



# Challenges of municipalities in managing investments, expenditures, revenues and properties



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## Challenges of municipalities in managing investments, expenditures, revenues and properties

Overview from the Reports of the National Audit Office 2019–2020

December 2021

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This analysis was originally written in Albanian.

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## Executive Summary

The annual regularity reports of the National Audit Office (NAO) reveal dozens of shortcomings and challenges that local governments have in achieving the desired standards, in the process of public investment, budget spending, own source revenue allocation and public property management.

Public investments by municipalities have increased from year to year, but the problems that characterize these investments remain the same and are constantly repeated. In this regard, one of the biggest problems is the inability of municipalities to make investments within the stipulated time-line. In 25 audited projects for the duration of investments in 12 municipalities, NAO has found that there are projects that started in 2013 and which were not completed until the end of 2020. For projects that have been completed, in some cases, the foreseen duration of investment completion was 100 days, while they lasted 400 days. No audited project in the field of public investment has been completed within the deadline stipulated in the contract for the execution of works.

Another challenge which impairs the performance of municipalities is the increase of outstanding and contingent liabilities of municipalities and which have increased from year to year. This also puts the financial viability of municipalities at risk. The value of contingent liabilities that municipalities have until the end of 2020 is 91 million Euros, while the value of outstanding liabilities is 34 million Euros. These obligations are owed by municipalities to economic operators and natural persons. These entities turn to the courts and bailiffs in order to obtain their funds. During 2019 and 2020, the Kosovo Treasury, took away 18 million Euros from the municipal budget based on decisions of courts and bailiffs. During this process, municipalities have paid over 2.1 million Euros in costs for courts and bailiffs.

Municipalities show serious shortcomings in the preservation and management of public property as well as in the collection of own source revenues. All municipalities within a single year realize own source revenues of about 79 million Euros, while revenues that municipalities have not managed to collect until 2020 are over 204 million Euros. The highest percentage of debt to municipalities is in property tax, followed by other debts that businesses owe to municipalities.

In addition, every year the NAO finds violations of municipalities which damage the public budget. These violations are related to the use of public property without contracts between users and the municipality, municipal actions to compensate property users with financial means, and up to the use of public spaces as well as apartments and locals with very little compensation.

## Introduction

Good public finance management is an indicator of institutional accountability and good governance. The National Audit Office (NAO) conducts regularity audits on an annual basis and in some cases performance audits for public institutions. This is done in order to ensure compliance with the law regarding the management of public money. Among other things, the NAO identifies the main problems related to finances and ensures that actions in cases of expenditures, revenues and management of contracts and assets are made in accordance with the applicable legal framework.

Based on these reports, Kosovo municipalities continue to display problems in managing public money and assets. Despite certain laws, instructions and regulations that serve as guidelines for good public money management, bad practices continue to emerge during the external audit process.

The purpose of this GAP Institute report is to analyze the findings of the National Audit Office<sup>1</sup> regarding the public investments made by municipalities, the problems that arise in this regard and the consequences that arise from the inability of municipalities to realize sustainable investments which are economically favorable and completed on time. The report also shows risks and damages caused to municipal budgets by unpaid obligations of municipalities and those requesting court recourse by external parties to the detriment of municipalities. Part of the report also analyzes the debts that external parties owe to municipalities, property and public spaces management.

For 2020, the NAO stipulated that out of 588 recommendations given to the local government, 50% of them were not implemented, 13% were partially addressed, while 37% have been implemented.<sup>2</sup> Failure to implement recommendations is an additional indication that local level institutions have problems improving public policies related to the budget, properties and contracts. According to the NAO, this happens for two reasons; the first is the lack of adequate municipal mechanisms to increase efficiency and the second is the lack of commitment and willpower to address recommendations.<sup>3</sup>

1 The data presented in this study are based on 81 reports of the National Audit Office, where 76 of these reports are regularity periodicals, published for the period 2019 and 2020. Four reports are annual (summary) of the NAO (2016–2020) and one performance report for 2020.

2 National Audit Office. Annual report for 2020. Pg 107 & 109. Source: <https://bit.ly/3bsB8fl>

3 National Audit Office. Annual report for 2020. Pg 111. Source: : <https://bit.ly/3bsB8fl>

## 1. Prolongation of public investments

One of the most significant problems of public investment in Kosovo is the dynamics of the implementation of works. This is a remark which is constantly raised by citizens and addressed in the reports of the National Audit Office. During one year, municipalities have about 145 million Euros at their disposal for capital investments.<sup>4</sup> However, municipalities face different challenges during the process of execution of works.

This happens mainly for four reasons: lack of proper planning of the investment project, incomplete commitment of funds in the budget for the investment project, property disputes on the ground and lack of technical and professional capacity of private companies to perform public works.<sup>5</sup>

Improper project planning is related to cases where institutions start investing without having a project or the project exists but is generalized (not a technical detail project). Among the main reasons for delays in this regard are:

1. Failure to do proper calculation or failure to include the materials that will be used during the execution of works;
2. Failure to specify the existing public infrastructure in an investment area, such as the extension of power cables, Internet, phone cables, water pipes;
3. Underestimation of the cost of carrying out works, where private companies apply at prices that are not realistic for the market and then during the investment phase, the company fails to provide the material specified in the contract, which then causes interruption of works and delays in execution of works.

Property disputes are the most common problems encountered during the execution of public investments. This may be because the contracting authority did not specify the cadastral lines (public-private) during the drafting of the project, or because the project started to be executed without the expropriation being completed. In some cases, the owners of the land in the vicinity of which the works are carried out have addressed the issue of expropriations in court, and without a court decision the field works cannot be continued.

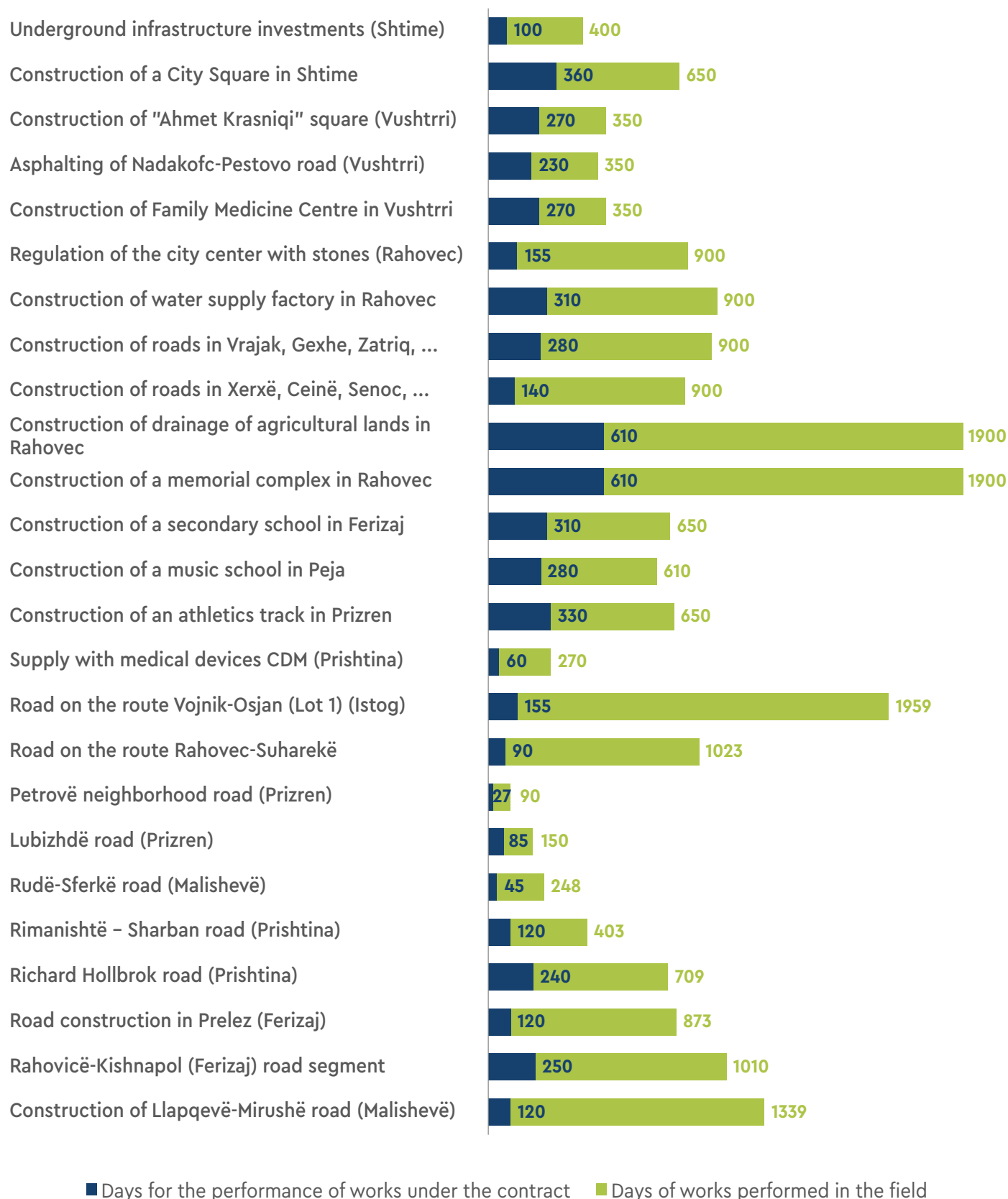
Lack of technical and professional capacities of private companies that receive public works is an additional reason that causes delays in carrying out field work. Contracting authorities do not properly assess the implementation capacity of private companies to perform public works. In many cases, private companies are engaged in many projects simultaneously.

From the data presented in Diagram , it is found that projects that are planned to last 140 days have lasted 900 days or have not yet been completed, while projects planned to last an average of three months have dragged on for up to four years.

<sup>4</sup> GAP Institute. Draft Budget 2021: favoritism and discrimination of municipalities in capital investments. Pg 3. Source: <https://bit.ly/3pgLuHy>

<sup>5</sup> National Audit Office. Value for money in the construction of local and regional roads. Pg. 10 and 21 Source: <https://bit.ly/3nd3SPo>

**Diagram 1.** Duration of works on some of the local roads according to the National Audit Office

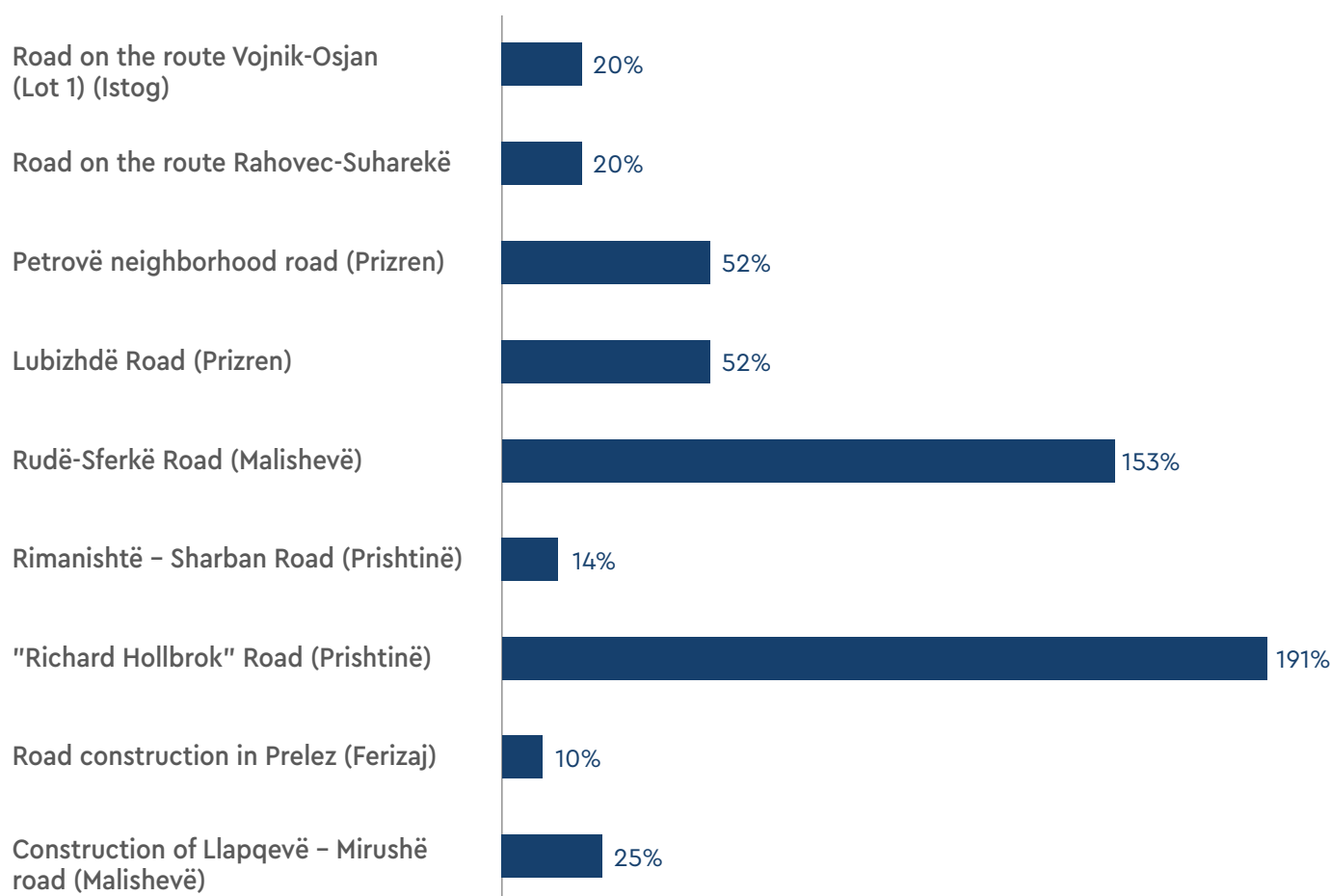


Note: The numbers in red indicate that the initiated project has not been completed yet (March 2021) #  
The data presented in the table are based on the regularity reports of the municipalities by the OAG for the respective municipalities for 2019 and 2020.

Delays in the execution of field works caused by incomplete commitment of funds comes for two reasons (as seen in Diagram No. 2):

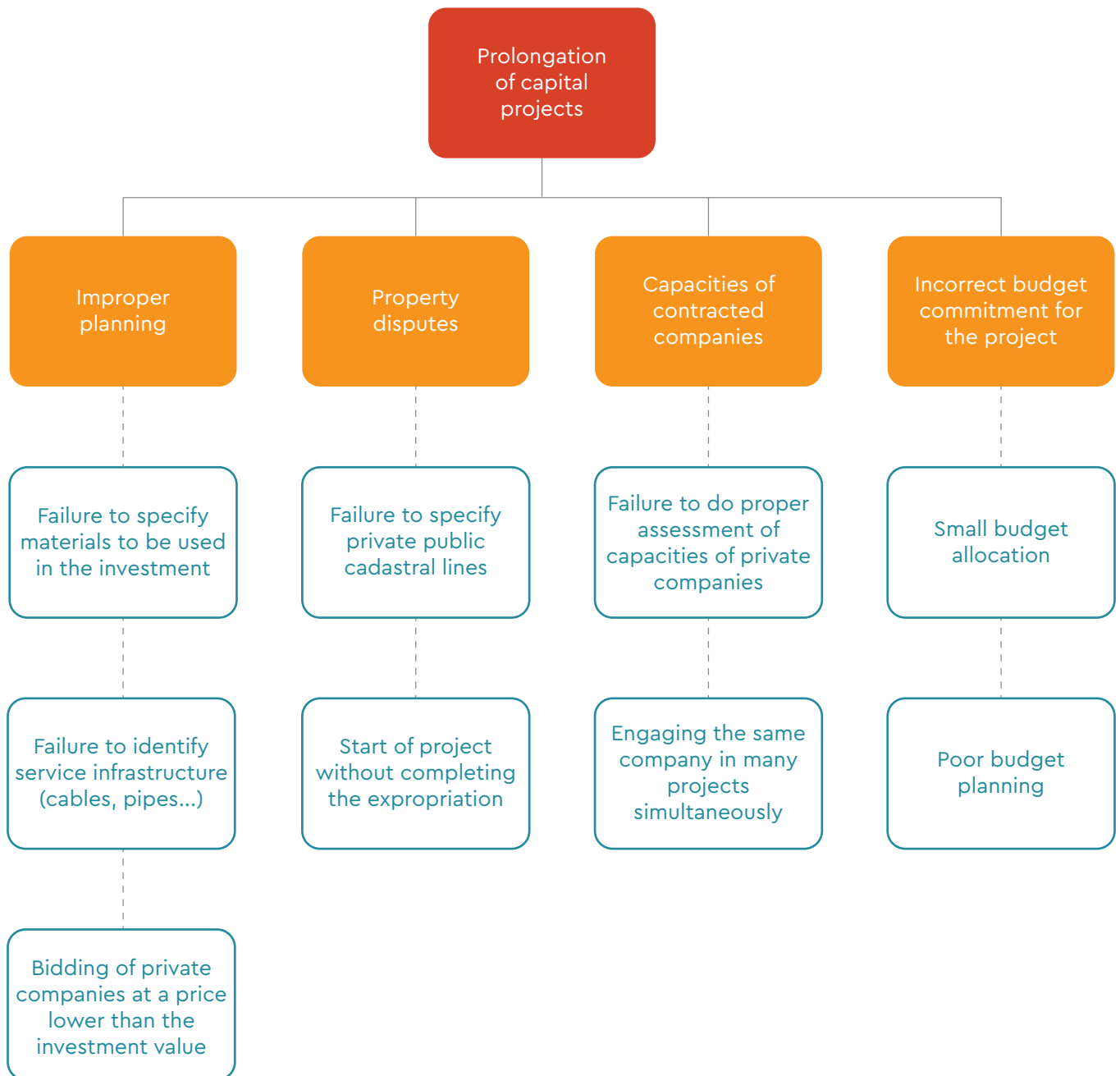
1. When the institution dedicates funds to the budget many times lower than the value of the concluded contract for the execution of works. This, in turn, made it impossible for the winning company to receive the financial means based on the time of execution of the works performed and thus the works were blocked. An additional problem in cases of incomplete commission of funds is the eventual change of institutional heads (which is presented as the contracting authority) who do not follow the same projects that started to be executed on the ground.
2. When the public authority has foreseen a budget that is many times bigger than the value of the concluded contract. This is not a problem for the dynamic work plan, but it is evidence of poor budget planning and a risk at the end of the year for the institution to end up with a budget surplus.

**Diagram 2.** Percentage of financial resources available to budget organizations at the time of concluding public investment contracts



Source: NAO reports for municipalities, 2019 and 2020

**Diagram 3.** Summary of challenges regarding the duration of capital investments



Source: The reasons for the duration of investments have emerged from dozens of NAO reports, while the diagram was created by GAP



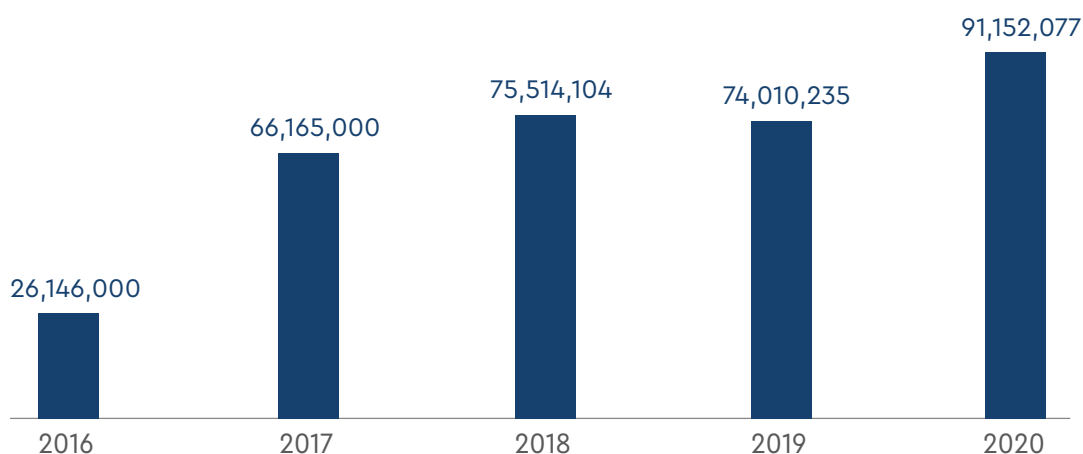
## 2. Outstanding and contingent liabilities

In recent years, outstanding and contingent liabilities have increased. Outstanding liabilities are invoices received for works/services completed by economic operators, but which have not been paid by public authorities within the legal deadline. Contingent liabilities are amounts of funds that a public institution is at risk of spending through court decisions, due to disputes between economic operators or natural persons on the one hand and public authorities on the other.<sup>6</sup>

The nature of cases addressed in court relate, inter alia, to compensation for expropriation, compensation for debt, material damage, non-payment of wages or compensations, and disputes related to contracts.<sup>7</sup>

The value of contingent liabilities that municipalities have is over 91 million Euros. The value of these liabilities has been increasing from year to year.

**Diagram 4.** Amount of contingent liabilities of municipalities 2016 – 2020



Source: Annual reports of the National Audit Office from 2016 to 2020

If these contingent assets were considered court-based and executed by the Treasury or bailiffs, then municipalities would find it difficult to execute capital investment projects. All municipalities of Kosovo, within a year (2020) have about 153 million Euros available for capital investments, while the value of contingent liabilities until the beginning of 2021 exceeds 91 million Euros.

**Diagram 5.** Comparison between capital investments and contingent liabilities of municipalities by the end of 2020



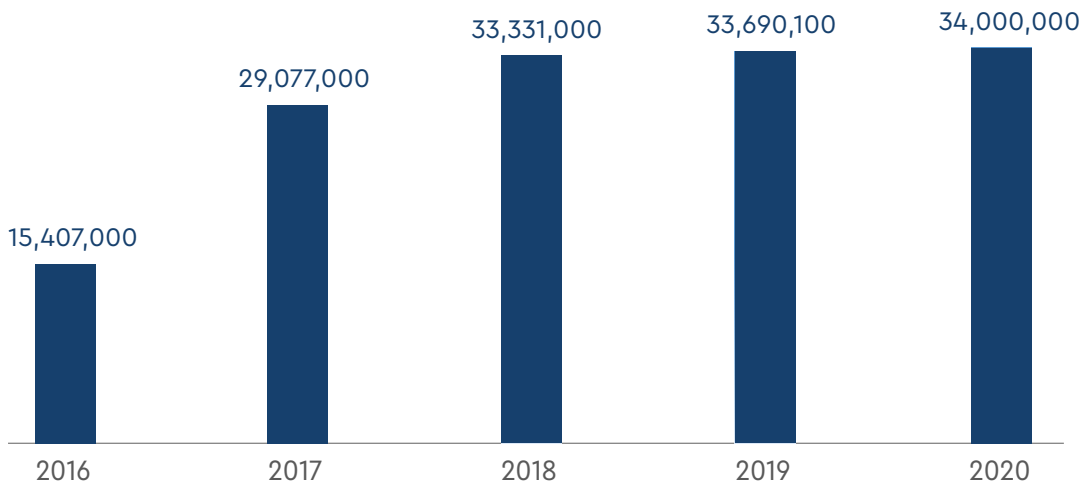
Source: Kosovo Budget Law for 2020 and Annual Regularity Reports for Municipalities

<sup>6</sup> National Audit Office. Annual report for 2020. Pg 93. Source: <https://bit.ly/3pfTLeF>

<sup>7</sup> National Audit Office. Annual report for 2020. Pg 95. Source: <https://bit.ly/3pfTLeF>

In addition to contingent liabilities, municipalities have also entered into debts, contracting works and services and not paying them. These funds can potentially be transferred to contingent liabilities, as economic operators or natural persons to whom there are unpaid liabilities can address cases in court or in enforcement procedure. The value of these liabilities in 2020 was 34 million Euros.

**Diagram 6.** Amount of contingent liabilities of local government 2016 -2020



Source: Annual reports of the National Audit Office from 2016 to 2020

According to the Law on Public Financial Management, when a person or operator has issued an invoice for payment by the budget organization and the amount has not been paid for a period longer than 60 days, the person or entity to whom the invoice was issued may submit a copy of the invoice or request for payment from the Treasury. Upon receipt of a copy of the invoice or request, the Director General of the Treasury, shall within 30 days conduct an investigation in the budget organization to verify whether the invoice or request for payment is valid and that the goods and services have been supplied or works have been carried out, and the relevant amount has not been paid by the budget organization. If confirmed that the request of the person or private operator is accurate, the Treasury executes the payment without obtaining the prior approval of the relevant budget organization. Also, for the payment of court decisions, the Law stipulates that upon receipt of a final decision or final order, the ministry is authorized and has the responsibility to immediately take any necessary measures to pay the decision or order from the available budget allocations.<sup>8</sup>

In relation to municipalities, during 2019 and 2020, the Treasury has executed over 18 million Euros to natural persons or economic operators by final decisions of courts or bailiffs. Municipalities, in these processes, have lost 2.1 million Euros as interest paid to the court and bailiffs in administrative procedures, fines or other additional payments.

During these two years only the Municipality of Prishtina, has paid 696,887 Euros in interest for courts and bailiffs who have executed funds from the budget of the Municipality of Prishtina. The Municipality of Malisheva has paid an interest of 225,483 Euros, which represents half of the value that this municipality realizes annually from property tax revenues.

<sup>8</sup> Official Gazette. Law on Public Financial Management. Article 39 and 40 Source: <https://bit.ly/3voaJsm>

**Tabela 1.** Cases and amounts that the Kosovo Treasury has withdrawn from the municipal budget during 2019 and 2020 as unpaid or contingent liabilities and interest paid in these cases

Municipality	Year 1	The field of outstanding or contingent liabilities	The amount withdrawn from the treasury in the municipal budget by a decision of the court or a bailiff	Interest paid to the court and bailiffs
Glogovac	2019	Jubilee salary in retirement cases	551.242 Euros	
	2019	Failure to fulfill obligations to suppliers	22.190 Euros	
Istog	2019	Failure to fulfill the obligations for the construction of the fire brigade center	11.622 Euros	
	2019	Damage to private property during road construction	9.515 Euros	1.350 Euros
	2019	Jubilee salary in retirement cases	2.762 Euros	1.360 Euros
Ferizaj	2019	Liabilities to economic operators and jubilee salaries	4,635,124 Euros	245.182 Euros
	2019	Regarding expropriations	872.370 Euros	
Skenderaj	2019	Jubilee salary in retirement cases	150.042 Euros	
	2019	Liabilities to the economic operator	181.202 Euros	35.726 Euros
Gjakova	2019	Liabilities to the economic operator	1,235,295 Euros	122.942 Euros
Kaçanik	2019	Liabilities to the economic operator	119.872 Euros	
	2019	Liabilities to unfairly dismissed workers	33.553 Euros	
Shtime	2019	Jubilee salary in retirement cases	55.164 Euros	7.538 Euros
	2019	Liabilities to the economic operator	5.385 Euros	773 Euros
Lipljan	2019	Jubilee salary in retirement cases	115.635 Euros	33.085 Euros
Pejë	2019	Liabilities to the economic operator	392.515 Euros	99.531 Euros
	2019	Expropriation liabilities	102.300 Euros	32.164 Euros
	2019	Expropriation liabilities	30.357 Euros	4.849 Euros
	2019	Liabilities towards an employee that was unfairly dismissed	12.549 Euros	5.459 Euros
	2019	Fine by the Independent Oversight Board for non-implementation of the decision		5.000 Euros
Novo Brdo	2019	Failure to fulfill obligations to suppliers	2.831 Euros	513 Euros

<b>Municipality</b>	<b>Year 1</b>	<b>The field of outstanding or contingent liabilities</b>	<b>The amount withdrawn from the treasury in the municipal budget by a decision of the court or a bailiff</b>	<b>Interest paid to the court and bailiffs</b>
Partesh	2019	Failure to fulfill obligations to suppliers	15.796 Euros	2.429 Euros
Fushë Kosovë	2019	Jubilee salary in retirement cases	83.203 Euros	
Rahovac	2019	Jubilee salary in retirement cases	90.967 Euros	14.406 Euros
Vushtrri	2019	Jubilee salary in retirement cases	56.373	12.883 Euros
Prishtinë	2019	Jubilee salary in retirement cases	692.773 Euros	139.489 Euros
Mitrovica	2019	Liabilities to the economic operator	1,073,362 Euros	
Decan	2019	Liabilities to the economic operator	579.619 Euros	
Kline	2019	Liabilities to the economic operator	12.440	1.734 Euros
Prishtinë	2020	Liabilities to economic operators and jubilee salaries	1,310,823 Euros	557.398 Euros
Prizren	2020	Liabilities to economic operators and jubilee salaries	1,540,637 Euros	106.965 Euros
Decan	2020	Liabilities to economic operators and jubilee salaries	455.054 Euros	35.328 Euros
Partesh	2020	Failure to fulfill obligations to suppliers	26.307 Euros	5.950 Euros
Pejë	2020	Jubilee salary in retirement cases	21.682 Euros	
Ferizaj	2020	Liabilities to the economic operator	1,278,054 Euros	112.546 Euros
Malishevë	2020	Liabilities to the economic operator	603.735	225.483 Euros
Gjakova	2020	Liabilities to the economic operator	127.534	88.284
Year	2020	Failure to fulfill obligations to suppliers	164.029 Euros	40.725 Euros
South Mitrovica	2020	Liabilities to the economic operator	1,568,180 Euros	178.688 Euros
Total	2019 – 2020	18,242,093 Euros	2,117,780 Euros	

Source: The data presented are based on 76 reports of the National Audit Office for municipalities for 2019 and 2020

### 3. Management of public property and own source revenues

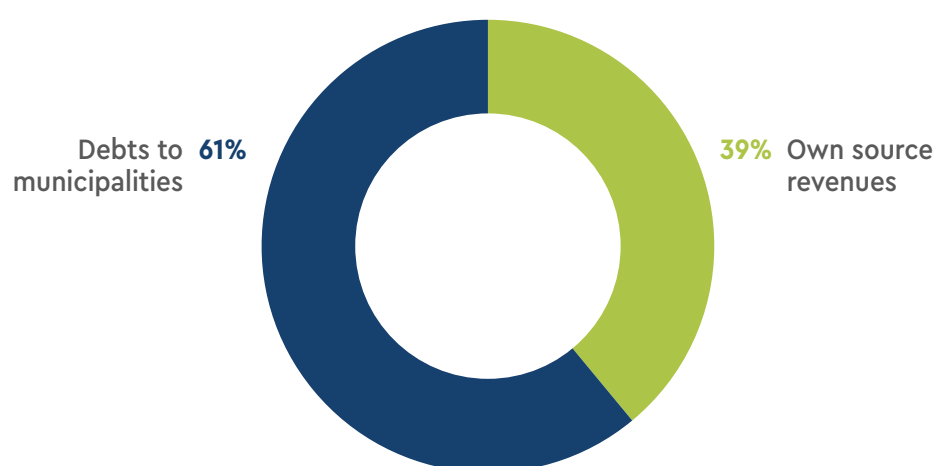
Municipalities show serious shortcomings in the preservation and management of public property as well as in the collection of own source revenues. Municipalities have not established a special commission or body to oversee the situation of public properties, and moreover, municipalities have proved inefficient in managing properties they lease to individuals or businesses.

The National Audit Office, every year, detects dozens of violations of this nature. These violations are related to the use of public property without contracts between the parties, municipal actions to compensate property users with financial means, use of property without paying monthly rent and up to the use of public spaces (apartments) with compensation of 0.30 Euros per square meter and use of premises for 1 Euro rent per month.<sup>9</sup>

Municipal revenues are also damaged by the delayed review of applications for issuing construction permits and environmental permits, irregularities in property tax billing, deficiencies in the property tax database, non-verification (inspection) of registered properties, non-payment of activity tax, invoicing not based on the real area, registration of revenues in inappropriate economic codes and incorrect calculation of fees for construction permits. Municipalities lose millions of Euros every year from these actions.<sup>10</sup>

All municipalities within a single year realize own source revenues of about 79 million Euros, while revenues that municipalities have not managed to collect until 2020 are over 204 million Euros.

**Diagram 7.** Percentage of funds realized by municipalities during a year, calculated with the percentage of funds that external parties owe to municipalities



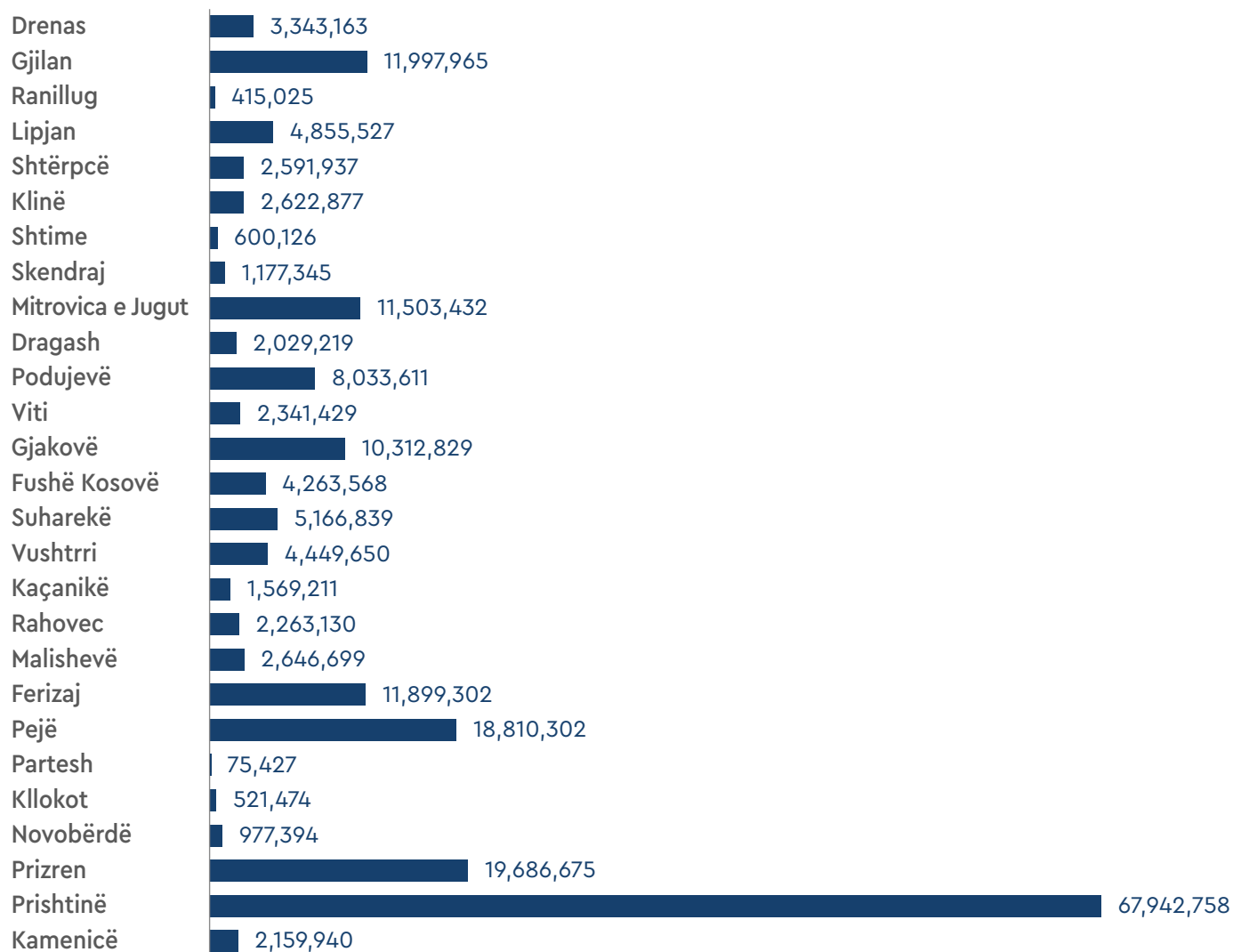
Source: The annual financial report 2020 of the Ministry of Finance on the level of revenues and expenditures and data on outstanding liabilities to municipalities are based on 76 reports of the National Audit Office for municipalities for 2019 and 2020

<sup>9</sup> Source: The data presented are based on 76 reports of the National Audit Office for municipalities for 2019 and 2020

<sup>10</sup> Ibid.

All municipalities have uncollected debts which are higher than their annual own source revenues. Lack of debt collection affects the insufficient rate of capital investment, creates inequality among citizens (because some pay and some don't) and has an impact in financial losses.

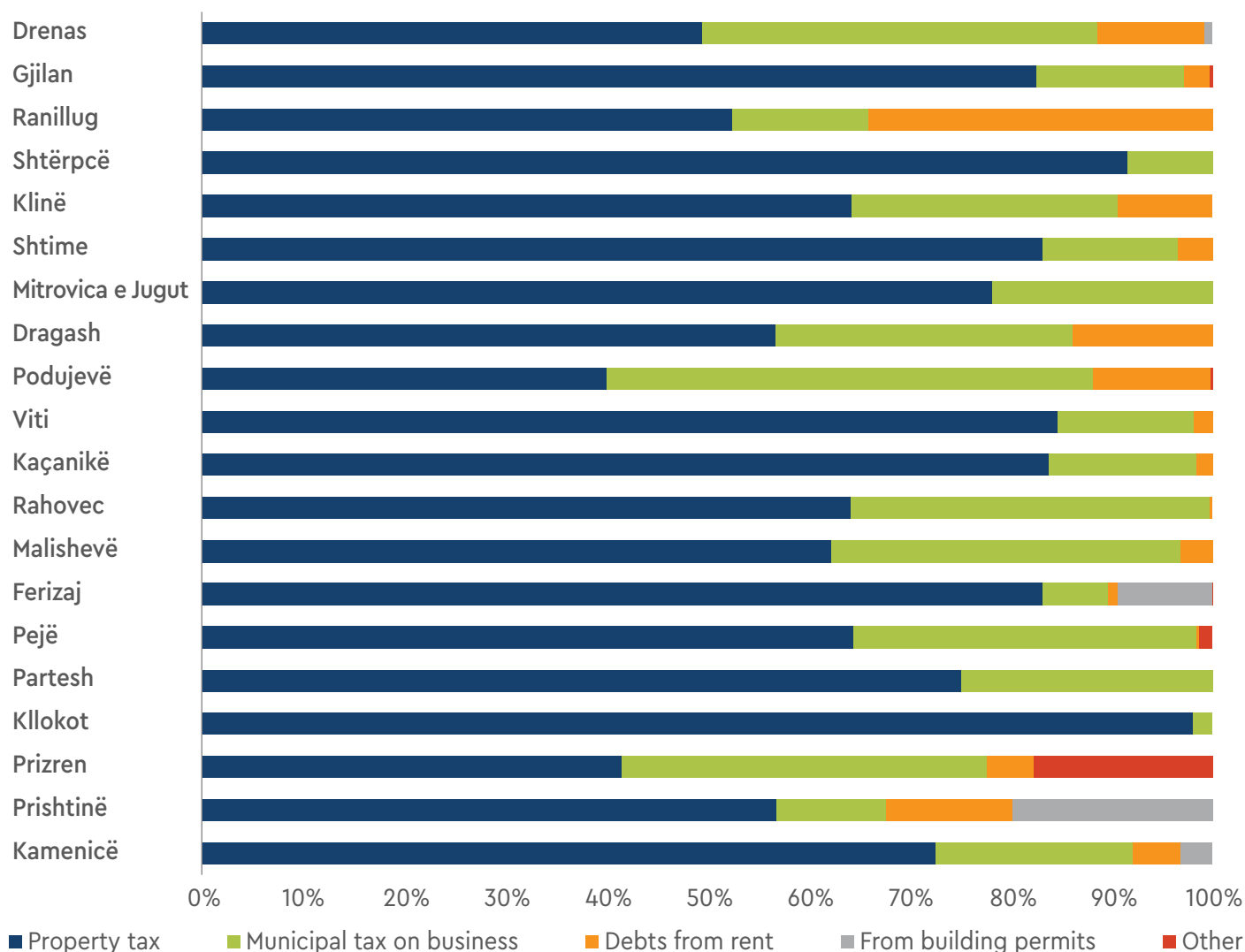
**Diagram 8.** Debts of citizens and businesses by municipalities until 2020



Source: The data presented are based on 76 reports of the National Audit Office for municipalities for 2019 and 2020

The highest percentage of debt to municipalities is in property tax, followed by other debts that businesses owe to municipalities. Prishtina, Ferizaj, Kamenica and Drenas are characterized by such debts which are also owed for construction permits. The nature of these debts can harm the citizens who invest funds for the purchase of housing units and non-payment of debts by builders in relation to the municipality can be followed by decisions to demolish the building, block of construction, prohibit technical acceptance of the facility and up to the prohibition of registration of the housing unit on behalf of buyers.

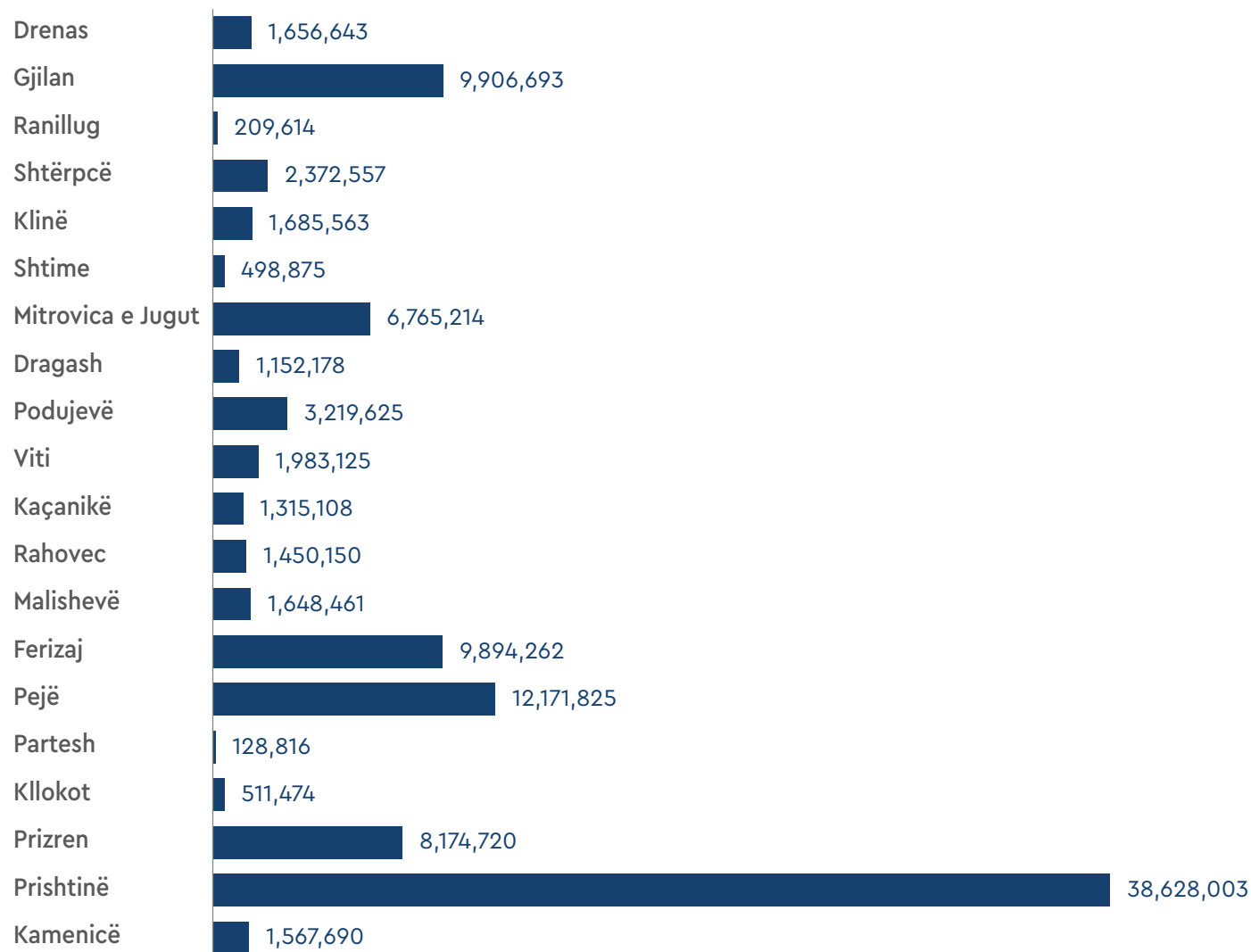
**Diagram 9.** Debts of citizens and businesses by municipalities until 2020 based on categories and percentages



Source: The data presented are based on 76 reports of the National Audit Office for municipalities for 2019 and 2020

Of the over 204 million Euros evidenced by the NAO that citizens and businesses owe to municipalities, about 60% of them are property tax liabilities. Municipalities with a large territory have uncollected debts in this category that amounts to, or exceeds 10 million euros.

**Diagram 10.** Debts of citizens and businesses towards municipalities until 2020



Source: The data presented are based on 76 reports of the National Audit Office for municipalities for 2019 and 2020

In addition to the difficulties of municipalities in collecting own source revenues, municipalities have also shown negligence and inefficiency in the management of municipal public property. Thus, at least 37 plots in the industrial zone Prishtina (belonging to the Municipality of Prishtina) Fushë Kosovë, spread over about six hectares, are used by various businesses without any compensation to the municipality. The municipality has financial losses because it does not collect rental income for these plots that are used.



This finding of the NAO in 2020 is a repetition of the same finding in previous years, but the municipality has not taken any action to prevent financial losses caused by the use of its properties without compensation. In the case of the Municipality of Prishtina, the NAO finds that based on the decision of the Municipal Assembly, in 2007, 21 apartments were rented to former municipal assembly members. Whereas, with the decision of the Housing Commission, in 2008 another 22 flats were rented to administration workers. In both cases, according to the contracts, the term of use was for a period of ten years. Now, these contracts have expired and have not been renewed, although tenants continue to use the public property/apartments. In addition, although the compensation was minimal (0.30 Euros per square meter), the rent was not paid on time and all users owed debts accumulated over the years in the amount of 15,874 Euros.<sup>11</sup>

In another case, the Municipality of Istog, in previous years, had leased 45 properties on temporary basis without a public tender. The signed contracts do not specify the duration of use of the properties. Also, over the years, the municipality has sent notices to beneficiaries regarding the non-fulfillment of obligations for the use of properties. However, despite the fact that they had outstanding debts to the municipality over the years, 38 tenants still continue to use the properties of the municipality and the municipality had not taken any legal action against them. In fact, the debts of seven tenants in the amount to 3,960 Euros were written off from the list of debts by the municipal official without legal basis.<sup>12</sup>

On 01.08.2001 the Municipality of Prizren, entered into an agreement for Concession for the market places "Bajram Curri" and "Qylhani" with a duration of 10 years, until 01.08.2011. Since that date, they have made an Annex contract for a period of two years until 01.08.2013, based on the terms of the initial agreements and stating that this contract can not be extended further. Since 2013, the markets have been used without contracts and the municipality has not taken any steps to free these properties. Also, since 2016, eight political parties use municipal property-premises at a price of 1 Euros per month per local.<sup>13</sup>

The Municipality of Ferizaj had entered into a temporary contract "On the use of municipal property in the village of Muhovc" which provided that the tenant is obliged to take care of the protection of rented municipal property and has no right to do construction on the property that is using. After being notified of the termination of the contract, and transfer of the property to "Ambienti" company within a period of one month, the tenant applied to the municipality for compensation of assets as investment. A report was compiled within the municipal Directorate for Development, by a commission of 3 members, with an investment estimate of 15,340 Euros.<sup>14</sup>

11 National Audit Office. Irregularity Report for the Municipality of Prishtina. 2020. Pg 10.  
Source: <https://bit.ly/3pbEMY2>

12 National Audit Office. Irregularity Report for the Municipality of Istok. 2020. Pg 10.  
Source: <https://bit.ly/3ATdsLp>

13 National Audit Office. Irregularity Report for the Municipality of Prizren. 2020. Pg 12.  
Source: <https://bit.ly/3pdVUHV>

14 National Audit Office. Irregularity Report for the Municipality of Ferizaj. 2020. Pg 22.  
Source: <https://bit.ly/3pbqOr8>

## Conclusion

The prolongation of public investments beyond the foreseen deadlines, contingent and outstanding liabilities as well as forms of management of own source revenues and municipal property have resulted in large financial losses for municipalities. Projects planned to be completed within 100 days, lasted up to four years. On the other hand, the presence of high amounts of contingent liabilities and outstanding liabilities of municipalities may be associated with the reduction or failure of public investment, dissonance in budget planning and management, or even the dwelling into other outstanding liabilities, due to court decisions that withdraw certain budget amounts from the institution's funds, which were planned to be spent on other lines.

The nature of cases addressed in courts are related, inter alia, to compensation for expropriation, compensation for debt, material damage, non-payment of wages or compensations, and disputes related to contracts. Municipalities show serious shortcomings in the preservation and management of public property as well as in the collection of own source revenues. Municipalities have not managed to collect over 204 million Euros since 2008.

Based on these findings and in order to improve public policies, the GAP Institute recommends:

- Municipalities should ensure that the execution of payments to economic operators, when there is a contract, this should be done in accordance with legal provisions, in order to avoid cases where the municipality is sued.
- In cases of execution of funds from the municipal budget through the Treasury, the Ministry of Finance, should issue a preliminary notice to the respective municipalities, in order for the municipalities to reallocate funds according to preliminary plans and priorities.
- Before starting the investment projects, municipalities must draft a technical plan, which foresees the cadastral lines, underground infrastructure, and materials that will be used during the execution of works.
- Municipalities should not launch public investments without resolving all property dilemmas and disputes.
- Municipalities must ensure that economic operators who apply for public works, have the appropriate professional and technical capacity to perform those works.
- Municipalities should ensure that the execution of field works is done according to the deadlines described in the contract.
- Municipal Assemblies should summon the Director of Infrastructure and the Director of Public Services to report, at least twice a year, to unveil the municipal investment plan, and the dynamics of the implementation of works.
- Municipalities should make proper budget planning for public investments, in order not to start investments without full commitment of funds.
- Municipalities should envisage concrete measures and activities in collecting accumulated debts, in order to increase own source revenues.

- Municipalities should invest in building the professional capacity of legal offices, in order to effectively represent cases of municipalities in the judiciary and bailiff system.
- Municipalities should have an annual update of the list of persons who reach retirement age and those who reach ten years of work experience, in order to properly plan budget expenditures in the category of jubilee salaries.
- Municipalities should publish the list of municipal properties, occupied properties, and properties in use, on their websites.







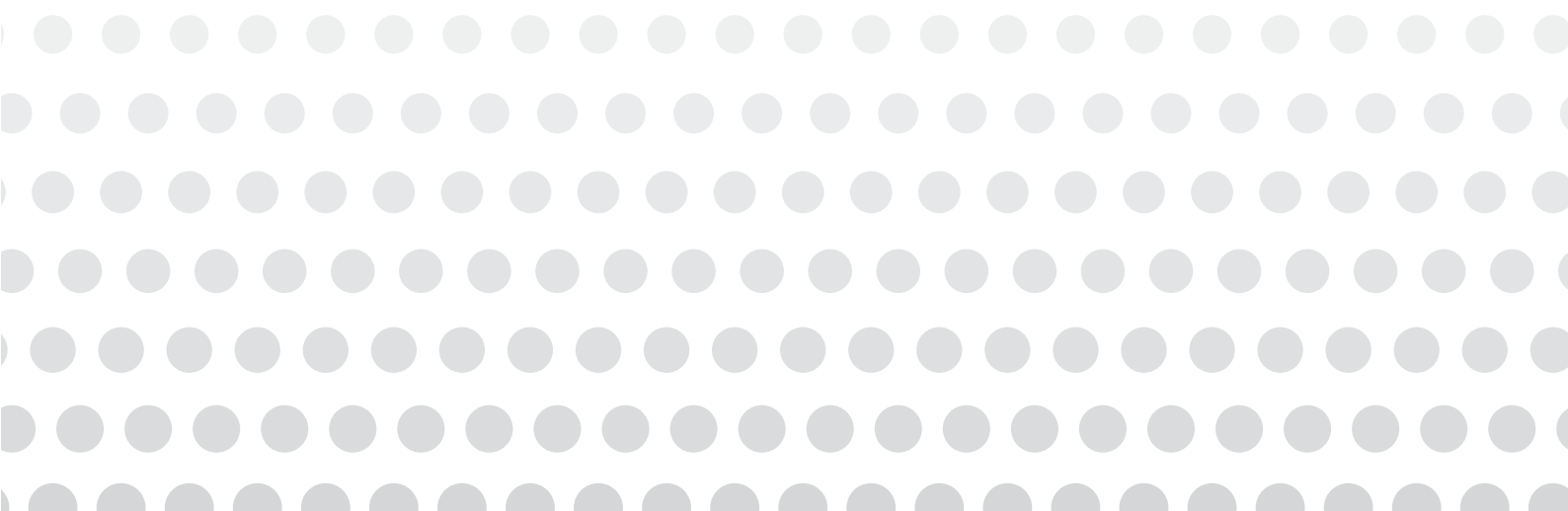
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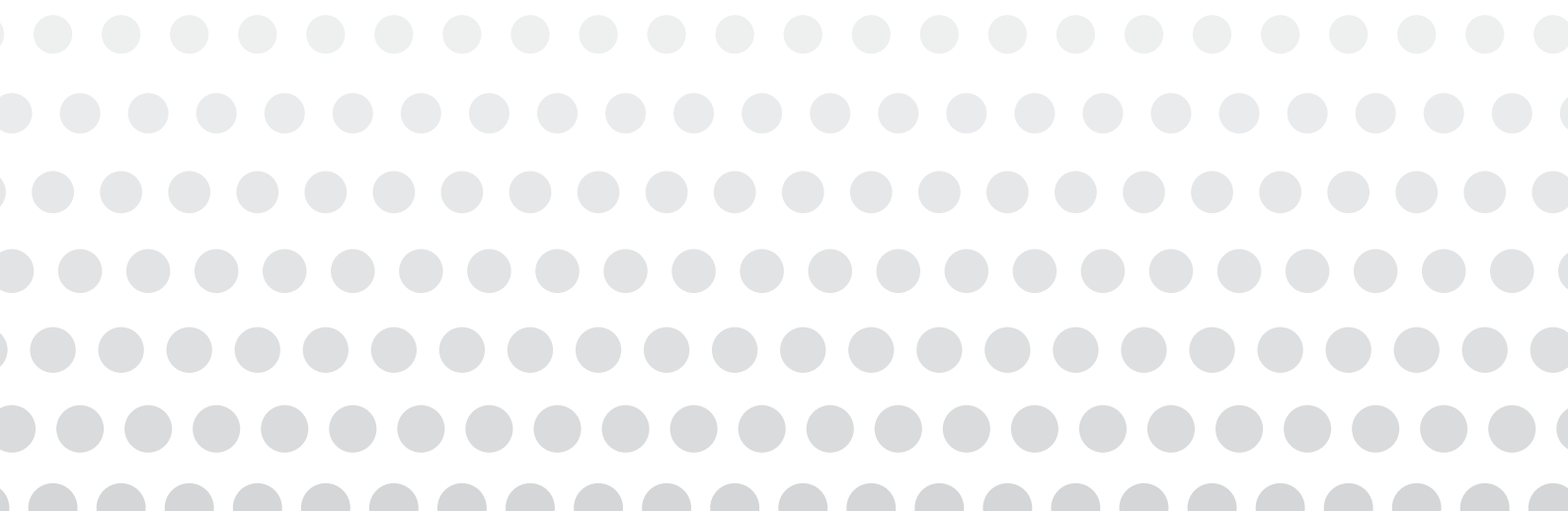


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**Challenges of municipalities  
in managing investments,  
expenditures, revenues  
and properties**