

Incorrect presentation of municipal capital investment spending:

implications for transparency and monitoring



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Introduction

GAP Institute continuously monitors and analyzes the planning and spending of Kosovo's budget by public institutions. One of the most important aspects of this work is monitoring budget expenditures for capital investments, both at the central and local level, since the efficient completion of investments in infrastructure, water reserves, energy networks, and similar areas stimulates faster economic development in the country.

Indicators related to the realization of capital investments such as the budget spending rate for a specific capital project or for total planned investments, reflect the dynamics and commitment of institutions in carrying out their work. Moreover, such indicators also serve as criteria for a municipality to benefit from the Municipal Performance Grant.

However, recently the indicators of capital investments have not been accurately reflecting the actual expenditures incurred in project implementation. In numerous cases, due to enforcement processes that municipalities face, mainly obligations arising from agreements or legal acts initiated by the central government (such as collective contracts in education and healthcare) funds initially planned for capital investments are increasingly being used to cover such obligations. Nevertheless, these expenditures continue to be presented within the budgetary lines of projects and aggregate reports as capital expenditures.

This situation prevents the active monitoring of municipalities regarding the implementation of public projects, and the figures currently presented in their periodic financial reports and in those of the Kosovo Treasury do not reflect the accurate picture of the workload completed. Presenting payments made for enforcement processes from the capital investment line as capital expenditure creates an artificially high and unrealistic rate of budget realization for this category.

To prevent the repetition of such inaccurate presentations of capital spending in Treasury financial reports, GAP Institute publishes this short analysis to provide a detailed overview of the changes that should be made in future Treasury reports regarding how these expenditures are presented.

Presentation of Capital Investment Expenditures by Municipalities

Municipalities and the Treasury are obliged to present in their periodic financial reports the level of budgetary expenditures, both by economic categories (salaries, goods and services, subsidies and transfers, and capital investments) and by specific projects. Such indicators help in scanning completed works and assessing implementation dynamics.

In an earlier [report](#) this year, GAP Institute showed a drastic increase in payments for judicial and enforcement obligations in Kosovo's municipalities during 2024 compared to previous years. These obligations are primarily caused due to the failure to fully respect collective contracts in education and healthcare, as well as from unfulfilled budgetary obligations toward public employees for various legal allowances. The total enforcement payments reached €86.4 million in 2024, representing a doubling compared to 2023 (€40.2 million) and almost tripling compared to 2022 (€36.4 million). Consequently, the Kosovo Treasury, which by law must implement court decisions, unlike in the past when it tried to execute such payments only from the salary category, is now, with the increase of these obligations, executing payments from all municipal budget lines where funds are available, including the capital investment category. Such a situation is also documented in the [annual reports](#) of the National Audit Office (NAO), presented in the Annex of this paper.

Beyond the substantive aspect of this problem where municipalities fail to implement planned projects, the payments for enforcement obligations from capital project lines continue to show as capital expenditures in financial reports, especially in those of the Treasury, which are widely used. Consequently, indicators for this category become inaccurate and incomparable with previous years. Specifically, in the Treasury reports for the 2024 final expenditures and even for the 2025 quarterly reports, there are high levels of reported capital investment realizations by municipalities in the first quarters. However, analysis of more detailed municipal financial reports for the same period shows that most of these are expenditures for court or enforcement processes, not real investments.

As seen in Table 1, the funds allocated for capital projects are being used for enforcement and court payments, yet the expenditures from those budget lines continue to be presented by the Treasury as expenses for the implementation of the capital project.

There are cases where all the funds planned for the construction of a cultural center or a road have been spent on such court-related decisions, but in the Treasury's reports, they are still shown as 100% completion of the respective project.

Table 1. Treasury's current reporting in periodic reports for expenditures on capital projects affected by court or enforcement payments (some of the actual projects affected)

Capital Project	Planned Budget	Payments for Project Implementation	Payments for Court Decisions	Total Budget Spent	Reported Progress per Treasury	Actual Project Implementation
Supply and installation of synthetic grass and other infrastructure in sports fields in XX (<i>budget code: 54350</i>)	€570,000	€255,228	€128,819	€384,047	67%	45%
Construction of new Cultural Center (<i>budget code: 53140</i>)	€28,441	€0	€28,000	€28,000	98%	0%
Asphalting of village alleys (<i>budget code: 53974</i>)	€50,000	€6,136	€43,864	€50,000	100%	12%
Construction of road X (<i>budget code: 49158</i>)	€58,166	€0	€58,000	€58,000	100%	0%
Construction of an elderly care facility (<i>budget code: 51957</i>)	€230,000	€0	206,890.10	206,890.10	90%	0%
Construction of roads (<i>budget code: 45897</i>)	€40,000	€0	€40,000	€40,000	100%	0%
Software for managing building permits (<i>budget code: 52912</i>)	€150,000	€0	€149,488.7	€40,000	100%	0%
Energy efficiency funds (<i>budget code: 55187</i>)	€50,000	€0	€50,000	€50,000	100%	0%
Renovation of the high school building (<i>budget code: 53082</i>)	€200,000		€200,000	€200,000	100%	0%

Source: Financial reports of some municipalities for 2024.

Therefore, it is essential that the Treasury's quarterly, semi-annual, and nine-month financial reports be updated so that the tables showing capital project expenditures include an additional column indicating whether the funds of a given project or category were spent on actual work implementation or on court-related payments (e.g., jubilee salaries).

Moreover, the measurement of capital investment realization levels also has official importance, since these indicators are used to assess municipalities for the Municipal Performance Grant¹. One of the four indicators that make up the minimum criteria for qualification is that a municipality, in the reference year, must have spent at least 75% of its capital investment budget. Although the misreporting or inflated presentation of the level of realization of capital investments would enable municipalities to more easily meet the 75% criterion, since 2024 the National Audit Office (NAO) has issued adverse opinions to municipalities mainly due to payments for collective contracts from the category of capital expenditures, which prevents them from fulfilling another minimum condition for qualification for the Performance Grant — that of having an unmodified opinion from the NAO on their financial report. This also reduces the possibility of these data having a negative impact on the grant in question. However, the Ministry of Local Government Administration (MLGA) should reconsider its methodology, as the current Performance Grant does not manage to reward the most deserving municipalities. At present, the methodology in force favors municipalities with fewer enforcement cases, particularly those arising from collective contracts, even though this does not necessarily mean that they have better performance than other municipalities.

Recommendations

On this issue, GAP Institute recommends the following:

In Treasury reports, both periodic and annual, the main tables showing budget spending by category should be updated to clearly show the purpose of each expense.²

MLGA should review the minimum criteria within the framework of the Performance Grant regulations. This is because many municipalities are being disqualified from participating in the Grant due to the unfavorable opinion of NAO on their financial reports — an opinion that primarily arises from expenditures related to enforcement obligations stemming from collective agreements and salary supplements, even though the municipalities themselves did not draft the laws or contracts from which these obligations originate. Specifically, since 2024, the current minimum criteria have not adequately reflected the fundamental purpose of the Grant — to support municipalities with better performance — as in practice, they favor only those municipalities with fewer enforcement cases related to collective agreements.

¹ Performance-Based Financial Incentive Grant, through the allocation of funds to municipalities as motivation to improve local governance. [Rules of the Municipal Performance Grant](#).

² This includes changes to: Table 2: "Receipts and payments for January–September 202x and comparison with previous years," Table 2.1 (same section), Table 6: "Budget Expenditures," and Annex 3: "Budget and payments by budgetary organizations – local level." Also, Annex 10: "Capital project spending for the period January–September 202x," should be revised to indicate whether the funds were used for project work or other payments.

Annex

Cases identified by the national audit office showing how capital investment funds were used for salary payments under enforcement obligations in 2024

Entity	Wrong Category	Correct Category	Financial Value	Nature of Spending
Municipality of Glogoc	Capital Investments	Wages and Allowances	€1,879,133	Payments for jubilee salaries and meal allowances as a result of the collective contract. These expenses could not be planned in the budget.
Municipality of Podujeva	Capital Investments	Wages and Allowances	€1,769,418	Payments executed through court/enforcement decisions related to the implementation of the collective contract.
Municipality of Peja	Capital Investments	Wages and Allowances	€1,708,393	Payments for jubilee salaries, meal allowances, and teacher qualification bonuses as part of the collective contract. These expenses could not be budgeted.
Municipality of Suhareka	Capital Investments	Wages and Allowances	€1,620,470	Payments for jubilee salaries, meal allowances, and teacher qualification bonuses as part of the collective contract. These expenses could not be budgeted.
Municipality of Prishtina	Capital Investments	Wages and Allowances	€1,283,453	Payments for jubilee salaries, meal allowances, and teacher qualification bonuses as part of the collective contract. These expenses could not be budgeted.

Source: NAO [Annual Report 2024](#)



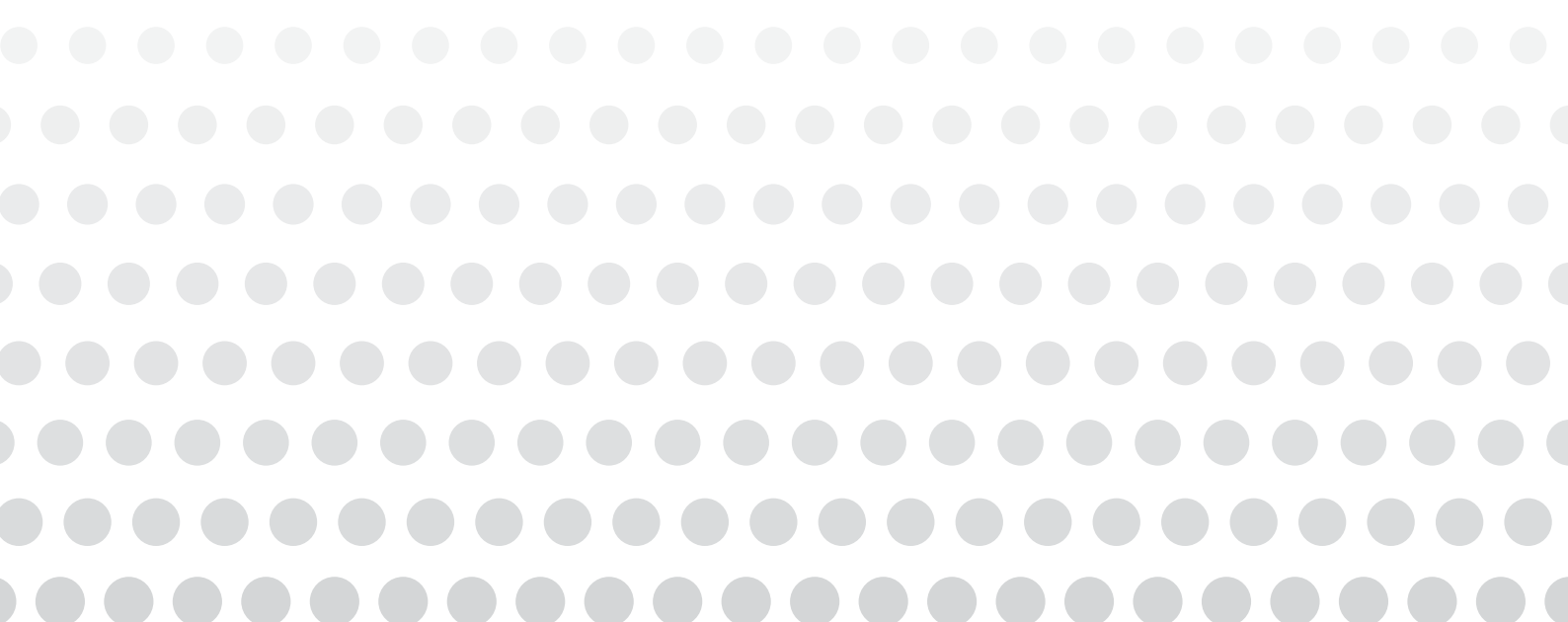
GAP Institute is a Think Tank established in October 2007 in Kosovo. GAP's main goal is to attract professionals to create an environment of professional development and research, as seen in similar institutions in Western countries. This also provides Kosovars with opportunities to research, develop and implement projects in order to advance the Kosovo society. Priority for this Institute is the mobilization of professionals to address the country's economic, political and social challenges. GAP's main goals are to fill the gaps between government and citizens, and between problems and solutions.

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