

Comments of the GAP Institute on the Draft Law on Local Government Finance

General comment

GAP Institute supports the initiative to separate funding sources for social issues from the general grant. On the other hand, as municipalities will remain financially dependent on government grants, this draft law does not address the problem of financial independence in municipalities and the creation of incentives for municipalities to collect more own source revenues.

Article 8. General Grant

In order to increase the transparency of the source of financing for municipalities, the law should specify that the annual Budget Law should contain a breakdown of funding from the General Grant for each municipality based on criteria such as: a) fixed amount; b) number of population; c) geographical size; d) non-majority community population; and e) municipal sustainability factor. It will allow MPs and other stakeholders to be informed and monitor the extent to which municipalities are benefiting from additional resources as a result of minority communities.

Article 9. Allocation of the General Grant in the case of transfer of competencies

This article should specify that the funds allocated for additional powers should be in accordance with the financial estimations costed under the law which gives those additional powers to municipalities. Considering that the Government of Kosovo has had cases when it took illegal financial decisions (such as the case of debt forgiveness), the government shouldn't have exclusive competences to decide on the additional value of the general grant. This should either go through the Assembly of Kosovo, or be specified in the law that the total grant is increased matching the financial cost of additional powers estimated in the relevant law.

Article 10

We suggest removing this provision altogether, as the Law on Local Government Finance should not address the division or merger of two or more municipalities. No other law, including that of local self-government, provides for the possibility of merging two or more municipalities.

Article 14

We suggest amending this with the recognition as municipal revenues the fees from construction permits; fees from the demolition of illegal constructions, and fees on motor vehicles.

Article 26. Revenues from other sources

This article should also recognize the issue of financing in four northern municipalities from the so-called “Development Fund”. This can be regulated by precisely specifying the “Development Fund” as a source of revenue for these municipalities, or specifying that financing of municipalities is allowed as a result of an international agreement. Revenues from the “Development Fund” are not part of any applicable law.

Financial impact

The financial impact for all municipalities from this law should be assessed in the consultation document. It is of interest to see the level of revenues from the general grant and the revenues from the grant for social services for each municipality.