%) allocated for capital investments. Of these capital investments, over 93 million Euro will be invested in 33 municipalities. Municipalities, on the other hand, from a total budget of 550 million Euro, have allocated about 143 million Euro for capital investments. Central level capital investments in municipalities will be lower compared to those in 2020.

The three ministries with the highest capital investments budget in municipalities, in 2021, will be the Ministry of Infrastructure, Ministry of Economy and Environment, and the Ministry of Culture, Youth and Sports. Investments of the Ministry of Health in municipalities are expected to decline by 92%, compared to 2020. Municipalities that will benefit the most from ministries' capital investments budget in 2021 are Gjakova, Prishtina, Deçan and Mitrovica.

As most capital investments are continued projects from previous years, the current government has had less room for introducing projects. Around 85 million Euro (or 91%) of projects to be invested by ministries in municipalities are continued projects from previous years, and around 9 million Euro (9%) are new investments. Investments of the Ministry of Economy and Environment constitute the largest part of the new investments in municipalities. Municipalities benefiting the most from the new capital investments in 2021 are Gjakova, Mitrovica, Klina and Deçan.

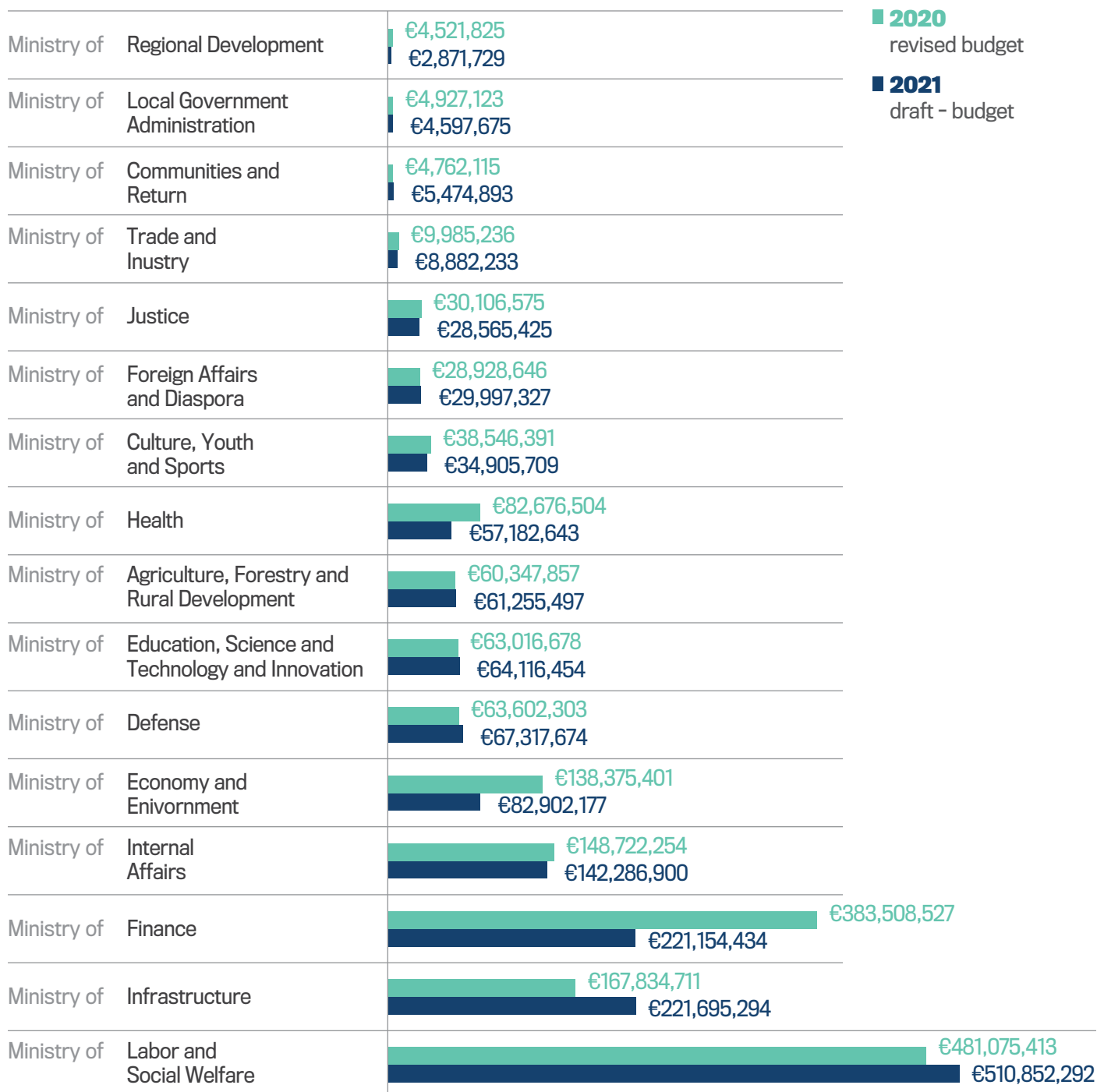
In terms of investments to population ratio, municipalities governed by LDK have been discriminated, and those governed by AAK have been favored. No major positive or negative discrimination was observed in municipalities governed by other political entities.

¹ Government of the Republic of Kosovo, Decisions of Meeting No. 38, Source: <https://bit.ly/33zsXul>

Budget allocated for ministries and municipalities in the draft budget 2021

In 2021, ministries are expected to manage around 1.54 billion Euro, or 61% of the total budget for 2021, a decrease of 10% (167 million Euro) compared to the revised budget of 2020. The three ministries facing the largest budget cut are: Ministry of Finance (42%), Ministry of Economy and Environment (40%), and the Ministry of Health (31%). The Ministry of Infrastructure will see the most significant budget increase of 32%.

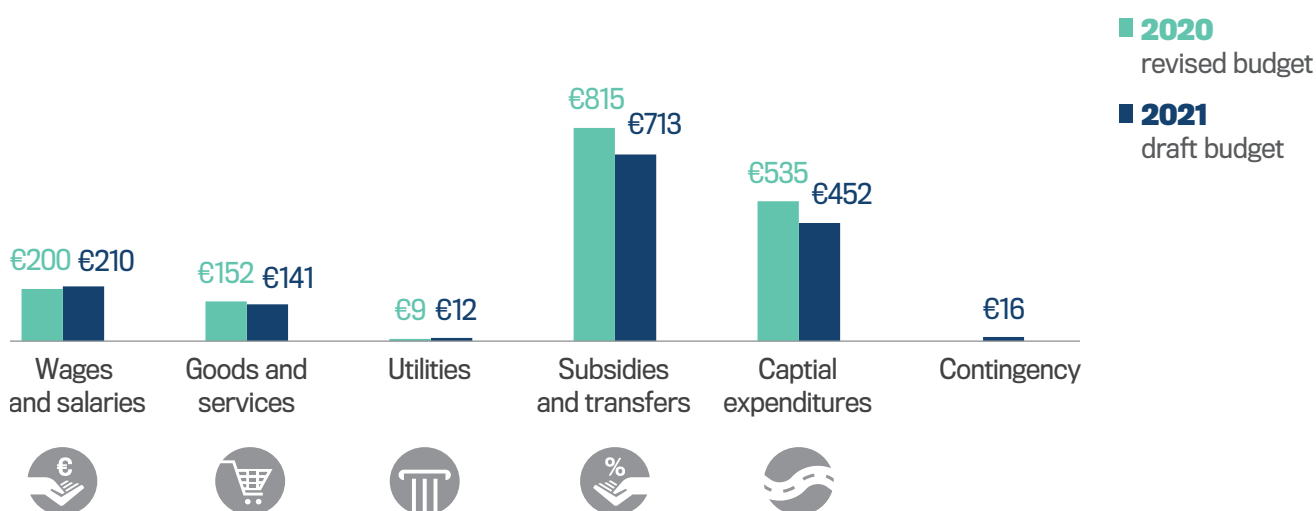
Figure 1. Ministries' budgets in 2020 and 2021.



Source: GAP Institute using the data from the revised Budget Law 2020 and the Draft Budget 2021

Around 29% of the budget of ministries consists of capital expenditures. The rest consists of current expenditures, such as subsidies and transfers (46%), salaries and wages (14%), goods and services (9%), utilities (0.8%), and contingencies (1%).² Compared to the revised budget of 2020, wages and salaries will have an increase of 10 million Euro, namely 5%, whereas utilities will increase by over 3 million Euro, or 36%. Other budget categories have also suffered cuts. 101 million Euro less (12%) have been allocated for subsidies and transfers, goods and services are projected to have 11 million Euro less, or 7%, and capital expenditures are expected to be short by 83 million Euro, or 16%.³

Figure 2. Current and capital expenditures of ministries (in millions of Euro)



Source: GAP Institute using the data from the revised Budget Law 2020 and the Draft Budget 2021

In 2021, the budget for 38 municipalities in Kosovo will be over 550 million Euro, or about -5% lower than in 2020. The municipality with the highest budget in 2021 will be the Municipality of Prishtina, with around 86 million Euro. The Municipality of Partesh will have the lowest budget, with just over 1 million Euro. Municipal Assemblies of Prizren, Mitrovica, Kamenica⁴ and Novobërdë have not approved the municipal budget for 2021. According to the projection, the total grant in 2021, which accounts for 84% of municipal revenues, is 24 million Euro (-5%) lower than in 2020, while own source revenues, accounting for 14% of municipal revenues, will decrease by 5 million Euro (-6%).

About 385 million Euros, or 70%, of the municipal budget for 2021 is expected to be allocated for current costs, and around 23 million Euro, or 4%, as contingency. 26%, or 143 million Euro, will be for capital expenditures. Compared to the revised budget of 2020, there will be budget cuts in 2021 in capital expenditures of municipalities by 13%, or 22 million Euro. There will be budget reductions in the categories of subsidies and transfers by 3.5 million Euro, contingencies by 6.7 million Euro, and salaries and wages by 192 thousand Euro. Goods and services, and utilities will increase by 915 thousand Euro, and 276 thousand Euro, respectively.

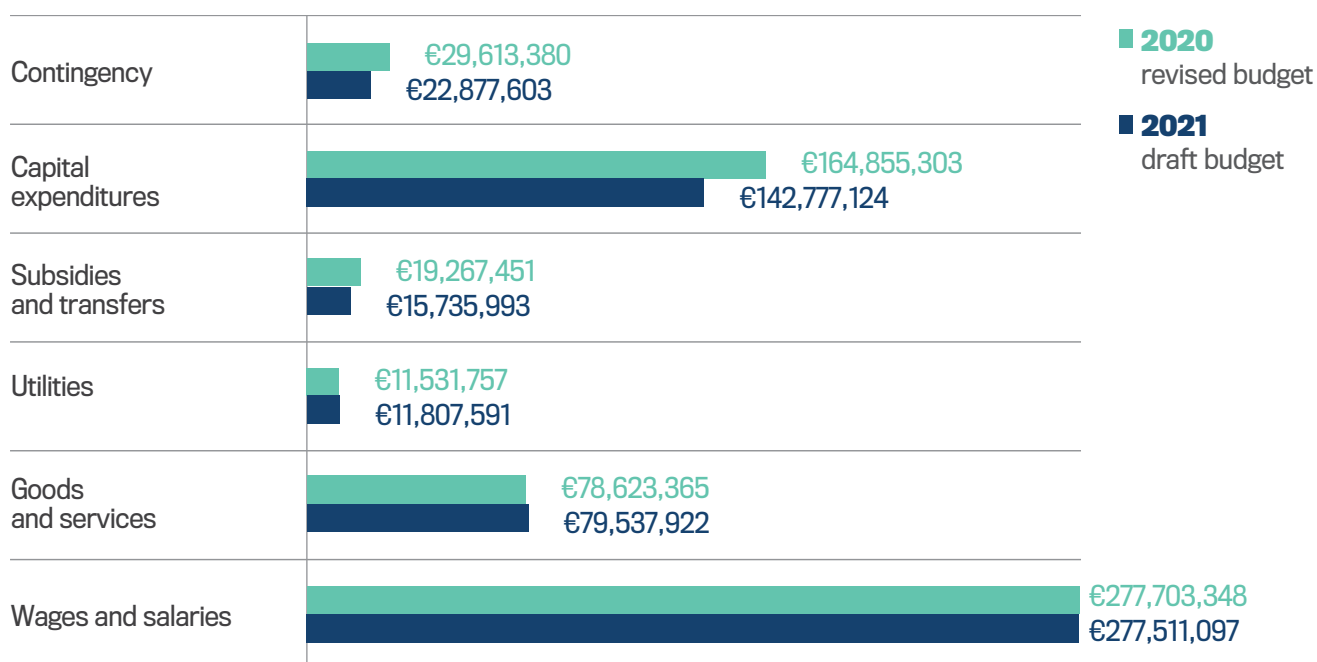
² Assembly of Kosovo. Law on Budget Allocations for the Budget of the Republic of Kosovo for 2021. Source: bit.ly/36VM5VC

³ Ministry of Finance. Law Amending Budget Appropriations for the Budget of the Republic of Kosovo for 2020. <https://bit.ly/2WjEAl3>

⁴ Municipality of Kamenica has approved the municipal budget for 2021-2023 after the first reading of the Draft Budget 2021

Figure 3. Main sources of financing for municipalities**2020** (revised budget)**2021** (draft budget)

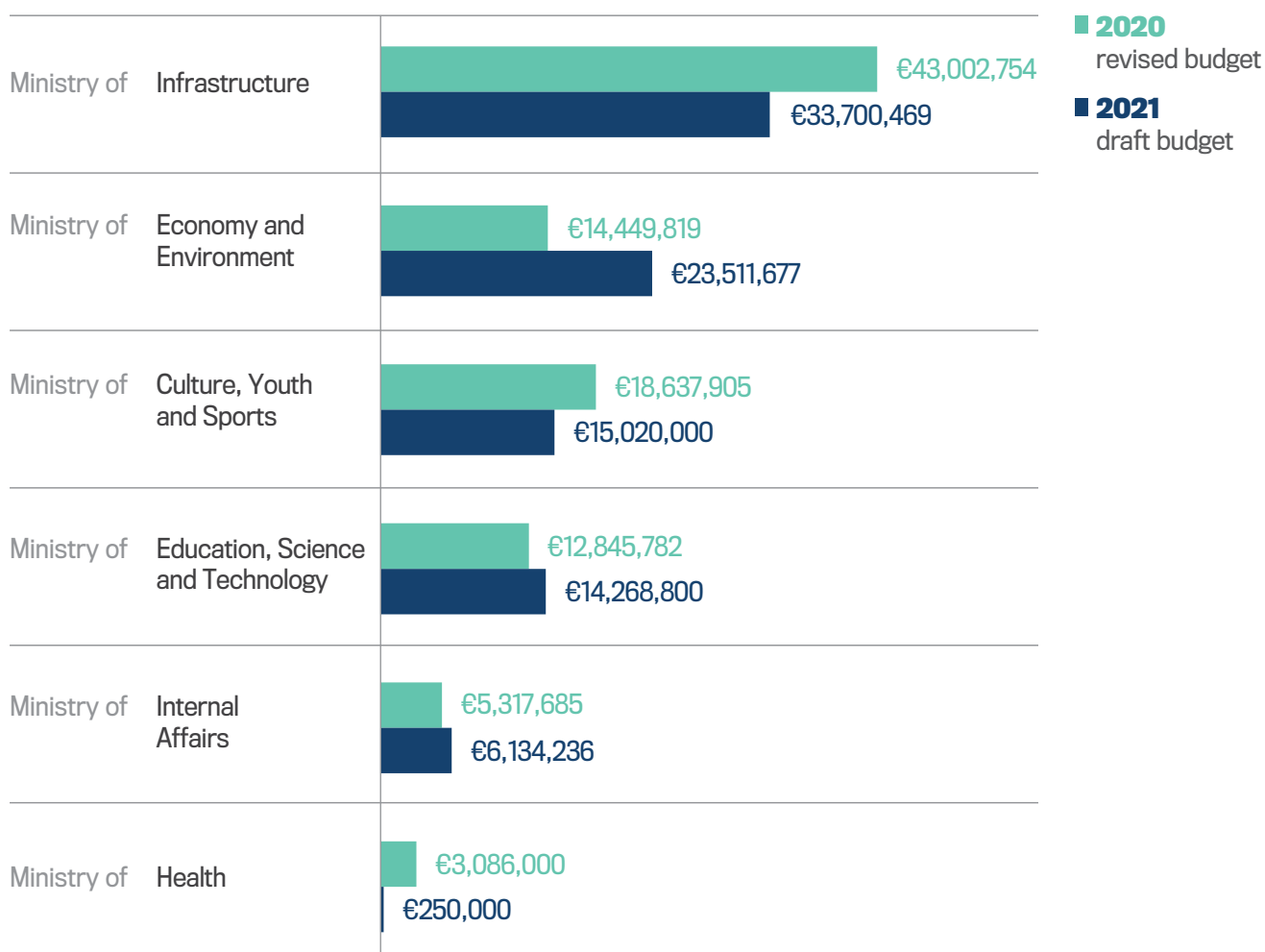
Source: GAP Institute using the data from the revised Budget Law 2020 and the Draft Budget 2021

Figure 4. Differences in expenditures by economic categories in municipalities

Source: GAP Institute using the data from the revised Budget Law 2020 and the Draft Budget 2021

Capital investments from ministries in municipalities

According to the 2021 Draft Budget, capital investments of ministries in municipalities are expected to be over 93 million Euro, and will be distributed to 33 municipalities. The budget of some ministries for capital investments in municipalities will be lower compared to the 2020 revised budget. As a result, the total budget for these investments will be lower. The Ministry of Infrastructure has allocated a budget for capital projects of about 22% less than last year, but it will be the ministry with the highest investments in municipalities in 2021, with over 33 million Euro, followed by the Ministry of Economy and Environment, with over 23 million Euro, and the Ministry of Culture, Youth and Sports with over 15 million Euro of investments in municipalities. Significant declines in capital projects will also be in the Ministry of Health, projected to have 92% less investments in municipalities. The municipalities benefiting the highest investments from ministries are the Municipality of Gjakova (12%), Municipality of Prishtina (10%), Municipality of Deçan (9%) and Municipality of Mitrovica (8%).

Figure 5. Capital investments of a number of ministries in municipalities

Source: GAP Institute using the data from the revised Budget Law 2020 and the Draft Budget 2021

The capital project with the largest amount and expected to be invested by ministries in municipalities amounts to over 6 million Euro, and is financed by the Ministry of Economy and Environment in the Municipality of Gjakova. Around 3 million Euro are expected to be invested by the Ministry of Economy and Environment in the Municipality of Deçan; 2.5 million Euro of investments from the Ministry of Culture, Youth and Sports in the Municipality of Mitrovica; 2 million Euros from the Ministry of Infrastructure in the Municipality of Prishtina; the Ministry of Economy and Environment will invest 2 million Euro in the Municipality of Gjilan, etc. In addition to the capital project in Mitrovica, the above-mentioned projects will be covered by the investment clause.

Table 1. Investment projects with the highest budget

Ministry	Project	Municipality	Amount (€)
Ministry of Economy and Environment	Replacement of asbestos-cement pipes	Gjakova	6,102,507
Ministry of Economy and Environment	Fecal sewage in six villages	Deçan	2,675,044
Ministry of Culture, Youth and Sports	Renovation of the "Adem Jashari" Stadium	Mitrovica	2,500,000
Ministry of Infrastructure	Prishtina ring road from EBRD	Prishtina	2,000,000
Ministry of Economy and Environment	Construction of wastewater treatment plants	Gjilan	2,000,000

Source: GAP Institute using 2021 Draft Budget data

As most capital investments are continued projects from previous years, the current government has had less room for introducing projects. Around 85 million Euro, or 91% of the projects that will be invested by ministries in municipalities are for continued project from previous years. Around 9 million Euro, or 9% will be for new projects. Around 4.7 million Euro, or 55% of new projects, will be allocated by the Ministry of Economy and Environment, of which 1 million Euro planned for the construction of a wastewater treatment plant in Mitrovica, 650 thousand Euro for the construction of the water reservoir at 'Pusi i Atit' in Suhareka, 400 thousand Euro for the construction of a sewage plant in Gjakova, etc. 2.9 million Euro, or 34% of new projects, will be invested by the Ministry of Infrastructure in co-financing with municipalities. In addition, 7% of new projects will be invested by the Ministry of Culture, Youth and Sports, 3% by the Ministry of Education, Science and Technology, and 2% by the Ministry of Agriculture, Forestry and Rural Development.

Figure 6. Continued/new capital investments by ministries in municipalities



Source: GAP Institute using 2021 Draft Budget data

Municipalities benefiting the most from the new capital investments in 2021 are Gjakova, Mitrovica, Klina and Deçan. From a budget of around 9 million Euro for new projects in municipalities, around 5.1 million, or 60%, will be invested in municipalities governed by AAK; around 1.6 million, or 19%, in LDK-led municipalities; 1 million, or 12%, will be invested in municipalities governed by VV; 725 thousand Euro, or 8%, will be invested in municipalities led by PSD; and 100 thousand Euros, or 1%, in municipalities managed by PDK.

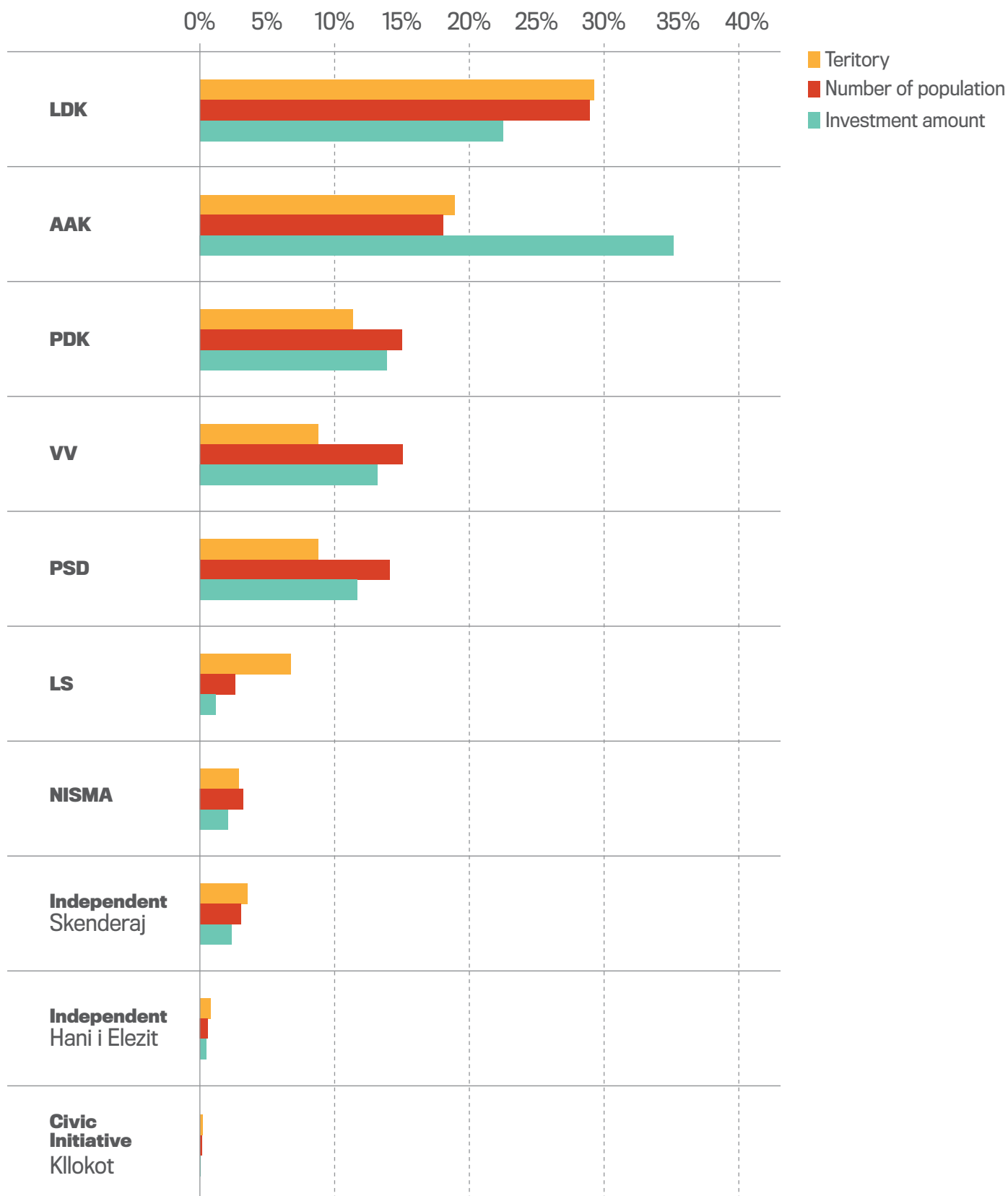
Figure 7. New capital investments of ministries in municipalities, by political entity



Source: GAP Institute using 2021 Draft Budget data

Differences in the percentage of the population and share of investments in municipalities were noticed in the allocation of the budget by the ministries. In terms of investments to population ratio, municipalities governed by LDK have been discriminated, and those governed by AAK have been favored. No major positive or negative discrimination was observed in municipalities governed by other political entities.

Figure 8. Investments in municipalities from ministries for political entities



Source: GAP Institute using data from the 2021 Draft Budget, Kosovo Agency of Statistics, and the Ministry of Administration and Local Government

Municipalities governed by AAK⁵ (Gjakova, Deçan, Suhareka, Klina, Rahovec, Junik and Obiliq) represent about 18% of the population and hold around 18% of Kosovo's territory. 34% of a budget of 93.4 million Euro for central level capital investments in municipalities, will go to municipalities managed by AAK. The Ministry of Infrastructure is expected to invest 30% of its capital projects in these municipalities, the Ministry of Economy and Environment 59%, the Ministry of Education, Science and Technology 35%, the Ministry of Culture, Youth and Sports 18%, the Ministry of Internal Affairs 1%, and the Ministry of Agriculture, Forestry and Rural Development 100%. The only project in municipalities from the Ministry of Labor and Social Welfare is the investment in the Municipality of Gjakova.

Municipalities governed by the LDK (Peja, Gjilan, Vushtrri, Lipjan, Podujeva, Istog, Fushë Kosovë and Viti) comprise 28% of the population and hold around 29% of Kosovo's territory. ⁶ 22% of a budget of 93.4 million Euro for central level capital investments in municipalities, will go to municipalities managed by LDK. Looking at the investments in municipalities by ministry, the Ministry of Culture, Youth and Sports will invest 35% of capital projects, the Ministry of Infrastructure 27%, the Ministry of Economy and Environment 11%, the Ministry of Education, Science and Technology 20% and the Ministry of Internal Affairs 6%. The only project in municipalities from the Ministry of Trade and Industry is a projected investment in the municipality of Vushtrri.

Municipalities governed by PDK (Ferizaj, Drenas, Dragash, Kaçanik and Shtime) comprise around 11% of the territory and include 15% of the population. 14% of a budget of 93.4 million Euro for central level capital investments in municipalities, will go to municipalities managed by PDK. The Ministry of Infrastructure is expected to invest 14% of its capital projects, the Ministry of Economy and Environment 8%, the Ministry of Education, Science and Technology 20%, the Ministry of Culture, Youth and Sports 10%, the Ministry of Internal Affairs 26%. The only project in municipalities from the Ministry of Health is the investment in the municipality of Ferizaj.

Municipalities governed by VV (Prizren and Mitrovica)⁷ comprise 9% of the territory of Kosovo. 15% of the population live in these municipalities. 13% of a budget of 93.4 million Euro for central level capital investments in municipalities, will go to municipalities managed by VV. The Ministry of Infrastructure is expected to invest 5% of its capital projects in these municipalities, the Ministry of Economy and Environment 12%, the Ministry of Education, Science and Technology 12%, the Ministry of Culture, Youth and Sports 23%, the Ministry of Internal Affairs 34%.

Municipalities governed by PSD (Prishtina and Kamenica) comprise 9% of the territory of Kosovo. 14% of the population live in these municipalities. 11% of a budget of 93.4 million Euro for central level capital investments in municipalities, will go to municipalities managed by PSD. The Ministry of Infrastructure is expected to invest 14% of its capital projects in these municipalities, the Ministry of Economy and Environment 10%, the Ministry of Education, Science and Technology 2%, the Ministry of Culture, Youth and Sports 10%, the Ministry of Internal Affairs 29%.

⁵ Municipalities governed by mayors, disregarding the majority in municipal assemblies or coalitions in the executive branch.

⁶ Data interpretation took place prior to the extraordinary elections held on November 29, 2020 in Podujeva

⁷ Ibid

Table 2. Investments from ministries in municipalities

Municipality	Investments per capita (%)	Territory (%)	Population (%)	Political entity	Investments per capita (in Euro)
Junik	15.5%	0.7%	0.4%	AAK	279.64
Deçan	11.3%	2.7%	2.4%	AAK	204.17
Gjakova	6.8%	5.4%	5.3%	AAK	123.14
Mitrovica	6.0%	3.0%	3.9%	VV	108.11
Gjilan	4.4%	3.5%	4.3%	LDK	79.67
Klina	3.9%	2.8%	2.2%	AAK	69.90
Suhareka	3.7%	3.3%	3.2%	AAK	66.09
Ferizaj	3.6%	3.2%	5.9%	PDK	64.71
Drenas	3.3%	2.5%	3.4%	PDK	59.64
Peja	3.3%	5.5%	5.5%	LDK	58.82
Rahovec	2.7%	2.5%	3.2%	AAK	47.72
Obiliq	2.6%	1.0%	1.0%	AAK	46.79
Prishtina	2.4%	4.7%	12.2%	PSD	43.49
Kamenica	2.4%	3.9%	1.6%	PSD	42.73
Mitrovicë Veriore	2.3%	0.1%	0.4%	LS	42.13
Hani i Elezit	2.3%	0.8%	0.6%	Independent	41.55
Skenderaj	2.3%	3.4%	2.9%	Independent	40.66
Shtërpce	2.2%	2.3%	0.4%	LS	39.18
Kaçanik	2.0%	0.2%	1.9%	PDK	36.74
Malisheva	1.9%	2.8%	3.1%	NISMA	34.31
Lipjan	1.8%	3.1%	3.2%	LDK	32.88
Istog	1.8%	4.2%	2.3%	LDK	32.54
Novobërda	1.4%	1.9%	0.7%	LS	24.91
Podujeva	1.4%	5.8%	4.6%	LDK	24.80
Fushë Kosova	1.4%	0.8%	2.2%	LDK	24.41
Vushtrri	1.3%	3.2%	3.5%	LDK	24.04
Prizren	1.3%	5.5%	10.8%	VV	23.76
Viti	1.2%	2.5%	2.7%	LDK	20.76
Dragash	1.0%	3.9%	1.9%	PDK	17.12
Shtime	0.8%	1.2%	1.5%	PDK	14.80
Zveçan	0.8%	1.1%	0.4%	LS	13.53
Klllokot	0.5%	0.2%	0.2%	Civic Initiative	9.25
Graçanica	0.5%	1.2%	0.7%	LS	8.21

Source: GAP Institute using data from the 2021 Draft Budget, Kosovo Agency of Statistics, and the Ministry of Administration and Local Government



*Empowered lives.
Resilient nations.*



Supported by



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Cooperation Office Kosovo



Sweden
Sverige

Winners and losers of capital investments:
a local government perspective of the
2021 Draft-Law on State Budget