

Budgeting Practices in Six Municipalities in Kosovo

INSTITUTE FOR ADVANCED STUDIES



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I. Introduction

A local government budget encompasses a thorough plan to achieve the set goals and objectives of all budgetary organizations and its process incorporates the allocation of scarce resources to various programs and services which in turn makes it the most important activity that the government carries out. The well-integrated budget process leads to far better financial decisions; hence, enhanced government operations/actions. This said, the involvement of various government officials, organizations' employees, and the public/citizens in general, amongst others, reflects all stakeholders' essential needs, requirements, and priorities, thus improving public impression of the government.¹ Therefore, the aim of this Policy Analysis is to shed light on the main challenges and inefficiencies faced by the municipalities during the budget development and execution process. More precisely, through interviews conducted in six main municipalities of the Republic of Kosovo, the analysis intends to examine the municipalities' budgetary process and its principles and legal framework, types of budgets used by the government, a comparison of the budget in six municipalities, municipal budget priorities, criteria for budget allocation, citizens' participation during the public meetings, municipal transparency, and whether there is budget deficit and/or surplus and the motives behind it. Accordingly, this study will propose the necessary recommendations which would enable citizens to increase their participation in the budget preparation process, higher transparency from the municipalities in disclosing their detailed financial reports, and additional suggestions to a better and more transparent budget development, allocation, and execution.

The following sections of this policy analysis will be structured as follows: Section II provides a brief description of the budgetary theory, its principles and budget types. Section III provides a legal framework of the budgetary process; more precisely, it describes the detailed steps to be taken in order to prepare and adopt the budget. Section IV offers a budget comparison between municipalities in the last four years. More concretely, a budget comparison between the municipality of Podujeva, Prishtina, Peja, Gjakova, Gjilan and Ferizaj, and the budget per capita for six municipalities in the year 2011 and 2012 . Section V describes the methodology used to assess the work and transparency of the municipalities during the budget development and execution process. Moreover, through individual interviews with municipal officials, the analysis offers information on municipal budget priorities, citizen participation in drafting the budget, internal and external audits performed in all municipalities, and their report publication, amongst others. Section VI elaborates further on the transparency of the municipalities and whether they have regularly published quarterly financial reports as required by law. Last, Section VII provides policy recommendations for a better and more transparent budget development, allocation, and execution.

¹ Government Finance Officers Association (1999). Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting. Chicago: National Advisory Council on State and Local Budgeting

II. Brief Description of Budgeting Theory

A local government budget is a financial plan which specifies estimations of government revenues and expenditures for a specified period of time. As such, budgeting permits the local governments to estimate their needs based on available funds.² The local governments' budget encompasses operating and capital budgets where the former budget includes current spending plan and ways to pay for such spending. The latter, however, incorporates a long term spending plan for the purchase of assets and ways to pay for them.³ Activities covering the development, implementation and evaluation plan for providing services and assets are part of the budget process. Additionally, the good features of the budget process include the integration of a long-term viewpoint, the focus on organizational goals and based decisions on outcomes, advancement of communication with stakeholders, and provision of incentives towards management and employees, amongst others.⁴ The budget process comprises of various principles which reveal that budget development besides being a political and managerial process, it also contains technical and financial proportions. The following are the four of the main principles of the budget process:⁵

- The government should set goals which would assist in the decision making
- The government should develop plans, policies, programs and strategies which would be useful to achieve the set goals.
- A financial plan should be prepared and then adopted, in order to achieve its goals based on available funds.
- In order to encourage goal achievement, financial performance should repeatedly be assessed.

As stated above, in order to achieve the set goals based on government needs, a budget should be prepared. This can take place in three forms; top-down, bottom-up and negotiated budget approaches. In the Top-down or imposed budget approach, the highest level of management prepares the budget without consulting the lower levels of management and then it is imposed on those who execute the budget. The Bottom-up or participatory budget approach, the budget is prepared by lower levels of management, who know what is achievable and how can it be achieved, and then it is submitted to their superiors. A combination of the two aforementioned approaches of budgeting is known as negotiated style of budgeting. In this budgeting style, both higher and lower levels of management agree on the budget through a negotiation of what top management likes and what lower levels think it is doable and achievable.⁶

² Oregon department of revenue (X). Local Budgeting Manual. State of Oregon:Property tax division

³ DiNapoli,Th.P. (2010). Citizens' Guide to Local Budgets. New York: New York State Office of the State Cotroller Division of Local Government and School Accountability

⁴ Government Finance Officers Association (1999). Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting. Chicago: National Advisory Council on State and Local Budgeting

⁵ Government Finance Officers Association (1999). Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting. Chicago: National Advisory Council on State and Local Budgeting

⁶ ACCA, 2009."Performance Management". London: BPP Learning Media Ltd, BPP House. Available at: <http://www.freeacca.blog.com/files/2010/06/F5-Study-Text-BPP.pdf>

III. Budget process- Legal Framework

The Law No. 03/L-048 on Public Financial Management and Accountability describes the necessary steps, by date, which should be followed for the development and adoption of municipal budgets.⁷ The aforementioned law was amended three times; in July 2010; in June 2012; and in July 2013 by Law No.04/L-194.⁸ The detailed steps to be taken in order to prepare and adopt the budget are as follows:

- **Step 1:** April 30 – Until April 30th of each year, the Government should submit the Medium Term Expenditure Framework (MTEF) to the Assembly of the Republic of Kosovo which covers the next fiscal year and estimates of the following two fiscal years. The content of the Medium Term Expenditure Framework includes, amongst others, economic forecasts and indicators, policy priorities, revenue forecasts and budget expenditure plans, assessment of capital investments, and estimated grants for all municipalities.⁹
- **Step 2:** May 15- The first budget circular is issued by the Minister of Finance to Chief Financial Officers of all budgetary organizations. This budget circular contains information about the ceiling on spending and grant levels specified in the MTEF, the entire procedure for budget preparation, its format, the deadlines for budget completion, and other necessary information.¹⁰
- **Step 3:** July 1- By the 1st of July of each year, the CFOs should issue a municipal budget circular to the heads of all municipal departments with specifications about the spending ceilings for the next year and estimates of the two following fiscal years, budget preparation format and procedures, information to be included in the budget proposal, and deadlines, amongst others. As soon as the deadline specified in the internal budget circular expires, the CFOs should assess the budget proposed by each department, arrange meetings with each department to assess their budget needs and try to deal with their issues and concerns. After the public and budget hearings, the CFOs should prepare and submit a proposed Municipal Budget for the next year and estimates of two following fiscal years to the Mayor of the municipality and simultaneously distribute the proposed budget to each department.¹¹

7 See Law No. 03/L-048 on Public Financial Management and Accountability

8 See Law No. 03/L-221 Amending and Supplementing Law No. 03/L-048 on Public Financial Management and Accountability; Law No.04/L-116 on Amending and Supplementing the Law No. 03/L-048 on Public Financial Management And Accountability, Amended And Supplemented By The Law No. 03/L-221; Law No.04/L-194 on Amending and Supplementing Law No. 03/L-048 on Public Financial Management and Accountability Amended and Supplemented by Laws No. 03/L-221 and No. 04/L-116

9 See Law No. 03/L-221 Amending and Supplementing Law No. 03/L-048 on Public Financial Management and Accountability, art. 19

10 See Law No. 03/L-048 on Public Financial Management and Accountability art. 20, para. 20.2; See Law No. 03/L-221 Amending and Supplementing Law No. 03/L-048 on Public Financial Management and Accountability, art. 20, para 20.3

11 See Law No. 03/L-048 on Public Financial Management and Accountability, art. 60, para 20.1, 60.2, 60.3; Municipal Budget Circular 2013/01, Ministry of Finance, May 10, 2012

- **Step 4:** August 15- A second budget circular should be issued by the latest on the 15th of August, if necessary, by the Minister to the municipalities and other budget organizations with further instructions.¹²
- **Step 5:** September 1- After the approval of the proposed Municipal Budget from Mayors, they should submit it to the Municipal Assembly (MA) by September 1st. This document (Municipal Budget) includes economic and budgetary forecasts, estimations of aggregate revenues, expenditures and expected donor support, and other necessary information. The Municipal Assembly should hold public hearings as specified by the municipal acts.¹³
- **Step 6:** September 30- After the public hearings take place, the Municipal Assembly should evaluate, amend, approve, and submit the proposed Municipal Budget to the Ministry of Finance by the latest 30th of September.¹⁴

This said, organizations and municipalities prepare their own budget proposals based on the organizational needs according to the limits set by the budget circular regarding in the amount to be required, i.e. budget ceiling, and then the Assembly of the Republic of Kosovo approves the aforementioned budget proposals.

In addition to budgeting process, Law on Local Government Finance clearly defines the municipal budgetary sources. According to Article 7.1, budgetary sources of a municipality consist of: a) own source revenues; b) operating grant; c) grants for enhanced competencies; d) transfers for delegated competencies; e) extraordinary grants; f) financial assistance from the Republic of Serbia; and g) proceeds from municipal borrowing.¹⁵ While the details for each category can be found in the abovementioned Law, operating grant determinants will be explained briefly for the sake of better understanding of the rest of this analysis.

Operating grant is made of: a) a General Grant; b) a Specific Grant for Education; and c) a Specific Grant for Health. The purpose of general grant is to ensure municipal financial stability and ensure fair and equal access to public services of municipalities inhabitants. Each municipality shall receive a lump-sum of €140,000 per year less €1 for each member of the population, or €0 for municipalities with population greater than 140,000. The rest of the general grant is allocated in proportion to: a) the size of their total population; b) the size of their minority population; c) whether a majority of their population is composed of national minorities; and d) the size of their physical area. Further, the grant of education is basically determined according to the number of teachers and effective enrolment. Lastly, grant of health is basically determined according to age and gender distribution registered with primary health care providers, and the number of elderly persons and persons needing special health care.

12 See Law No. 03/L-048 on Public Financial Management and Accountability art. 20, para. 20.2; See Law No. 03/L-221 Amending and Supplementing Law No. 03/L-048 on Public Financial Management and Accountability, art. 20, para 20.3

13 See Law No. 03/L-048 on Public Financial Management and Accountability art. 61, para 61.1, 62.2, 61.3

14 Municipal Budget Circular 2013/01, Ministry of Finance, May 10, 2012

15 Law No. 03/L-049 on Local Government Finance, article 7,24 and 25, accessed 25 February 2014, http://www.kuvendikosoves.org/common/docs/ligjet/2008_03-L049_en.pdf

IV. Comparison of Six Municipal Budgets Between the Years 2010-2013

This section sheds light on the budgetary allocation and appropriation in six different municipalities (Prishtina, Peja, Gjakova, Gjilan, Ferizaj, and Podujeva) of the Republic of Kosovo in the last four years, 2010-2013. It describes the overall budgets of each municipality for each year, participation of categories that comprise the highest percentage of the total budget, comparison between municipalities, and the budget per capita for 2011 and 2012. The overall budget is divided into five main categories/sections: 1) Salaries and Per Diems; 2) Goods and Services; 3) Utilities; 4) Subsidies and Transfers; and 5) Capital Investments.

4.1 Prishtina's Budget

Table 1. Prishtina's Budget¹⁶

Year		2010	2011	2012	2013
Expenses	Wages and Salaries	16,534,009	21,208,663	22,048,920	22,179,999
	Goods and Services	5,154,749	6,055,872	7,136,850	7,248,432
	Utilities	2,100,660	1,935,228	1,548,000	1,605,000
	Subsidies and Transfers	1,035,950	1,646,490	1,407,690	1,000,000
	Capital Investments	23,176,262	27,628,453	25,552,653	31,338,299
Sources of Budgetary Fund	Government Grants	32,721,714	39,792,761	39,843,922	41,613,811
	Own-source revenues for Transfer	8,231,842	10,495,189	8,354,450	
	Own-source revenues	7,044,793	7,965,460	9,335,688	21,757,920
	Local Donation	3,281	145,182	102,365	
	Foreign Donation		76,114	57,688	
Total Budget		48,001,630	58,474,706	57,694,113	63,371,730

Municipality of Prishtina has the largest budget allocation throughout the years. In 2010, the overall budget was 48,001,630€, where the highest percentage is allocated for the Capital Investments with 48.29% of the budget, accompanied by Salaries and Per Diems with 34.43% of the total budget. The remaining is shared between Goods and Services (10.74%), Utilities (4.38%), and Subsidies and Transfers (2.16%). The overall budget for 2011 in the municipality of Prishtina was 58,474,706€ or approximately 22% higher than in 2010. The increase was largely financed by an increase on government grants (22%) and own-source revenues transferred (27%), while these two sources

¹⁶ Data about sources of budgetary fund and spending with regard to years 2010-2012 for six municipalities are from Office of the Auditor General, while for year 2013 data are from Law on Budget 2013- Table 4.1

comprised 86% of the budget incomes. Moreover, in 2012, the overall budget for the aforementioned municipality decreased by 1.34%. The decrease was largely as a result of lower own-source revenues transferred spent by the municipality. Even though the overall amount of budget allocated for Capital Investments decreased by roughly 8%, this section continued to comprise the highest amount as a percentage of the total budget (44.29%). The second highest amount as a percentage of the total budget is Salaries and Per Diems, which amount increased by 4% in 2012 despite the overall decrease in the total budget. The total budget for 2013 was planned to increase by roughly 10%, indicating an increase in Capital Investments, Salaries and Per Diems, Goods and Services, Utilities and a decrease in Subsidies and Transfers in comparison to the previous year.

4.2 Peja's Budget

Table 2. **Peja's Budget**

Year		2010	2011	2012	2013
Expenses	Wages and Salaries	8,264,596	10,023,108	10,378,157	10,512,912
	Goods and Services	1,327,423	2,009,956	2,686,923	2,343,763
	Utilities	505,754	500,349	557,083	591,914
	Subsidies and Transfers	286,867	328,432	473,692	350,000
	Capital Investments	5,204,202	5,877,008	4,874,583	5,853,728
Sources of Budgetary Fund	Government Grants	12,479,355	15,690,539	15,930,094	16,752,317
	Own-source revenues for Transfer	705,886	765,294	668,228	
	Own-source revenues	1,778,369	1,880,030	2,121,449	2,900,000
	Local Donation	15,227	4,800	6,560	
	Foreign Donation	610,005	398,190	244,107	
Total Budget		15,588,842	18,738,853	18,970,438	19,652,317

The total budget of Peja Municipality in 2010 was 15,589,842€ where more than half of the budget is allocated for Salaries and Per Diems and roughly 33% of the overall budget is allocated for Capital Investments. In 2011, Peja's budget increased by approximately 20% due to an increase on government transfers by 26%, while this budget source roughly contributed to 85% of the total budget. Additionally, 2012 was accompanied by a slight increase in the total budget indicating an increase in all categories but Capital Investments. The increase was partially as a result of the increase on government transfers and own-source revenues spent. Once again, more than 50% of the budget was allocated for Salaries and Per Diems and roughly 26% for Capital Investments. On the other hand, the budget planned for Peja municipality increased by roughly 4% in 2013 increasing further Salaries and Per Diems, Subsidies, and Capital Investments.

4.3 Gjakova's Budget

Table 3. Gjakova's Budget

Year		2010	2011	2012	2013
Expenses	Wages and Salaries	7,688,222	9,785,772	10,196,103	10,216,359
	Goods and Services	1,260,334	1,373,884	1,708,009	1,557,855
	Utilities	525,870	530,617	649,066	693,600
	Subsidies and Transfers	336,351	446,837	1,069,566	548,000
	Capital Investments	5,171,755	5,912,095	6,001,278	6,006,404
	Government Grants	12,659,854	15,649,501	16,448,318	16,122,218
Sources of Budgetary Fund	Own-source revenues for Transfer	217,418	415,588	491,511	
	Own-source revenues	2,011,341	1,894,746	2,449,266	2,900,000
	Local Donation	75,680	43,288	199,222	
	Foreign Donation	18,239	46,082	35,705	
Total Budget		14,982,532	18,049,205	19,624,022	19,022,218

Gjakova's overall budget for 2010 was 14,982,532 € accompanied by a further increase by roughly 20%, 9% and 3% decrease in 2011, 2012, and 2013, respectively. The 2011 increase on budget was largely as a result of the increase on government grants which roughly comprised 87% of the budget. The highest percentage of the budget is allocated for Salaries and Per Diems which amount increased further through the years, comprising approximately 54% of the total budget in 2013. Capital Investments comprised of 35% of the total budget expenses which percentage dropped through the years. Goods and Services comprised on average 8% of the budget expenses throughout the four years. Both, Utilities and Subsidies and Transfers comprised roughly 3% of the total budget from 2010 to 2013.

4.4 Gjilan's Budget

Table 4. **Gjilan's Budget**

Year		2010	2011	2012	2013
Expenses	Wages and Salaries	9,114,466	11,084,916	11,508,281	11,529,100
	Goods and Services	1,995,809	2,102,812	2,546,755	2,804,919
	Utilities	499,372	399,522	380,099	481,580
	Subsidies and Transfers	500,342	270,195	283,372	562,500
	Capital Investments	7,126,451	5,390,262	4,042,439	3,040,583
Sources of Budgetary Fund	Government Grants	15,799,190	15,605,348	15,319,536	14,818,682
	Own-source revenues for Transfer		436,660	402,198	
	Own-source revenues	3,003,806	3,145,344	2,966,741	3,600,000
	Local Donation	74,270	12,870	18,481	
	Foreign Donation	359,174	47,484	53,990	
Total Budget		19,236,440	19,247,707	18,760,946	18,418,682

In 2010 the overall budget of the municipality of Gjilan was 19,236,440€, where the highest budget allocation is registered for the Salaries and Per Diems with 47.38%, accompanied by Capital Investments with 37.05% of the total budget. The following year, the overall budget was more or less the same; however, the total budget dropped in 2012 by approximately 3%, accompanied by a further drop of 2% in the following year. Despite the decrease in the total budget, the budget allocated for all categories but Capital Investments increased. Capital Investments budget dropped in the two following years by nearly 25%. Worth mentioning is that while in 2010 wages and salaries and capital investments comprised 47% and 37% of the total budget expenses, in 2013 they comprised 63% and 17%, respectively.

4.5 Ferizaj's Budget

Table 5. Ferizaj's Budget

Year		2010	2011	2012	2013
Expenses	Wages and Salaries	8,142,904	10,346,562	11,036,125	11,084,100
	Goods and Services	1,268,029	1,429,692	2,083,285	1,724,658
	Utilities	471,272	507,534	327,369	373,550
	Subsidies and Transfers	542,222	578,467	573,404	635,000
	Capital Investments	6,127,113	6,985,811	6,687,940	6,932,954
Sources of Budgetary Fund	Government Grants	13,312,288	16,316,583	16,914,529	17,124,262
	Own-source revenues for Transfer	812,312	851,700	965,470	
	Own-source revenues	2,208,732	2,411,491	2,336,293	3,626,000
	Local Donation	137,415	199,600	245,341	
	Foreign Donation	80,793	68,692	246,490	
Total Budget		16,551,540	19,848,066	20,708,123	20,750,262

The municipality of Ferizaj had a total budget of 16,551,540€ in 2010 which was followed by an increase of 20%, 4%, and 0.2% in the three coming years. The highest percentage of budget was allocated for Salaries and Per Diems with 52.03% on average for four years. The second highest percentage of the budget was allocated for Capital Investments which was 34.49% on average for four years. Lower percentages of the budget for a period of four years were allocated for Goods and Services (8.27% on average), Utilities (2.20% on average), and Subsidies and Transfers (3% on average).

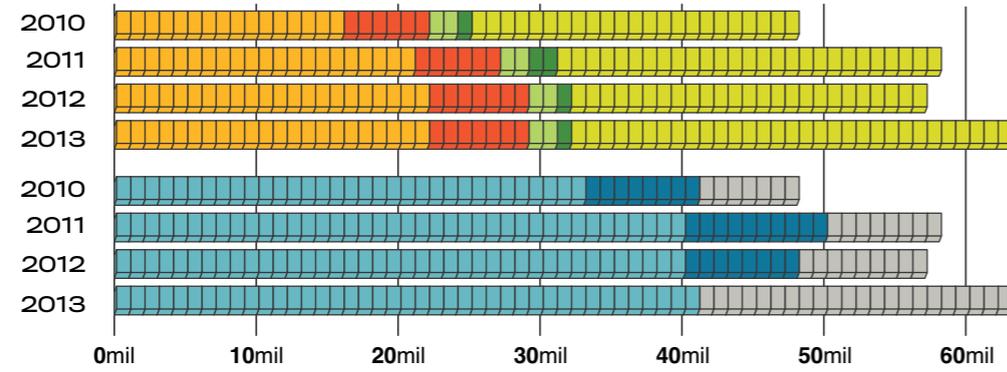
4.6 Podujeva's Budget

Table 6. Podujeva's Budget

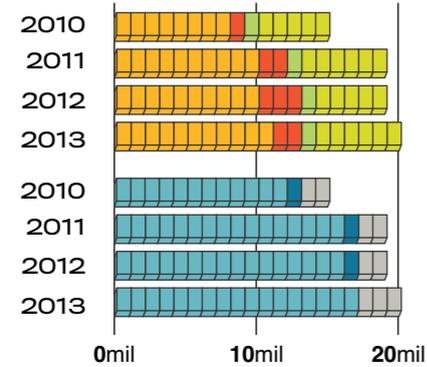
Year		2010	2011	2012	2013
Expenses	Wages and Salaries	6,740,075	8,679,102	9,005,424	9,051,827.00
	Goods and Services	888,858	933,568	1,014,569	1,097,812
	Utilities	290,989	291,759	283,575	305,000
	Subsidies and Transfers	166,386	123,949	144,316	325,000
	Capital Investments	5,541,886	5,880,661	6,126,953	5,741,710
Sources of Budgetary Fund	Government Grants	12,364,008	14,681,146	15,261,145	15,171,350
	Own-source revenues for Transfer	348,189	326,875	241,008	
	Own-source revenues	774,818	768,933	908,441	1,350,000
	Local Donation	141,179	7,000	604	
	Foreign Donation		125,085	163,639	
Total Budget		13,628,194	15,909,039	16,574,837	16,521,349

In 2010 the overall budget for the municipality of Podujeva was 13,628,194€ followed by an increase of around 16% and 4% in 2011 and 2012, respectively, and a minimal decrease by 0.32% in 2013. The highest percentage of budget allocation was for Salaries and Per Diems, more specifically, 49.46%, 54.55%, 54.33%, and 54.79% of the total budget for the years 2010, 2011, 2012, and 2013, respectively. The second highest budget allocation was for Capital Investments, being them 40.66%, 36.96%, 36.97%, and 34.75% of the total budget for a period of four years. The remaining percentage of the total budget (less than 10) for a period of four years was spread between Goods and Services (6.52%, 5.87%, 6.12%, and 6.64%), Utilities (2.11%, 1.83%, 1.71%, 1.85%), and Subsidies and Transfers (1.21%, 0.78%, 0.87%, and 1.97%). Among six municipalities, Podujeva has the highest share of government grants on its budgetary source. In addition, while on national level the government grants comprise 83% of the municipalities' budget, government grants comprised 92% of the Podujeva's budget in 2013.

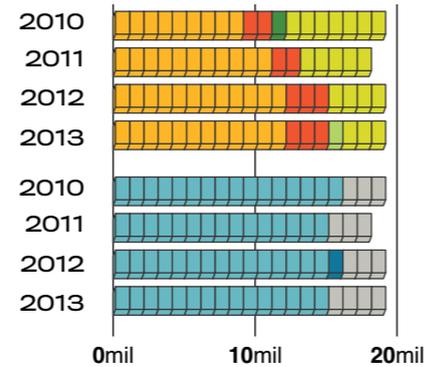
Prishtina's Budget



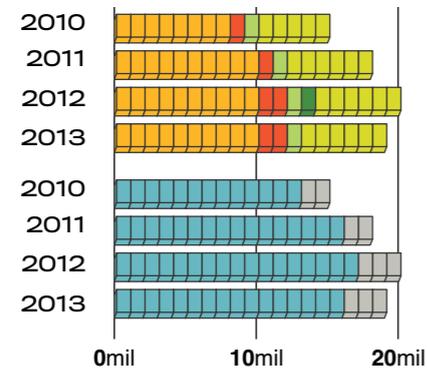
Peja's Budget



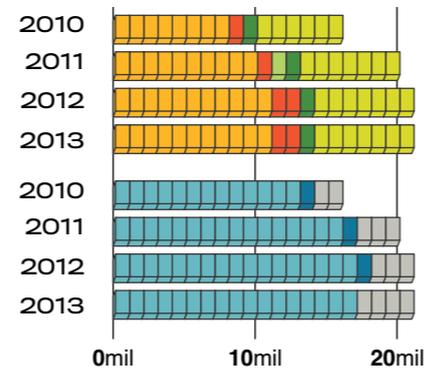
Gjilan's Budget



Gjakova's Budget



Ferizaj's Budget



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Expenses

- Wages and Salaries
- Goods and Services
- Utilities
- Subsidies and Transfers
- Capital Investments

Sources of Budgetary Fund

- Government Grants
- Own-source revenues for Transfer
- Own-source revenues

Figure 1. Comparison of Six Municipal Budgets Between the Years 2010-2013

4.7 Comparisons

Overall, the per capita budget for the year 2011 and 2012¹⁷ in Prishtina was 289.76€ and 282.57€, respectively, whereas other municipalities have lower per capita budget. More precisely, Peja's budget per capita in 2011 and 2012 was 192.47€ and 193.11€, respectively; Gjakova's budget per capita was 189.27€ and 201.27€ for the two years; the budget per capita of the municipality of Gjilan was 211.83€ and 205.23€ in 2011 and 2012, respectively; Ferizaj registered a budget per capita of 180.60€ and 186.32€ for the two years; and Podujeva's budget per capita, in 2011 and 2012, was 179€ and 185.84€, respectively. Therefore, Prishtina has the highest budget per capita for both years, followed by Gjilan, Gjakova, Peja, Ferizaj, and the lowest budget per capita is in Podujeva. This said, Prishtina has by 50.55% and 46.33% higher budget per capita, for both years, then Peja; by 53.09% and 38.33% higher budget per capita than Gjakova; by 36.79% and 37.68% higher budget per capita than Gjilan; by 60.44% and 51.66% higher budget per capita than Ferizaj; and by 61.88% and 52.04% higher budget per capita than Podujeva.¹⁸

Moreover, as the data suggest, only the municipality of Prishtina allocates the majority of the budget in Capital Investments whereas all other municipalities allocate the majority of the budget for Salaries and Per Diems. When compared to Peja, Prishtina's budget percentage allocated of Salaries and Per Diems is on average by 33% lower for the four year period. When it comes to Capital Investments, Prishtina's budget percentage allocated in these categories in comparison to Peja, is, on average, roughly 59% higher for a period of four years. Moreover, when compared to Gjakova, Prishtina's budget allocation percentage for Salaries and Per Diems, is, on average, 31.81% lower whereas for Capital Investments is, on average, 46.39% higher for a period of four years. Prishtina's Salaries and Per Diems budget allocation percentage for the years 2010, 2011, 2012, and 2013 compare to Gjilan, Ferizaj, and Podujeva is lower, on average, by roughly 37%, 31%, and 32%, respectively. On the other hand, compared to the same municipalities, the budget allocation percentage for Capital Investments is higher by 100.78%, 37%, 27% on average, respectively, for the four year period.

As we can see from the table below, Prishtina is the municipality with the highest percentage of own-source revenues as a share of its total budget (40% in 2012), while Podujeva has the lowest (7% on average last three years). Further, Prishtina has constantly increased its own-source revenues since 2010 while the increase peaked in 2012 with 22%. On the other hand, while on 2010 Prishtina had 16.1€ million own source revenues for transfer, in 2012 this sum increased to 21.3€ million or 33% increase. In other words, own-source revenues for transfer comprised 37% of the 2012 total budget. This makes Prishtina the municipality with the largest share of own-source revenues for transfer. Opposition states that the reasons behind that include the tender procedures, and delays in execution of payments. The head

17 Due to lack of data on the number of habitants for years 2010 and 2013, only analysis for 2011 and 2012 were obtained.

18 For further reference see Table 7: Budget Per Capita for Six Municipalities 2011 and 2012

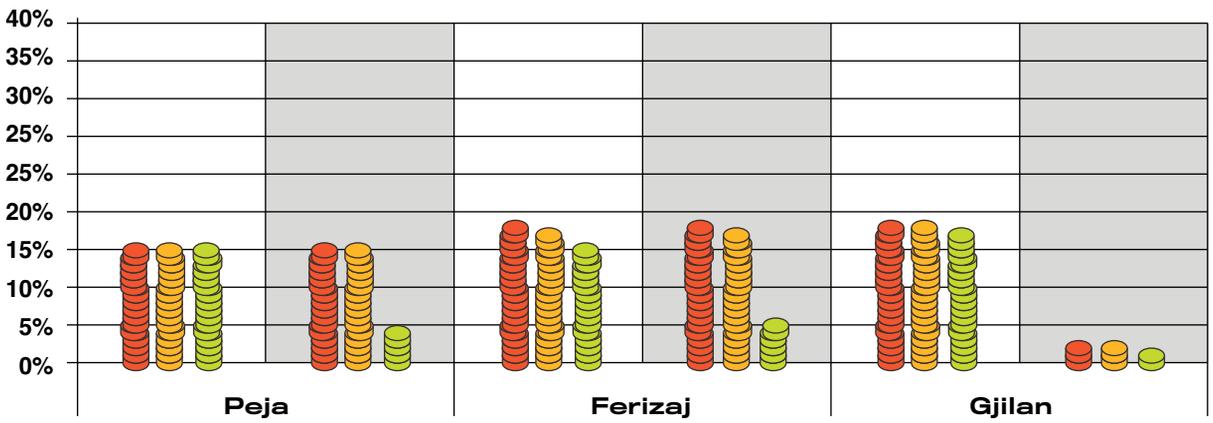
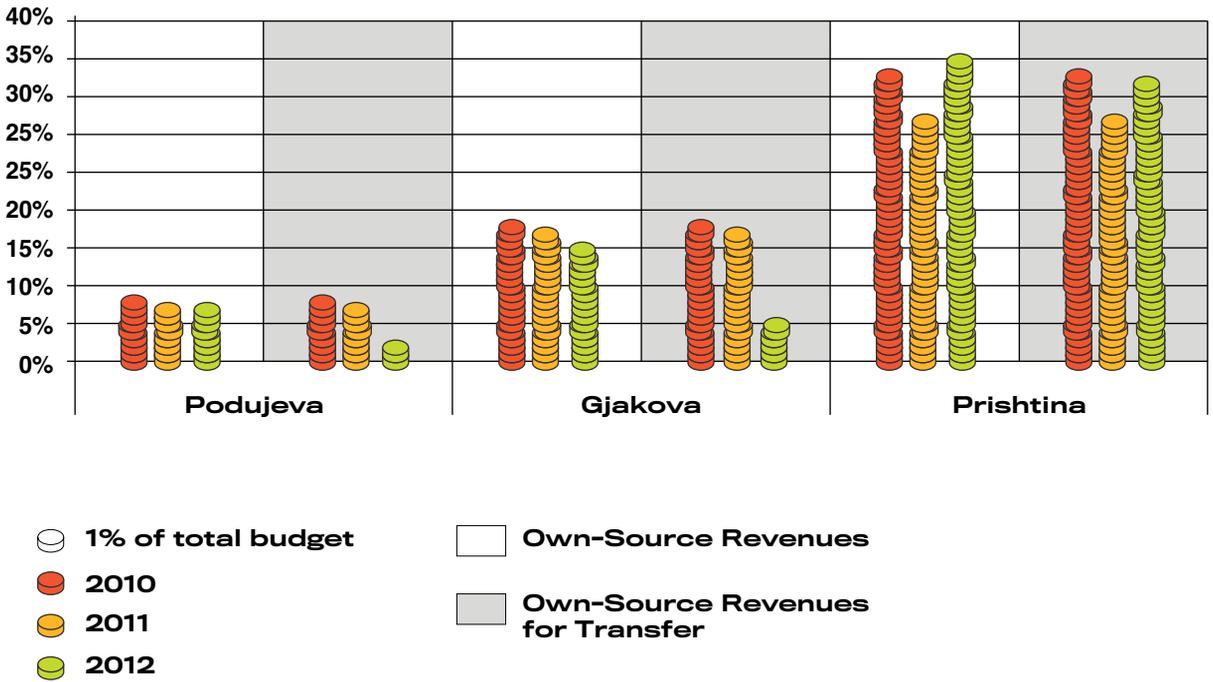
of budget and finance department, on the other hand, points out that there is no budget surplus because companies were contracted for a particular project for a longer period, according to the procurement procedures (according to the most favourite price); however, they did not possess the needed capacities to finish their work and as a result they did not proceed with the payments.¹⁹ Data show that out of 21,326,799€ to be transferred for the next year, 16,846,466€ were committed funds which equals an amount of 4,480,333€ not contracted during 2012. Both the party in power and opposition state that there are problems with the procurement law and as such it should be amended as soon as possible.

With regard to other municipalities, besides Peja which had an increasing trend of own-source revenues for transfer in 2012, own-source revenues for transfer decreased in the rest of the municipalities.²⁰

19 Bekteshi, Xh. "Budgeting process in the Municipality of Prishtina". [Interview] 13 January 2014

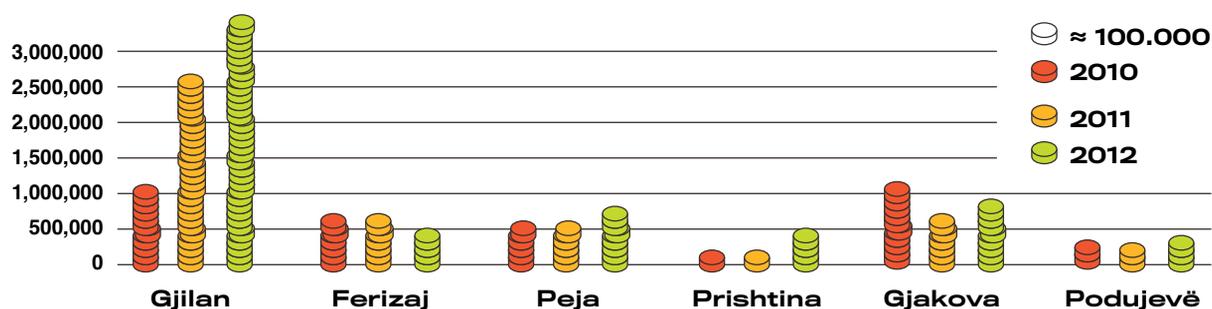
20 Ministry of Finance, Annual Financial Report- Budget of the Republic of Kosovo for the Year Ending 31, December 2012, accessed 5 February 2014,
http://mf.rks-gov.net/Portals/0/Raporte%20dhe%20publikime/Raportet%20dhe%20Pasqyrat%20Financiare/Pasqyrat%20Financiare%202012_Eng.pdf

Figure 2. Percentage share of own-source revenues and own-source revenues for transfer on the total budget



Another important aspect of municipal financial management is the level of un-paid bills. Article 39.1 of Law on Public Finance, Management and Accountability specifically states that “CFO is responsible for ensuring that every valid invoice and demand for payment for goods, services and/or works supplied to the budget organization is paid within thirty calendar days after the budget organization receives such an invoice or demand for payment”.²¹ However, in municipalities such as Gjiilan, the level of un-paid bills in 2012 reached to 18% of the total budget. In 2012, Peja and Gjakova’s level of un-paid bills on their total budget was 4%. Prishtina is the municipality with the lowest level of un-paid bills as a share of the total budget (1%).

Figure 3. **Un-paid bills**



21 Law No, 03/ L-048 on Public Financial Management and Accountability, article 39.1, accessed 4 February 2014, http://www.kuvendikosoves.org/common/docs/ligjet/2008_03-L048_en.pdf

Table 7. **Budget Per Capita for Six Municipalities 2011 and 2012**

Peja				Podujeva			
Section	2011	2012	Increase/ Decrease from 2011	Section	2011	2012	Increase/ Decrease from 2011
Total Budget	18,741,000	18,970,438,25	1.22 ↑	Total Budget	15,909,039.25	16,574,568.14	4.18 ↑
No. of habitants	97,360	98,237	0.90 ↑	No. of habitants	88,877	89,185	0.35 ↑
Budget per capita	192.49	193.11	0.32 ↑	Budget per capita	179,00	185.84	3.82 ↑

Gjakova				Prishtina			
Section	2011	2012	Increase/ Decrease from 2011	Section	2011	2012	Increase/ Decrease from 2011
Total Budget	18,049,205.73	19,624,022.11	8.73 ↑	Total Budget	58,475,000	58,475,000	-1.34 ↓
No. of habitants	95,363	96,071	0.74 ↑	No. of habitants	201,804	205,133	1.65 ↑
Budget per capita	189.27	204,27	7.93 ↑	Budget per capita	289.76	281.24	-2.94 ↓

Ferizaj				Gjilan			
Section	2011	2012	Increase/ Decrease from 2011	Section	2011	2012	Increase/ Decrease from 2011
Total Budget	19,847,000	20,708,000	4.34 ↑	Total Budget	19,247,705.96	18,760,946.26	-2.53 ↓
No. of habitants	109,899	111,141	1.13 ↑	No. of habitants	90,863	91,413	0.61 ↑
Budget per capita	180,59	186.32	3.17 ↑	Budget per capita	211.83	205.23	-3.12 ↓

Source: Author's adaptations based on data from GAP Institute and Kosovo Agency of Statistics

V. Local budgeting: challenges, obstacles, and inefficiencies

This section provides a more thorough understanding of the six municipalities' budget priorities, their internal audits, monitoring of the budget execution, budget preparation and citizens' needs, citizens' participation in public meetings during the budget process, budget distribution, budget deficit and/or surplus and the reasons behind such occurrences, amongst others. In order to comprehend the aforementioned features we have conducted individual interviews with the Directors of Budget and Finance Departments or Chief Financial Officers and one official from the opposition in the Municipality of Podujeva, Peja, Gjakova, Ferizaj, Gjilan, and Prishtina.

Municipality of Podujeva

The municipality of Podujeva initiates the budget preparation/development plan based on the limits set in the first Budget Circular. Initially, the budget is divided into Municipal Administration, Education, and Health departments. All departments are included in the Municipal Administration except Education and Health, since these two departments receive specific government grants which cannot be transferred to the other ones but may receive funds from other economic categories. The Chief Financial Officer prepares the first internal circular which shows detailed requirements and budget preparations. Afterwards, it is discussed with the board of directors and then the second internal circular is finalized. As a result, the preparation of Midterm Budgetary Framework takes place and public discussions with citizens are held.²² Subsequently, the second Budgetary Circular is received in order to continue with the compilation of the Budgetary Framework for the three coming years, which is then submitted to the Municipal Assembly for approval.²³ The budget is approved with the simple majority votes and opposition was present in the municipal meeting for budget approval. As such, the municipality has set six main budget priorities being them: 1) creation of an appropriate business environment; 2) agricultural development; 3) spatial and urban development; 4) infrastructure improvement; 5) improvement of health and social services; and 6) security and increase in the quality of education. This said, during the budget development process, citizens attend public meetings and in the budget development for the year 2014, 12 meetings with citizens took place (10 of them were held in cooperation with OSCE).²⁴ Public discussions were held in different places in which only two members of the Committee for Budget and Finance were present and opposition did not receive an invitation to attend these meetings. Despite the meetings held during this period, they were not sufficient and more meetings should be organized.²⁵ According to opposition budget priorities are in accordance with public needs and most of them are accomplished except the regulation of alleyways.²⁶ Regarding the budget allocation, it is stated that the budget captured the whole territory

22 Latifi, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013

23 Latifi, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013

24 Latifi, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013

25 Abdullahu, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013

26 Abdullahu, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013

of Podujeva²⁷; however, this idea was not supported by opposition since it is claimed that Orllan village was entirely excluded from the budget allocation and there were few road investments and no sewage and water investments.²⁸

Moreover, the municipality of Podujeva received international donations from European Commission since 2012 to renovate three schools and construct the municipality building. These funds were monitored by the European Commission and there is no report regarding the performance of the donor investments.²⁹ According to OAG, different levels of control on procurement and contract management do not function in the municipality of Podujeva.³⁰ Additionally, there is an inconsistency in the answers of the head of budget and finance department and opposition, regarding the monitoring of the budget execution procedures and internal audit. While the former states that the municipality is constantly monitored by the ministry of Finance and also by the Mayor, quarterly and yearly reports about expenditures and revenues are submitted and available in the municipal website, everything is performed based on the regulations for the budget execution, and internal audit is performed quarterly and annually³¹, the latter points out that the municipality is monitored only by the auditor general and the internal auditor never submitted any report to the members of the opposition.³² OAG states that internal audit did have an ambitious plan but met the needs of Municipal Management only to a certain extent.³³

In addition, there are budget deficits and surpluses in this municipality. The surplus occurs as a result of unused means/money, revenues of November and December cannot be processed in the current year, and there was a planned increase in employee coefficient which never happened, amongst others. Other reasons include delays in procurement, inefficiency, and means/money cannot be processed in this year and are transferred to the next fiscal year due to the contract agreements signed in November/December. On the other hand, the deficit stems from debts with two or more years contracts, and due to the fact that revenues of November and December are not useful in the current year.³⁴

Municipality of Gjakova

The budgeting process in the municipality of Gjakova takes place as described by the law. With regard to 2013 budgeting process, only one municipal assembly and a policy and

27 Latifi, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013

28 Abdullahu, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013

29 Abdullahu, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013

30 Office of the Auditor General, Audit Report of the Financial Statements of the Municipality of Podujeva for the Year Ended 31 December 2012, accessed on 30 January 2014, http://oag-rks.org/repository/docs/RaportiAuditimit_KPD_2012_Eng_735712.pdf

31 Latifi, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013

32 Article 7.3 of the Administrative Instruction No.23/2009 on Establishment and Operation of Internal Audit Units in the Public Sector states that "Senior management, the Audit Committee and the Central Harmonisation Unit for Internal Audit must be provided with quarterly and annual reports on the activities of each Internal Audit Unit by the Director of the Internal Audit Unit"

33 Office of the Auditor General, Audit Report of the Financial Statements of the Municipality of Podujeva for the Year Ended 31 December 2012, accessed on 30 January 2014, http://oag-rks.org/repository/docs/RaportiAuditimit_KPD_2012_Eng_735712.pdf

34 Latifi, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013; Abdullahu, I. "Budgeting process in the Municipality of Podujeva". [Interview] 24 October 2013

finance committee meeting was organized on budget review/approval.³⁵ The Development Plan for this municipality was set in 2005 and the priorities set are mainly focused on infrastructure, education, health, agriculture, culture and sports.³⁶ Opposition stresses that there have been some changes in the objectives of the development plan; however, the plan was not accomplished, as is the case of Hasi Region (included in the budget planning but it was never accomplished). Moreover, the Mayor and the Board of Directors set the budgetary priorities in line with the needs of the public; nonetheless, the majority of them have not been executed, e.g. the potable water project- around 50% of the villages do not have potable water; employment- only a small number of people were employed; and the project of Qarshia reconstruction which encompass many administrative and legal violations. Consequently, Gjakova municipality has failed to properly address the priorities of the development plan in the budget implementation plan.³⁷

During the budget development process, public meetings were held where citizens set forth their budget requirements and concerns. Municipality of Gjakova has ensured the condition for public participation on municipal assembly and policy and finance committee meetings, but failed to publicly announce seven days or more in advance meeting of policy and finance committee with regard to 2013 budget.³⁸ With regard to 2012, six meetings were held in different locations whereas with regard to 2013 budget this number dropped to only two.³⁹ A positive step was undertaken with regard to 2013 budget, where at least one of the meetings was organized outside the main town for the purpose of greater participation.⁴⁰ During these meetings, citizens described requirements regarding employment, education, infrastructure, and socio-economic conditions, amongst others whereas their complaints were mainly about non-inclusion of all regions in different projects.⁴¹ According to opposition public meetings were held ‘for the sake of it’ and the number of participants was very low. Usually the meetings were held during the election period for the interests of the position. The priorities put forward by the citizens were not accomplished in the majority of cases. Education in the municipality of Gjakova is politicized. The Ministry of Education required to advance the preschool education but people were employed in the elementary and secondary education and salaries were paid from the money allocated for the preschool education. The majority of capital investments in education were not accomplished and the ones that did, were mainly finished based on political requirements i.e. political nepotism.⁴²

35 Organization for Security and Co-operation in Europe, *The Municipal Budget Development Process in Kosovo: A Comparative Assessment of the 2012 and 2013 Process*, accessed 30 January 2013, <http://www.osce.org/kosovo/102215>

36 Uka, Xh. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013

37 Gola, L. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013

38 Organization for Security and Co-operation in Europe, *The Municipal Budget Development Process in Kosovo: A Comparative Assessments of the 2012 and 2013 Process*, accessed 30 January 2013, <http://www.osce.org/kosovo/102215>

39 Uka, Xh. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013

40 Organization for Security and Co-operation in Europe, *The Municipal Budget Development Process in Kosovo: A Comparative Assessment of the 2012 and 2013 Process*, accessed 30 January 2013, <http://www.osce.org/kosovo/102215>

41 Uka, Xh. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013

42 Gola, L. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013

Due to the low budget allocated for this municipality, not all the requirements of citizens were fulfilled and not all regions were included in the budget allocation.⁴³ According to opposition the budget was allocated in the zones which were in the interest of the party in power and the ones in which they had the majority of votes. Therefore, the budget allocation was not done based on any credible criteria but based on political interests of the party in power.⁴⁴ Moreover, regarding the monitoring of procedures of the budget execution, the head of budget sector department states that such monitoring was performed by Director for Budget and Finance and the expenditure reports were prepared in accordance with the Treasury regulation. On the other hand, opposition points out that the monitoring was done ‘just for the sake of it’ as is the case of Qarshia where you can spot many violations, unfinished and an unsatisfactory work level. Therefore, monitoring did not take place based on laws and regulations.⁴⁵ The problem with contract execution is also identified by Office of the Auditor General (OAG) which concludes that controls are insufficient.⁴⁶

The internal and external audit in every municipality and other budget organizations is of utmost importance for a higher municipal transparency. The municipality of Gjakova has only one internal auditor as opposed to the administrative instruction which states that at least three internal auditors are needed for the public sector that has a budget over five (5) million euro.⁴⁷ Despite this fact, the internal audit was performed but was not appropriate since it did not capture the most sensitive sectors such as procurement.⁴⁸ The internal audit reports were not complete since not everything is reflected as it should, with regard to the capital project allocation, the process of payments made, and so on. This conclusion is also supported by OAG findings.⁴⁹ Also, regarding the tenders, this municipality reflects a typical example of mismanagement because without having the committed funds, they advertised tenders which started with the initial amount of 10% of the tender contract. However, more than 10% of the work was completed but the remaining of the money was not paid which resulted in the accumulation of debt amounting 5 to 8 million euro in the last three years. Therefore, the municipality has a budget deficit; nevertheless, it is not transparent.⁵⁰

Municipality of Peja

Peja’s budgeting process follows the steps described in the law. The Development plan was prepared in 2007 together with a Nederland based organization which aims at having

43 Uka, Xh. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013

44 Gola, L. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013

45 Uka, Xh. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013 and Gola, L. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013

46 Office of the Auditor General, Audit Report of the Financial Statements of the Municipality of Gjakova for the Year Ended 31 December 2012, accessed on 30 January 2014, http://oag-rks.org/repository/docs/RaportiAuditimit_KGJ_2012_Eng_761546.pdf

47 Administrative Instruction No.23/2009 on Establishment and Operation of Internal Audit Units in the Public Sector, art. 3

48 Uka, Xh. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013

49 Office of the Auditor General, Audit Report of the Financial Statements of the Municipality of Gjakova for the Year Ended 31 December 2012, http://oag-rks.org/repository/docs/RaportiAuditimit_KGJ_2012_Eng_761546.pdf

50 Gola, L. “Budgeting process in the Municipality of Gjakova”. [Interview] 18 December 2013

a green and vital city. The priorities set in the plan include the development of tourism, agriculture, small and medium enterprises, education, health, road infrastructure, water supply and sewage, amongst others, based on the citizens' requirements presented during the entire year.⁵¹ During the budget development process, five meetings with citizens are held where they expressed their concerns which were mainly about the infrastructure and uneven distribution of the budget since some villages and neighbourhoods were not included due to the low budget.⁵² Two public meetings were held and the majority of the participants were from the electorate of the party in power (AAK) and also the concerns of the public were not reflected in the budget.⁵³ Findings from OSCE show that compared to 2012 budget, municipality of Peja slightly increased the number of public meetings with regard to 2013 budget.⁵⁴ There was an even allocation of the budget⁵⁵; however, opposition added that this was not the case due to nepotism. An amount of 1,060,000€ was allocated for the Code of the Mayor's office which funds were allocated for impracticable projects and there were no reports regarding its performance. No criteria were set for the allocations of the aforementioned funds which led to an uneven distribution of such funds.⁵⁶ The Code of the Mayor's Office (vice-Mayor, information office, procurement and auditors) encompasses the two codes, the one of Participation with Donors and Ministries and Expropriation of Property. The head of the budget and finance department claims that the Code of the Mayor's Office was set for the purpose of allocating money when there is a need to invest or co-fund a project with some other organizations and/or institutions and the money is not available or committed during that period (the fund commitment for capital investments ends by the first week of November). There was a case in November 2008, where USAID was ready to negotiate an agreement for co-funding with the municipality but they could not sign it due to the unavailability of funds. As a result, the municipality created the Code of Mayor's Office which is available from the year 2009 onwards.⁵⁷ In addition, opposition stresses that capital investments were not planned and allocated appropriately, as well as roads were built in locations populated by the AAK electorate. The budget expenditures on goods and services were in excess of budget allocated which in turn affected capital investment automatically since funds from capital investments were transferred to goods and services to cover the excess spending.⁵⁸ Moreover, the budget was approved by the simple majority; however it was objected by opposition.⁵⁹ The monitoring of the budget execution process is done through the municipal assembly and is in accordance with regulations and laws. According to opposition there were cases when decisions were made without the approval of the municipal assembly such as the case of expropriation.⁶⁰

51 Grapci, A. "Budgeting process in the Municipality of Peja". [Interview] 16 December 2013

52 Ibid

53 Sheremeti, D. "Budgeting process in the Municipality of Peja". [Interview] 16 December 2013

54 Organization for Security and Co-operation in Europe, The Municipal Budget Development Process in Kosovo: A Comparative Assessment of the 2012 and 2013 Process, accessed 30 January 2013, <http://www.osce.org/kosovo/102215>

55 Grapci, A. "Budgeting process in the Municipality of Peja". [Interview] 16 December 2013

56 Sheremeti, D. "Budgeting process in the Municipality of Peja". [Interview] 16 December 2013

57 Grapci, A. "Budgeting process in the Municipality of Peja". [Interview] 16 December 2013

58 Sheremeti, D. "Budgeting process in the Municipality of Peja". [Interview] 16 December 2013

59 Sheremeti, D. "Budgeting process in the Municipality of Peja". [Interview] 16 December 2013

60 Sheremeti, D. "Budgeting process in the Municipality of Peja". [Interview] 16 December 2013

The internal audit in the municipality of Peja took place; although opposition did not receive any report from the internal auditor. Also, the quarterly and semi-annually reports are submitted to the Ministry of finance and then published.⁶¹ However, opposition claims that reports submitted to the Ministry are different from the ones sent to the Municipal Assembly and it is difficult to receive reports from the municipality and the majority of the reports are not published. The reports were not published in order to avoid exposing the tender contracts which were awarded based on nepotism.⁶² Besides reporting and transparency issues, the OAG concluded that internal audit's report were neither clear nor qualitative.⁶³

Municipality of Gjilan

The budgeting process in the municipality of Gjilan follows the rules and procedures described in the law. The Development Plan and budget priorities for this municipality are compiled based on the needs set forward during the public meetings with citizens of the municipality. The main priorities of municipality of Gjilan includes, amongst others, urban planning, infrastructure, road maintenance, and lightening.⁶⁴

In 2012, the number of participants was not satisfactory and mainly it comprised of municipal and political parties' officials rather than citizens. Municipality announced public hearings two weeks in advance but called no more than two meetings per budget of the year 2012 and 2013.⁶⁵ Neither the party in power nor the opposition were satisfied with the participations of citizens in those meetings.⁶⁶ This occurs because citizens perceive that their issues and concerns will not be taken into consideration; hence, prefer to not attend these meetings.⁶⁷ Citizens' main requirements were infrastructure, sewage, potable water, and education oriented; however, not all of them were considered as a result of the low municipal budget allocation. Concerns, on the other hand, were mainly about the quality of investments and project delays.⁶⁸ The latter occurred as a result of lack of available financial means i.e. entering into contracts without committed financial means which in turn led to high budget deficits or debts.⁶⁹ Project delays claim is supported by OAG findings as well.⁷⁰ On the other hand, the head of Finance and Budget Department points out that contracts were signed without committed fund; however, only for small value projects.⁷¹

61 Grapeci, A. "Budgeting process in the Municipality of Peja". [Interview] 16 December 2013

62 Sheremeti, D. "Budgeting process in the Municipality of Peja". [Interview] 16 December 2013

63 Office of the Auditor General, Audit Report of the Financial Statements of the Municipality of Peja for the Year Ended 31 December 2012, accessed on 30 January 2014.

http://oag-rks.org/repository/docs/RaportiAuditimit_KPE_2012_Eng_299944.pdf

64 Nuhiu, N. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013; Maliqi, Z. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

65 Organization for Security and Co-operation in Europe, The Municipal Budget Development Process in Kosovo: A Comparative Assessment of the 2012 and 2013 Process, accessed 30 January 2013,

<http://www.osce.org/kosovo/102215>

66 Nuhiu, N. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013; Maliqi, Z. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

67 Nuhiu, N. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

68 Nuhiu, N. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013; Maliqi, Z. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

69 Maliqi, Z. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

70 Office of the Auditor General, Audit Report of the Financial Statements of the Municipality of Gjilan for the Year Ended 31 December 2012, accessed on 30 January 2014.

http://oag-rks.org/repository/docs/RaportiAuditimit_KGL_2012_Eng_132353.pdf

71 Nuhiu, N. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

Regarding the budget allocation, both the party in power and opposition stress that the budget is very low in comparison with the citizens' requirements and as such it covers only a portion of their needs. However, Gjilan's budget per capita in 2012 was higher than in four other municipalities (only Prishtina having a higher per capita budget). Anyway, opposition states that the budget allocation was not evenly and appropriately distributed and the party in power influences the budget allocations i.e. the budget is allocated based on nepotism. There are neighbourhoods with no investments or poor investments whereas there are others with various investments undertaken.⁷² Also, there are no professional advisers in the municipality in many fields and if there were 2 to 3 experts in each field, the situation in the municipality would be much better.⁷³ Moreover, the budget was approved with a simple majority and the opposition was present but did not vote. The budget execution procedures are monitored by the Chief Financial Officer and the procedures are compatible with the municipal regulation for financial issues.⁷⁴ However, there are cases where such regulations are not obeyed as is the example of wages paid from the financial means allocated for Goods and Services.⁷⁵ OAG findings show that there were also cases when payments for goods and services and subsidies were transferred from capital investments appropriations which is inconsistent with Law on Budget and Law on Public Finance and Management.⁷⁶

Regarding the internal audit and expenditure reports of the municipality, it can be stated that the annual internal audit takes place regularly and reports are public and available in the website and whenever opposition needed documents/reports they were made available to them.⁷⁷

Municipality of Ferizaj

Ferizaj's budgeting process follows the steps described in the law; however, opposition claims that they were not invited to participate in such process.⁷⁸ Even though all municipalities' draft budget is prepared in accordance with the priorities set in the Strategic Development Plan, the municipality of Ferizaj does not have such plan in place. The CFO states that the plan is compiled; nevertheless, it is not approved, yet. Given that, the budget priorities for the municipality of Ferizaj are set based on citizens' needs set forth during the public meetings and the importance of each sector,⁷⁹ and, as opposition claims, based on the needs and requirements of the party in power (PDK). The budget priorities are focused on public infrastructure (potable water, sewage, and road construction), health (construction of the hospital), education (construction of schools), agriculture,

72 Nuhiu, N. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013; Maliqi, Z. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

73 Nuhiu, N. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

74 Nuhiu, N. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013; Maliqi, Z. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

75 Maliqi, Z. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

76 Office of the Auditor General, Audit Report of the Financial Statements of the Municipality of Gjilan for the Year Ended 31 December 2012, accessed on 30 January 2014.

http://oag-rks.org/repository/docs/RaportiAuditimit_KGL_2012_Eng_132353.pdf

77 Nuhiu, N. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013; Maliqi, Z. "Budgeting process in the Municipality of Gjilan". [Interview] 27 December 2013

78 Guri, F. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

79 Brahimi, M. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

and culture, amongst others.⁸⁰ As stated above, during the budget development process, public meetings take place where they come up with requirements and concerns. With regard to 2012 budget, Ferizaj had the highest number of called meetings among all the municipalities, while with regard to 2013 budget called at least five meetings which is a relatively high number of meetings compared to the rest of municipalities.⁸¹ Both the party in power and opposition complained about the low number of citizens that attended the two meetings held.⁸² Despite the low number of attendees, one of the main concerns of the citizens of Ferizaj was about the construction of the road to Gjilan which area includes roughly 500 businesses operating and were obliged to stop their everyday work due to the construction of the road.⁸³

The allocation of budget reflects mostly citizens' needs; however, opposition stresses that it is a political budget where the officials of the party in power allocate most of the capital investments for those areas populated by their electorate. Subsidies are provided to directors of the municipality but no documents about the allocation of subsidies are provided to the opposition or the public.⁸⁴ Lack of supporting documents and compliance with rules on subsidies allocation was identified also by the OAG.⁸⁵

Moreover, the budget was approved by the simple majority with the opposition present during the meeting who in turn objected the approval of such budget and provided additional suggestions but none of them were incorporated in the budget. The procedures of budget execution are monitored by the Department of Treasury.⁸⁶ This said, the municipality signed contracts with local operators without the available committed financial means and various projects were developed without prior inclusion in the budget. Besides, an agreement of cooperation and co-finance was signed between the municipality of Ferizaj and Caritas organisation which agrees to hire additional employees to work for this project. Nevertheless, the municipality hired the necessary individuals with no job vacancies published.⁸⁷ The inappropriate management of the budget may lead to either surpluses or deficits. The municipality experienced budget deficit in the category of Salaries and Per Diems, which in turn were added from revenues received by the municipality during the year.⁸⁸

In order to have a transparent municipality which complies with laws, rules, and recommendations, internal and external audit is highly important. Until lately, the municipality had only one internal auditor; nonetheless, as recommended by the Auditor

80 Guri, F. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

81 Organization for Security and Co-operation in Europe, The Municipal Budget Development Process in Kosovo: A Comparative Assessment of the 2012 and 2013 Process, accessed 30 January 2013, <http://www.osce.org/kosovo/102215>

82 Brahimi, M. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

83 Guri, F. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

84 Guri, F. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

85 Office of the Auditor General, Audit Report of the Financial Statements of the Municipality of Ferizaj for the Year Ended 31 December 2012, accessed on 30 January 2014, http://www.oag-rks.org/repository/docs/Ferizaj_163570.pdf

86 Brahimi, M. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

87 Guri, F. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

88 Brahimi, M. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

General, the municipality hired two more internal auditors to comply with the law in place. Opposition points out that one of the auditors has a bachelor degree in Criminology which occurrence is not in accordance with the law. Auditors prepare the audit report which is then submitted to the Mayor who undertakes necessary measures based on their recommendations. Additionally, there are opposing views with regard to the availability of the audit reports and yearly reports on municipal expenditures. In one hand, the Chief Financial Officer (CFO) of the municipality of Ferizaj stresses that the aforementioned reports are available in the website⁸⁹ and, the other hand, opposition states that such reports are not available in the website despite insisting in that regard.⁹⁰ However, OAG assessed work of internal audit to be of good quality.⁹¹

Municipality of Prishtina

The same budgetary process as the ones described above occurs in the municipality of Prishtina. The Municipality of Prishtina has adopted the Development Plan last year, which contains the urban and municipal development plan. The priorities set in this plan coincide with the budget priorities which, amongst others, include infrastructure (road, water-supply, sewage), education (schools, kindergartens etc), and health (ambulances).⁹² The Mayor of the municipality is responsible for setting these priorities based on the discussion with the Advisory Board; however, the Mayor did not attend these meetings in the majority of occasions.⁹³ The aforementioned priorities are compiled based on the needs of citizens which are set forth during the five public meetings held in 2012. During these meetings, citizens displayed their requirements and concerns which could not be fully addressed due to the insufficient budget of the municipality.⁹⁴ Opposition (VV) adds that the budget priorities do not coincide with the requirements put forth by citizens, there was no transparency with regard to public information about the meetings, and the number of participants was very low, mainly composed of the electorate of the party in power- LDK.⁹⁵ Findings from OSCE show that with regard to 2012 and 2013 budget, municipality of Prishtina announced meetings of legislative bodies more than seven days in advance as required by law.⁹⁶ The main concerns of citizens were regarding the water supply sewage⁹⁷, destruction of architectural values and floods in some neighbourhoods; however, these concerns were not taken into consideration.⁹⁸

89 Brahimi, M. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

90 Guri, F. "Budgeting process in the Municipality of Ferizaj". [Interview] 20 December 2013

91 Office of the Auditor General, Audit Report of the Financial Statements of the Municipality of Ferizaj for the Year Ended 31 December 2012, accessed on 30 January 2014, http://www.oag-rks.org/repository/docs/Ferizaj_163570.pdf

92 Bekteshi, Xh. "Budgeting process in the Municipality of Prishtina". [Interview] 13 January 2014

93 Bislimi, B. "Budgeting process in the Municipality of Prishtina". [Interview] 02 December 2013

94 Bekteshi, Xh. "Budgeting process the Municipality of Prishtina". [Interview] 13 January 2014

95 Bislimi, B. "Budgeting process the Municipality of Prishtina". [Interview] 02 December 2013

96 Organization for Security and Co-operation in Europe, The Municipal Budget Development Process in Kosovo: A Comparative Assessment of the 2012 and 2013 Process, accessed 30 January 2013, <http://www.osce.org/kosovo/102215>

97 Bekteshi, Xh. "Budgeting process in the Municipality of Prishtina". [Interview] 13 January 2014

98 Bislimi, B. "Budgeting process in the Municipality of Prishtina". [Interview] 02 December 2013

Regarding the budget allocation, the budget is very low in comparison with the citizens' requirements but the municipality tried to apportion the budget based on their needs.⁹⁹ Budget per capita of Prishtina is the highest among six municipalities. However, as the capital city, municipality of Prishtina has a high number of people temporarily living or daily commuting to Prishtina which are not registered to be living in Prishtina but incur extra cost for public services of municipality. Based on Census data of 2011, roughly 56 thousand people commute daily to Prishtina.¹⁰⁰ If only this group of people who partially use public services of municipality of Prishtina is included in the population, than the budget per capita would decrease by 21%. As mentioned above there is also a vast number of people who live in Prishtina during the working days, but there is no data with regard to the size of this group. However, opposition states that the budget allocation was not evenly and appropriately distributed and the party in power influences the budget allocations i.e. the budget is allocated to those areas populated by the LDK supporters.¹⁰¹ Moreover, the budget was approved with a simple majority and opposition was present. The budget execution procedures are monitored by the respective monitoring units for each specific project. Nevertheless, there were tender irregularities since the bidding conditions suited a particular bidder.¹⁰²

In order to have a more transparent and functional municipality, the internal and external audit are of outmost importance. Both internal and external audit took place during the years; however, reports with regard to the internal audit are not published, i.e. available on the website.¹⁰³

VI. Transparency

According to the Law on Public Finance Management and Accountability, the Mayor of the municipality is directly responsible for publication of the financial reports. Article 45.4 specifically states that maximum 30 days after the end of each quarter, the Mayor is responsible for publishing quarterly reports on municipal web-site.¹⁰⁴ Table below shows quarterly financial reports and other documents published by each municipality. It must be noted that we have not searched in links other than ones that are officially created for publication of financial reports. This link is found by clicking on “Pasqyrat dhe Planet Komunale” on Albanian version of the web-site of each municipality.

As we can see from the table below, none of the municipalities has regularly published quarterly financial reports as required by law. In addition, in the municipality of Prishtina and Peja there was no financial report published so far. Municipality of Ferizaj is the municipality which published the highest number of financial reports, but has not met the requirements as defined by law.

99 Bekteshi, Xh. “Budgeting process in the Municipality of Prishtina”. [Interview] 13 January 2014

100 Kosova Agency of Statistics, Census Atlas of Kosovo, accessed 30 January 2014, http://esk.rks-gov.net/ENG/pop/publications/doc_view/1125-kosovo-census-atlas-?tmpl=component&format=raw

101 Bislimi, B. “Budgeting process in the Municipality of Prishtina”. [Interview] 02 December 2013

102 Bislimi, B. “Budgeting process in the Municipality of Prishtina”. [Interview] 02 December 2013

103 Bislimi, B. “Budgeting process in the Municipality of Prishtina”. [Interview] 02 December 2013

104 Law no. 03/L- 048 on Public Financial Management and Accountability, accessed 31 January 2014, http://www.kuvendikosoves.org/common/docs/ligjet/2008_03-L048_en.pdf

Table 8. Documents published by municipalities

Document	Prishtina												Gjilan												Podujeva											
	2010				2011				2012				2010				2011				2012				2010				2011				2012			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Quarterly Financial Reports	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		x	x	x	x	x	x	x	x	x	x	x	x	x	x			x	x	x	
Budget Planning	x				x				x												x				x								x			
Regulation for tariffs, fines and other loads																																				
Strategy of Local Economic Development																																				
Development Plan of Municipality																									x											

Document	Gjakova												Peja												Ferizaj											
	2010				2011				2012				2010				2011				2012				2010				2011				2012			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Quarterly Financial Reports	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		x		x		x		x	
Budget Planning	x								x				x				x																			
Regulation for tariffs, fines and other loads																									x											
Strategy of Local Economic Development																									x											
Development Plan of Municipality																									x											

 document published

x document is not published

VII. Policy Recommendations

1. The municipal budgets should be appropriately planned, drafted, and developed in order to capture all the necessary requirements and priorities set in the development plan, all geographical areas, and avoid surpluses and deficits at the end of the year. Moreover, as the Policy Analysis identified, planning and allocation of the budget does not always capture the real needs of the citizens and the whole geographical area of the municipality, rather, as stated by the opposition in almost all municipalities, the municipality allocates money in those areas mostly populated by supporters of the party in power and personal preferences of some officials. Therefore, it is of utmost importance that there is an equal allocation of the budget in municipalities in all areas that reflect the needs and requirements of the public in general, not their supporters' neighbourhoods. The purpose behind the budget allocations remains to serve the greater good rather than specific individuals and political parties.
2. This study also points out that many municipalities in the Republic of Kosovo hire companies based on no legal criteria to perform a certain duty and afterwards their work is not appropriately monitored which leads to work delays and bad quality investments. In order to avoid these kinds of conflicts, wasting money on unsuccessful and inappropriate projects, avoid delays, and have better quality investments, all municipalities must obey all the necessary rules, procedures, and laws when hiring a company for such investment and carefully monitor their work during the entire period until completion.
3. As noted in the Policy Analysis, in the majority of municipalities, contracts were signed without having the committed funds available which led to either budget deficits and/or debts. The latter deepened year by year due to the repeated occurrences in the coming years, despite the recommendations of the Office of the Auditor General. As a result, it is of paramount importance to avoid such contracts at any cost for the purpose of being lawful and fruitful or otherwise, the debts of the municipality will increase further in the future.
4. As noted by the Policy Analysis and also reflected in the Auditor Generals' Report, not all municipal personnel was been hired according to the procedures stated in the law and on the merit basis. This issue should be carefully handled by the municipal officials, and by doing so sequentially assists municipalities to comply with the law and avoids hiring incapable individuals that do not necessarily offer qualitative services to the municipality and its citizens.
5. The law states that all municipalities and other budget organizations should be audited externally. Therefore, the yearly recommendations provided by the Office of Auditor General to each individual municipality should be addressed and implemented as soon as possible so as to avoid municipal mismanagement, dragging current problems into the future, and have an inefficient municipality.
6. The law states that at least three internal auditors are needed for the public sector that has a budget over five (5) million euro and this Policy Analysis noted that not all municipalities acted in accordance with the law. Therefore, it is of utmost importance

for the municipalities to comply with the law and receive fruitful recommendations by internal auditors which may enhance their productivity and provide better services to the general public.

7. All the necessary reports required by the law such as quarterly, semi-annually, annually reports of revenues and expenditures, and internal and external auditors' report, amongst others, should be available to the public; more precisely, all the aforementioned reports should be published on the websites of each municipality. This in turn increases municipal transparency and increases confidence in the individuals and the party that administers the municipality.
8. The inclusion in the budget development process of all parties at stake, being them government officials, municipal employees, and most importantly citizens of all municipalities, leads to better financial decisions, improvement of the public perceptions' towards the government and simultaneously reflects all parties essential needs, requirements and concerns.
9. Public participation in the budget development process was very low in almost all municipalities. However, public participation is the backbone of each budget development process and as such should be carefully considered by the municipal officials in order to attract as many citizens as possible. The following are some of the various mechanisms available to the aforementioned officials to achieve their goal of attracting citizen's participation in the budget process.
 - *Focus groups*- if one way of gathering small groups of people together to share their ideas, concerns, requirements, and opinions towards their budget preferences on specific issues. Moreover, participants are able to interact with one another and come up with more qualitative solutions to their concerns.
 - *Community Meetings*- these meetings are easy managed and encompass groups of people from neighbourhoods and businesses, amongst others, where their community issues and challenges are put forth and the municipal officials have the opportunity to be informed more in depth on the areas to allocate the municipal budget.
 - *Budget simulations*- when the municipality faces a limited budget citizens participating in the budget simulations are obliged to make trade-offs in order to balance the budget and focus on crucial issues that need immediate intervention.
 - *Citizen budget advisory committees*- independent citizens' committees should be established which target special needs of the populations and provide useful and appropriate recommendations on the municipal budgets and operations.
 - *Citizen surveys*- this is another method of gathering information and understanding citizen's needs and requirements. The municipal officials should prepare adequate surveys which encompass, besides their suggestions, additional areas that citizens might find of utmost importance and must be addressed. Moreover, through these surveys, citizens should be able to evaluate the performance of the municipality officials with regard to budget allocation which in turn would assist the latter to figure out their potential gaps and identify means to overcome those gaps.

- *An online platform*- the municipality should establish an online platform where citizens of respective municipalities will express their concerns, ideas, and suggestions. This said, the municipality will collect these comments each year, and consider and evaluate all of them and allocate their scarce resources to the most important programs and projects proposed by the citizens.

In conclusion, each municipality should be able to identify which of the aforementioned mechanisms are more appropriate for their municipality and proceed with their immediate implementation.

