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# **Local reform in Kosovo**

**Final report**

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## EXECUTIVE SUMMARY

The fundamental question this report seeks to answer is how Serbian local communities in Kosovo may be induced to be part of the Prishtina centered decentralization scheme. Cooperation of the Belgrade led (“parallel”) municipalities with the Kosovo state would ultimately contribute to the emergence of a well-functioning and peaceful Kosovo society.

Justification of this core question depends on accepting a number of presumptions, like that:

- any sort of co-existence between Kosovo Serbs and Albanians have to encompass some extent of power sharing;
- this power sharing should have some spatial dimension – that is, it has to involve a certain element of a system of autonomous local governments and
- such as choice of Kosovo Serbian communities should be voluntary and well-informed.

A necessary, albeit not sufficient, condition of inducing Kosovo Serbs into Prishtina’s decentralization scheme is to make it better performing than the parallel one. The initial question, then, distills down to how the Kosovo system of local government can be improved so as to outperform the parallel system.

The quality of local governance depends on a great number of factors, many of which are more or less outside Kosovo policy makers’ “action radius”. Most of our attention, therefore, focused on the institutional framework of local governance as this factor is under the effective and immediate control of Prishtina. From such an institutional perspective two key features of decentralization are put under scrutiny. Namely,

- (a) the mechanisms and arrangements ensuring the political accountability of elected municipal politicians to their electorate; and
- (b) the freedom municipal policy makers enjoy in choosing whichever policy course they deem beneficial for their municipality.

In addition to the above some limitations of the scope of the approach had to be applied, too.. We dealt mostly with the K-Serbian enclaves South of the Ibar river. Kosovo’s North does not fit into the analytical framework of this study. Moreover, our approach was influenced by the potential users of our findings. The targeted audiences are the policy makers and other major players – such as NGOs – of Kosovo’s decentralization arena.

The report rests on field research conducted in a number of municipalities, both Kosovo Serbian and Kosovo Albanian ones, as well. A study on tracking the flow of funds



from Serbia to Kosovo was commissioned within the framework of our project. The project started in December 2008; our interim findings were discussed at a workshop in Prishtina in October, 2009.

## State building and decentralization

Before proceeding to present the actual findings of the research some introductory remarks on the broader context of Kosovo's decentralization are in order.

Consolidation in Kosovo was started with wide-ranging legislative changes. The process of devolution in the period immediately following the war was characterized by a low pace in some sectors. Later on, the Ahtisaari settlement proposal was a next major milestone of the decentralization process. It was the basis of a new legislative framework, which led to constitutional changes after the declaration of Kosovo's independence. The basic institutional features of the municipal system were defined by three key pieces of legislation: the Law on Local Self-Government, the Law on Municipal Boundaries, and the Law on Local Government Finance.

The task portfolio of municipalities and the scope of their competencies in international comparison is quite broad. The structure of local governments in Kosovo is similar to the one characterizing the neighboring countries, having large size municipalities with dozens of villages and sub-municipal entities. Municipal assemblies, ranging in size from 15 to 51 deputies, are elected for a four-year term. The municipal mayor is elected for the same term by direct elections. The financial framework is in line with the international standards; moreover, it foresees supplementary funding for the so-called enhanced competencies entitled to Serbian municipalities.

## Political accountability

In relation to the institutional mechanisms ensuring elected politicians' accountability to their electorate the key findings of the research are as follows:

- (a) Kosovo's decentralization regime is characterized by an extent of political accountability that is, from a normative as well as from an international/comparative perspective, weak. The "post-Ahtisaari" changes to the legislative framework included some improvements in this regard, such as the direct election of a powerful mayor and the introduction of personalized party lists.
- (b) However, analysis of the Serb parallel local government institutions showed that the legal-institutional framework and the mechanisms of political accountability on the local level are even weaker; practically speaking, almost non-existent. The 2007 changes in the Serbian electoral framework further undermined accountability by introducing the indirect election of the mayor.

- (c) This boils down to two central findings. Firstly, that the Kosovo decentralization regime already enjoys a significant advantage over the parallel one in terms of its capacity to keep elected politicians accountable. Secondly, that there is still much room to further increase this advantage.

## Room for maneuver in local policy making

Elected politicians have to possess some room for maneuver in relation to local policy making and implementation. Otherwise, they couldn't be held responsible for how the municipality is run, and local government would become an empty, formal institution. Local governments' room of maneuver is determined by three basic factors: (i) what their functions and competencies actually are; (ii) how much autonomy they enjoy in managing these devolved functions/services, and (iii) how the local government services are financed. Viewed from the perspective of these three evaluative criteria, local government autonomy in Kosovo-Albanian and in the Kosovo-Serbian municipalities is rather different.

In the Kosovo decentralization regime municipalities are formally responsible for a wide range of functions. They have increasing powers, primarily in the case of human services. Intergovernmental finances are dominated by simple transfer schemes and there are limited incentives for raising local property tax.

In the case of the parallel municipalities the scope of local functions is narrower. Public services are mostly controlled by the ministries. However, being far from the Serbian state institutions, the real functioning of this central monitoring and audit is rather formal. In the opaque system of Serbian grant allocation the financial management regulations are hardly enforced. Local government funding is heavily centralized, there are no municipal incentives at all for raising own revenues. The Serbian tax administration poorly operates in the enclaves. The communal services are usually provided free of charge. The procurement rules and regulations are rarely followed. There is a common interest of the service providers and the customers in non-payment. The actual costs are paid ultimately by the taxpayers of Serbia. Lack of own source revenue raising incentives at the parallel municipalities in Kosovo destroys the basic financial condition of accountability.

So comparing the two types of local governments along the three evaluation criteria our conclusions are that the Kosovo-Albanian municipalities have significantly wider responsibilities and their financial autonomy is limited, but still much higher than in the Serbian parallel municipalities. Greater management autonomy of the Serbian local governments comes from the unsustainable rules of operation and the lack of control mechanisms.

Despite these diverging administrative-organisational practices the actual management of Serbian parallel and Kosovar local governments can be compared. In both cases the national party politics heavily influence the local political and administrative leadership. Political accountability in the Kosovo-Albanian local governments is re-

stricted by the heavy dependence on central government decisions. In the case of the Kosovo-Serbian municipalities the administrative accountability does not work, which enhances the uncontrolled power of the local management.

## Stakeholder motivation

The actual societal-political practice may depart from the operation of the formal institutions. So our institutional assessment was supplemented by a depiction of stakeholders' perspectives. Inventory of the motives for and against cooperation with the Kosovar decentralization regime helped to determine the stance of three key actors: (i) citizens, (ii) public servants and the (iii) politico-administrative elite.

Focusing on this complex set of actors and their patterns of operation the main conclusion is, that at the citizens' level the anti- and pro-cooperation motives are balanced. However, in the case of the public sector employees and principally for the local elites, the motivation against cooperation and incentives to maintain the status quo of the parallel structures are stronger.

## Furthering decentralization and altering public attitudes

On the basis of the findings reached it is possible to formulate some recommendation possibly promoting Kosovo Serbian involvement in the Kosovo decentralization regime. These recommendations primarily target Kosovo's policy community. It should be acknowledged however that the success of these proposals depends on external conditions, like the economic development in both countries and in the general political climate in the region.

I. The institutional mechanisms ensuring the effective accountability of elected politicians to their electorate should be strengthened so as to the competitive advantage of the Kosovo system over the parallel one is further increased. This could be achieved through the following steps:

1. Creating smaller local government electoral districts, where the boundaries reflect real societal differences within the municipality;
2. Introducing mixed municipal election system, whereby some proportion of the Assembly members are elected in individual constituencies;
3. Assigning more powers to the local Assembly vis-a-vis the mayor;
4. Promoting the forms of representation within the large size local governments by strengthening the elected sub-municipal leadership;
5. Creating central policies and mechanisms aiming at a strengthening of local civic awareness.

II. Local autonomy in policy formulation and implementation should be, likewise, further broadened so as to allow municipalities to exercise not only formal, but de facto autonomy, thereby improving the quality of local governance. This can be enhanced by such wide ranging actions as:

1. Devolution in public service provision has to be continued, with a special attention to the newly established municipalities;
2. The transfer of local property and ownership rights to municipalities should be completed;
3. Regulatory framework should be further developed aiming to balance the powers of the central and local governments
4. Legal and institutional changes should enforce the depoliticization of municipal administration;
5. Further improvement of the framework of intergovernmental finances by improving local incentives in own source revenue raising and by introducing new fiscal equalization mechanisms.

Ways out from the present situation might be developed in the following manners:

- (i) promoting the relative benefits of the Kosovo decentralization scheme in comparison with the shortcomings of the Serbian local practices;
- (ii) furthering decentralization reforms in Kosovo in relation to the negative tendencies and missing elements of the Kosovar local government system and
- (iii) launching initiatives for altering public attitudes in Serbia, which could ultimately support those stakeholders who are for cooperation with the Kosovar institutions.



# 1. INTRODUCTION

This study examines the recent achievements, present status and future perspectives of local government reforms in Kosovo. By doing so we wish to contribute to the broader goals of (i) triggering and fuelling a broader debate among Kosovo's policy makers and the broader public about the goals and means of local reform and, in the final analysis, (ii) creating an institutional and policy framework more conducive to a functioning local government sector.

The present section has the ambition of outlining four introductory issues as follows:

- (1) What is decentralization?
- (2) Why and in what sense(s) is decentralization a key issue of Kosovo's present and future?
- (3) What is the scope and the method of the study?
- (4) How and in what structure are we going to proceed in presenting our findings and conclusions?

## 1.1 The concept of decentralization

While many of the unfavorable perceptions of stakeholders about local government in Kosovo may be well-founded, a significant proportion of them are based on misunderstandings of what decentralization or local government actually involves. Therefore it is justified to give a brief conceptual clarification of this key issue.

Decentralization – in the narrower sense used throughout this study – is the process of transferring competencies from the central state to local (and/or territorial) bodies of the state (Thibaut 2002 p. 143) commonly referred to as 'local governments'. The creation or strengthening of such local bodies has two distinct facets:

- Firstly, it involves political decentralization, the term referring to giving local citizens and their elected local political representatives the right (or additional rights) and powers to make decisions and legally binding rules in certain, well-defined policy areas.

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<sup>1</sup> A note on terminology: the terms „local reform“, „local government reform“ and „decentralization (reform)“ will be used, throughout the study, as synonymous; the term “Kosovo decentralization (framework)” refers to the specific institutional setup and operational mode of decentralization envisaged by the Ahtisaari proposal and developed further in the subsequent legislation based on that; the term “parallel decentralization (framework)” refers to the specific institutional setup and operational mode of decentralization to be found in Kosovo's Serbian populated municipalities.

- Secondly, it involves administrative decentralization, which can simply be defined as transferring the rights to, and creating the technical-administrative-fiscal means of, administering/implementing the above-mentioned policies locally as opposed to implementing them by apparatuses hierarchically subordinated to the central government.

While there are many different but more or less related forms of (administrative, fiscal, economic etc.) decentralization we will consistently reserve this term to denote its above form, in which both the political and the administrative aspects of decentralization are granted to territorially defined, local level units – that is, local governments.

## 1.2 Why decentralization?

Creating the preconditions of a flourishing future in Kosovo involves an extremely diverse host of complexly interrelated political, economic, social, cultural and security factors on subnational and international levels. Clearly, local government reforms are, at best, only one of these preconditions. How can, the question emerges, our exclusive focus on this single issue be justified? What is it that makes successful decentralization one of the few key success factors of Kosovo's future?

The central nature of decentralization rests on a logic outlined below. The first element (a) of this series of claims is, admittedly, a presumption not supported by compelling arguments but still is substantiated by some reasonable ones. The reasoning appearing in the remaining (b) to (d) points is however, we believe, more compelling and shed a clear light on why the central question of this study – involving Serbian enclaves in Kosovo's local reform – deserves special attention.

- a.) A starting presumption of this study is that long-term stability and reconciliation in Kosovo requires some form of an approval by both the Albanian and the Serbian side. Unilateral policies of either side are highly unlikely to be successful in the long run. Not only Kosovo's recent history but also the rather unequivocal stance of the international community suggests that unilateralism is outside the scope of workable policies.
- b.) Irrespective of the great many critical preconditions on both the Albanian and the Serbian (let alone international) sides, one essential precondition of Serbian approval is some form of power sharing between the Kosovo Albanian and the Kosovo Serbian communities. Without the institutionalized, systemic granting of some powers to Kosovo Serbs by the Kosovo state any Serbian approval of a new Kosovo framework can surely be excluded from the realm of realistic scenarios. Such a sharing of power may, at least in principal, occur in a number of different ways and dimensions. Among others, it may happen along functional lines (primarily based on national level agreements, such as in the Republic of Macedonia), or in administrative and financial dimensions, cf. which implies administrative and fiscal decentralization.

- c.) Going one step further, our third presumption is that irrespective of the various necessary and possible forms of power sharing decentralization along spatial dimensions – that is, creating a local government system as defined in the previous subsection – is a necessary precondition of the approval by Kosovo Serbs of any sort of settlement. In other words: it is difficult to imagine a Kosovo Serbian (let alone Belgrade) approval of any final agreement that does not involve the transfer of at least certain competencies from the central (Prishtina) level to the local communities of the enclaves. In other words powerful and well functioning local government system is a key condition of Kosovo's future. The inevitability of creating some form of local government system stems from various sources:
- In principal, power sharing between different communities may occur in dimensions not including space. However, Kosovo is characterized by distinctly harsh historical preliminaries and a status quo involving dispersed, multiple and even overlapping authorities partly emanating from outside Kosovo's borders. Under such circumstances it seems highly unlikely and, in international perspective, probably even unparalleled that a settlement between the two communities may be reached without some extent of autonomy granted to communities.
  - Serbian, including Kosovo Serbian, claims related to Kosovo involve certain specific locations perceived as sacred places of the Serbs. This underlies the importance of the spatial aspect of sharing power and control.
  - The pivotal role of local governance has been clearly recognized in, and has become a central element of, policies put forward by the international community.
  - Last but not least local autonomy is a centerpiece of the constitutional foundations, on which the Kosovo state are laid.
- d.) Provided that all the previous (a)-(c) statements are assumed and accepted to be sufficiently well-founded then, strictly speaking, these imply that without decentralization peace and stability is unlikely to ever come to Kosovo. In other words, some form of decentralization has to occur, if not for the sake of directly serving the will of the Kosovo Albanian people but at least for the sake of creating a key precondition of long-term peace and stability, which is a preeminent interest of all communities of Kosovo.
- e.) The involvement of the Serbian communities into the Kosovo decentralization is difficult to imagine unless the Kosovo decentralization framework makes these communities substantially better off than the parallel one. That is, the Kosovo decentralization framework has to be able to offer more to the Serbian communities than the parallel one kept alive by Serbia. Of course, any actual or proposed course of policy confronts a diverse set of interests and values. Serbian com-



munities are far from being homogeneous in this regard. Therefore it might be misleading to talk of a “Serbian attitude” towards decentralization – either the parallel or the Prishtina based one.

For example, certain Kosovo Serbian leaders are willing to negotiate or are even cooperating with the Prishtina regime while many others exclude these from the set of permissible stances. However, the quality of local governance, and the responsiveness of local institutions and policies is a key aspect of local communities’ quality of life, almost irrespective of their ideological commitments or social status. This justifies the pivotal role attributed to the quality of local democracy in this analysis – as opposed to such factors as the heavy burden of recent ideological commitments and emotional or cultural predispositions. It is not implied here that local democracy overrides all other determinants of Kosovo Serbian communities’ quality of life. We simply argue that the quality of local governance is one of the key factors affecting Kosovo Serbs’ everyday life; and therefore it strongly determines their attitudes towards the Kosovo decentralization regime.

This latter thesis is a central presumption, on which the working method of this study rests. It allows us to disregard the huge number of other, more or less related aspects and preconditions of the road to a successful future of Kosovo, and to focus on only one of them: that is, a comparative view of local democracy’s quality in the K-Albanian and the K-Serbian local communities. Actually, the entire Ahtisaari plan (and the following Kosovar legislation) itself is rooted in as, an open recognition of the central role of decentralization as a cornerstone of the future of Kosovo. These measures have laid down the legal-constitutional basis of local autonomy, on the basis of which a successful decentralization – involving not only K-Albanian but also, as much as possible, K-Serbian communities – is to take place.

### 1.3 The scope and the method of the study

On the basis of the logic underlying/justifying this study we may formulate its basic questions follows:

- (i) What are the factors hindering and promoting the voluntary involvement of K-Serbian communities in the Kosovo decentralization process, and
- (ii) *what can be done in order to improve the chances and the depth of that involvement?*

These general questions can be spelled out as follows:

- (1) How does the Kosovo/Ahtisaari decentralization framework compare with the parallel one from the perspective of the Serbian communities of the enclaves? This question involves two sub-questions:
  - a. Firstly, how does, from a markedly Serbian perspective, the Kosovo decentralization framework perform? This means an evaluation of the decentralization framework in the so-called co-operating – mostly Albanian – communities of Kosovo.
  - b. Secondly, how do, from the same Serbian minority perspective, the parallel structures south of the Ibar perform?
- (2) On the basis of this comparative analysis of the two frameworks of decentralizations what future measures improving the relative position – that is, the appeal towards Serbian communities – of the Kosovo decentralization framework can be devised?

The problem complex of the above set of questions can be – and, of course, has been – approached from a large number of different perspectives. In order to be able to formulate, as much as possible, specific and practical conclusions and recommendations our approach has been further narrowed in the following respects: a.) Përqendrimi në aspektet 'e zakonshme' teknike, përmbajtja – në krahasim me 'politikën e lartë- të decentralizimit.

- b.) A focus on the 'mundane', technical aspects, the substance – as opposed to the 'high politics' – of decentralization.
- b.) An emphasis on the institutional framework/preconditions of, and key stakeholders' immediate stance towards, decentralization (as opposed to long term socio-economic, political etc. factors or those related to international politics).
- c.) Focusing on the K-Serbian enclaves south of the Ibar river and largely disregarding the problem complex of Kosovo's North.

Below we briefly outline and justify these restrictions and choices.

### 1.3.1 Focusing on the policy, as opposed to the politics, of decentralization

A number of other, previous studies tend to emphasize the politics of decentralization. That is, they focus on the ways, in which various actors of the “Kosovo scene” emerge, interact (cooperate or get in conflict) and thus attempt to realize the interests and values underlying them. In contrast, this report puts the emphasis on the policy related aspect of decentralization. Thus the focus here is on the substance – the objectives, means, instruments and outcomes – of actual and proposed courses of action fine-tuning the systemic framework, in which the actual decentralization process takes place.

The key role decentralization policy – as opposed to, for example, “big politics” and ideological, cultural and emotional factors – is further strengthened by a number of important recent events:

- The international financial and economic meltdown starting in 2008 resulted in serious cutbacks of monetary transfers to parallel structures from Serbia proper (see our later section on the flow of funds from Serbia to Kosovo parallel local governments), and thus strengthened the role of “hard”, “down-to-earth” aspects of local policies and local public service provision.
- The series of local elections having taken place in K-Serbian municipalities signify important shifts in the political sentiments of the K-Serbian population. As both the parallel elections held by SR in certain K-Serbian local governments and – most of all – Kosovo’s national local governmental election held in November 2009 show, electoral support for radical, nationalistic and Belgrade-centered politics is in sharp decline, whereas moderate, pragmatic and pro-cooperation political attitudes and forces gained/are gaining significant leverage. (For a somewhat more detailed depiction see our next section on the event history of Kosovo’s decentralization.)

### 1.3.2 Emphasis on the institutional factors and stakeholders’ attitudes

How local democracy fares, or is likely to be faring in the future, in K-Serbian local communities depends on a large number of factors, many of which lie far outside the action radius the Prishtina government or the international community in Kosovo. One may think of the progress of the global, regional and local economy, demographic processes in K-Albanian and K-Serbian communities, political trends of major external players (Republic of Serbia, USA, Russia etc.), just to mention a few. In order to ensure the practical relevance of our analysis and the feasibility of the recommendations based on them we deliberately disregarded a broad host of these diverse factors and, instead, identified and focused on a few key ones. These focal factors are expected to be characterized by

- a) a relatively direct and tangible influence of the Prishtina government and of the international community in Kosovo, and

- b.) the relatively open, verifiable nature of this influence (potential or actually exercised).

To put it simple, it is of very limited practical utility to examine the effects of, informal and quasi-criminal power structures or party funding. Any commitment or actual action in fields such as these are, by their very nature, impossible to verify. Therefore recommendations targeting these issues will not be 'taken seriously' by any major stakeholder – possibly most prominently by the K-Serbian local communities .

It is not difficult to see that it is the formal-legal framework of decentralization that meets the above (a-b) requirements. Therefore our predominant analytical focus will, throughout this study, on the formal-institutional determinants of local government functioning. In other words, one the primary question we set out to investigate is the extent, to which actual and possible future institutional frameworks promote or hinder effective local government and a substantive K-Serbian involvement in it.

However, we definitely wished to go beyond the (maybe more usual) type of analysis preoccupied with 'sterile' legal texts and disregarding the diverse, oftentimes antagonistic reality, in which those legal norms are – or, in many important cases, refrain from being – implemented. Therefore our institutional focus of analysis is supplemented by two additional but closely related perspectives.

Firstly, we invested a significant amount of attention and resources in investigating how formal institutions of both the Prishtina and the parallel local government structures operate in reality; to what extent and in what respects actual practice follows, or alternatively deviates from and conflicts with, formal institutional frameworks and prescriptions.

Secondly, we sought to identify the motives of key K-Serbian stakeholders inducing them to seek or, alternatively, to refrain from broadening and deepening their involvement in the Kosovo decentralization regime.

### 1.3.3 Geographical scope

In the course of implementing the present undertaking it has become increasingly clear that Kosovo's North does not fit – or is not worth to be forced – into the analytical framework of this study; indeed, it didn't seem to us to make much sense to proceed with the type of analysis foreseen for the K-Serbian enclaves south of the Ibar river. In the final analysis this geographical difference can be attributed to the fact that the basic presumptions underlying this study – as outlined in subsection 1.2 – are simply not met in Northern Kosovo. The functional imperative of creating at least a rough consensus between the K-Serbian and the K-Albanian side, which as a centerpiece of our investigative logic is increasingly present in the enclaves, is largely missing. Moreover, we do not see any recognizable trend towards such a state of affairs, in which inescapable factors would induce both sides to employ cooperative strategies.

This is by no means to say that extending the geographical scope of the Kosovo decentralization regime to Northern Kosovo is, in the longer term, either impossible or unlikely; we simply mean that (i) at the current stage of societal and political develop-

ments and (ii) observing the technical, resource related and analytical constraints of the present study it is of little use and practicality to investigate the issue of involving Kosovo's North in the Kosovo decentralization process.

### 1.3.4 The method and the structure

The project underlying this final report consisted of three stages. The first one – starting December 2008 – involved, largely on the basis of pre-existing reports and research materials, a stocktaking of the major issues surrounding the local governance of Kosovo's Albanian and Serbian communities. This phase resulted, in February 2009, in a document titled 'Local reform in Kosovo: issues, debates, conflicts'.

The first phase laid down the groundwork of the second stage of the project involving field research by two local research teams in ten different municipalities and communities of Kosovo. The field research focused on assessing the status, and an exploration of the key problem areas of Kosovo's two more or less distinct sets of municipalities: those – mainly Albanian – ones co-operating with the Kosovo decentralization regime, and those (mainly Serbian) ones that do not, or so far have not, accepted the decentralization scheme built on the Ahtisaari plan. This phase resulted in a report titled 'Local reform in Kosovo: Obstacles and options' discussed at a workshop in Prishtina in October 2009.

This Final Report is the end product of the third, final project phase. This phase involved four elements:

- a.) Synthesizing the findings and conclusions of the previous two reports;
- (b) A comparative analysis of funding mechanisms and the resulting fiscal incentives of the K-Serbian enclaves on the basis of a field research;
- (c) Using the results of a report of the project's Serbian partner, Transparency Serbia ('Tracking the flow of funds from Serbia to Kosovo-Metohija'); and
- (d) An overview of local government related events in Kosovo since the publication of the last project report in October 2009 – most prominently, of the results and implications of the November 2009 local governmental elections held in Kosovo.

The following sections of this Report set out to present the main findings and conclusions of this project in the following structure:

- Section 2 and 3 charts the landscape of Kosovo's decentralization efforts by giving a brief event history. Corresponding to the increased importance of the events of the last months of 2009 we devote additional analytical efforts to highlight their implications for the project's key concerns.

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<sup>2</sup> The case studies were prepared in Dragash, Gjilan, Gracanica, Hani i Elezit, Klllokot, Leposavic, Malishevë, Mamusha, Rahovec, Shtime by IKS and KIPRED experts.

Sections 4 and 5 give a comparative analysis of the institutional framework of the Kosovo and the parallel decentralization regimes, along with an empirical analysis of how these formal institutions function in the everyday reality. The two sections focus on two key institutional determinants of the quality of local governance, respectively. Specifically,

- Section 4 focuses on one key aspect of local governance comparing the performance of political accountability mechanisms in the Kosovo versus in the parallel local governments.
- Section 5 analyzes, in a similar approach, the decision making autonomy – both formal-institutional and de facto – of the two ‘competing’ local governmental regimes.
- Sections 6 seek to enrich the institutional focus characterizing the previous two sections by examining the motive structures, in which – and as a result of which – K-Serbian stakeholders act and decide on their stance towards getting involved in, or keeping on refraining from, cooperating with the Kosovo decentralization regime. This section highlights some key issues and findings reached by previous studies regarding the pro- as well as anti-cooperation motives of key stakeholders of the K-Serbian enclaves, namely: ‘ordinary’ citizens, public employees, and the local politico-administrative elite.
- Section 7 reiterates, in a synthesizing manner, the major conclusions of the study, by identifying the factors and forces of change;
- Section 8 outlines the main directions of possible interventions and formulates specific recommendations for future actions. These suggestions are directed, in a somewhat restricted manner, only to the key target audience of this study: the policy makers and other major players – such as NGO’s – of Kosovo’s decentralization arena.



## 2. DECENTRALIZATION IN KOSOVO – EVENT HISTORY

### 2.1 Consolidation and state building

The function of decentralization in Kosovo has been changing throughout the past historical epochs. In the Communist era, just like in a number of other Communist countries, it has been used as a means of strengthening the effectiveness of political control exerted by the Party over local affairs by allowing local decision making to reflect local, non-vital idiosyncrasies (Sevic, 2001). In addition to this, however, there has been another, more peculiar feature of decentralization in Kosovo. Namely, it was used by the Belgrade authorities also as a means to influence the ethnic power balance in the region in favor of the Serbian community (KIPRED, 2004).

Initially, the legal-institutional groundwork of a European style local government system was laid out by the UNMIK regulations 2000/45 on “Self-Government of Municipalities in Kosovo” and 2000/43 “On Names, Numbers, and Municipal Boundaries”, along with the ensuing local elections in the resulting 30 local governments. These steps were, however, implemented only to a little extent. Despite the legislative changes, the real devolution process was started at a low pace. The critical conditions of decentralization, like the actual transfer of public property, reform of public utility services, fiscal decentralization, changes in the ministry functions, and redesigning the competencies of deconcentrated organs of the various sectoral ministries were delayed.

Moreover, soon after the first legislative measures were taken, the process of decentralization turned, in some sectors, to the opposite by an increasing (re)centralisation of tasks previously assigned by the UNMIK regulation to local governments. One example of this is the establishment of the Kosovo Trust Agency having taken over the responsibility for, and the associated assets of, water supply, central heating, and solid waste collection from local governments (Republic of Kosovo, 2008).

Apart from these important, but technical aspects of decentralization it has been a general tendency that the “ethnic dimension” of decentralization re-appeared in Kosovo’s post-war history. Local reform primarily focused on the formal elements of decentralization by creating territorial independent units without empowering them. This process partly originated from the attitudes and internal values of the international organizations, which focused more on the manageability and efficient control of the local government units.

One of the first major cornerstones in this process of re-defining the – already “ethnically loaded” – field of decentralization was the initiative by the SRS in 2002 to create a new system of local governments in order to induce the Serb communities scattered across Kosovo’s territory to participate in the political life of Kosovo (KIPRED, 2004). This was followed by a UN-initiated preparatory work of further measures to create a decentralized system of governance.



This work started in 2003 when a Steering Group on the Reform of Local Government was established, co-chaired by UNMIK and the PISG. The eminent importance attributed to the issue of decentralization, at least in the formal/symbolic space, is also reflected by the establishment of the Ministry of Local Government Administration in 2004.

In 2005, as a result of this work, a Framework Document was adopted foreseeing a significant extension of local governmental competencies. In addition, five Pilot Municipal Units were created – carved out from existing ones – in order to test the workability of the envisaged decentralization framework. These pilot local governments included two Albanian, two Serbian, and one Turkish majority municipalities. While the experiment was undertaken in the Albanian and the Turkish municipalities (Hani i Elezit, Junik, Mamusha), the Serbian ones (Gracanica and Partes) refused to cooperate.

The Pilot Municipal Unit program was not successful in relation to the Serbian municipalities, as only the three cooperating municipalities benefited from the program. There were different factors behind the relative success of these municipalities: Mamusha as a small, overwhelmingly Turkish municipality received special attention from the Turkish development agency; whereas Hani i Elezit existed earlier and it seceded from a larger municipality (Kacanik), establishing its autonomous municipal institutions by 2008. So in these pilot municipalities there were no ethnic conflicts between the local governments and the Kosovar institutions.

This period was also characterized by sectoral reforms and the preparation for Kosovo's independence during the status talks. Line ministries and the international community have gradually laid down the framework of service provision in those service areas which were assigned to local governments. The gradual reforms have set the new rules of intergovernmental finances, as well. These sectoral and fiscal reforms partially supported devolution, because they did not fit into a coherent decentralization framework and they were not implemented in a coordinated way.

### 2.1.1 Ahtisaari Plan

The Ahtisaari Settlement Proposal (and especially its Annex III. on decentralization) in early 2007 was the next major milestone of the decentralization process. It was drafted at the end of the political process of the so called status talks in Vienna. This basic institutional framework of post-independence Kosovo's local government system had been extensively discussed and debated, but finally not adopted, by the UN Security Council due to the repeated veto decisions of Russia. The proposal envisaged, in addition to substantially broadening the scope of local governmental tasks, a series of measures aimed at significantly enhancing the "appeal" of the proposed settlement to the Serbian community. Most importantly, the Proposal required

- the establishment of five new, Serbian majority local governmental units (Klllokot, Partes, Ranilug, Gracanica, North Mitrovica), and the expansion of a sixth one (Novo Brdo);

- devolution of further – so-called extended – competencies to the Serbian communities (these competencies included, in certain key local governments, the management of higher education and secondary health care facilities, exercising authority over cultural affairs, protection of cultural/religious heritage, and selection/dismissal of local police commanders); and
- significant changes in internal municipal structures serving to guarantee minority rights (involving the creation of a – minority – Assembly Vice President position and strengthening the Local Community Office).
- Apart from these measures a number of other important ones – outside the realm of local reform policies – were adopted too. These include a number of macro level institutional safeguards of minority rights in the fields of minority representation in the Assembly of Kosovo and the Cabinet of Ministers.

The proposal was followed by intense preparatory work of the PISG (cf. “Action plan for the implementation of decentralization”, 2007) to devise detailed plans of implementing the decentralization plan prescribed by the Proposal – once the final status issue is resolved.

### 2.1.2 New legislative framework

On 17 February 2008 after the breakdown of the negotiations over Kosovo’s final status in December 2007 the Assembly of Kosovo declared independence. It was done shortly after the Serbian presidential elections and having two ex-Yugoslav states in important positions of international politics (Slovenia exercising EU presidency and Croatia elected for UN Security Council member). The ensuing legislative work reflected a constitutionally entrenched commitment to implement the Ahtisaari plan in full, including its provisions on extensive institutional safeguards to ensure Serbian individual and collective minority rights.

The basic institutional features of the municipal system were defined by three key pieces of legislation adopted immediately after the declaration of independence, namely: the Law on Local Self-Government, the Law on Municipal Boundaries, and the Law on Local Government Finance. The new legal-administrative framework is primarily based on the new constitution, adapted in June, 2008. In addition there were related changes in the sectoral regulations, e.g. KTA assets were transferred to Privatisation Agency of Kosovo.

This period coincided with the starting of the deployment of the EU’s Rule of Law Mission in Kosovo (EULEX) mostly consisting of law enforcement (including police and

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<sup>3</sup> EULEX aims to assist Kosovo institutions to develop an independent multi-ethnic judiciary, police and customs service adhering to European best practices (2,200 international staff); it has the authority to reverse or annul operational decisions taken by the competent Kosovo authorities.

riot police) officials . The deployment of the mission was decided by the European Council in December 2007 with the idea of replacing the UNMIK administration with another one under the authority of the EU – thus bypassing the veto power of Serbia’s persistent ally in the Security Council, Russia. Another critical local actor of the EU is the International Civilian Representative. The ICR appoints the Auditor-General, international judges and prosecutors, the directors of the Customs Service, Tax Administration, the Treasury, the Central Banking Authority of Kosovo, as well as the international members of the Board of the privatization agency.

By June 2008, as a result of a series diplomatic maneuvers by Serbia, the UN position has substantially diverged from the earlier position embodied in the Ahtisaari proposal. This new position was based on a reassertion of UNSC Resolution 1244 and foresaw a continued and substantive role for UNMIK, albeit with an altered, “reconfigured” task structure and deployment pattern. The new focus was on a continued exercise of de jure and de facto control over Serb-populated northern Kosovo.

The new position was most comprehensively expressed in the so-called “six-point plan” of UN Secretary General Ban Ki-Moon. The essence of it is reasserting UNMIK’s overall control over such key areas of state authority as policing and customs in the “sensitive” northern areas of Kosovo. In November 2008 the EU accepted this new position and withdrew from the original idea of EULEX as an institution of the Ahtisaari plan itself, by declaring the “status neutrality” of its Kosovo mission.

In the meantime, on 11 May municipal elections held by the Serbian government took place in Kosovo. These elections followed the setup of the municipalities before 1999 and were open only to Serbian voters on the ballot list. The elections brought about the victory of the nationalist Serbian Radical Party (the SRS, with an aggregate result of 40%, headed by Tomislav Nikolic), while the second-best result was achieved by Kostunica’s Democratic Party of Serbia (DSS, ~33%). An “Assembly of the Community of Municipalities of the Autonomous Province of Kosovo and Metohija” was created in Mitrovica/Mitrovica North, as well. The first meeting of the Assembly was convened on 28 June. The election results and the Assembly has not been recognised by either the UNMIK administration or the Kosovo Government.

On October 8 the UN General Assembly resolution was submitted by Serbia requesting the non-binding opinion of the International Court of Justice on the question whether “the unilateral declaration of independence by the Provisional Institutions of Self-Government in Kosovo [was] in accordance with international law?”

At the same time there were political changes in Serbia, as well. The new political leadership continued to emphasize the importance of Kosovo and Metohija for Serbia, but no real steps were made beyond declarations and symbolic actions. The national administration of the issues related to the region was strengthened by creating the Ministry for Kosovo and Metohija. The leading ministry officials were appointed from Kosovo, and in the early months of its operation have improved the quality of Serbian national government’s policies toward Kosovo and increases the transparency of funding.

In 2009 a new stage of local reforms was launched in Kosovo. With the new budget of the independent Kosovo the actual transfer of local responsibilities and competencies continued. Beyond the legislative changes the roadmap of decentralization reforms

also aimed to provide sufficient financial resources and financial autonomy to fulfill local governments' responsibilities. The Inter-ministerial Group on Decentralization, supported by five Working Groups coordinated and managed the reform process.

## 2.2 Hope of change: local elections in 2009

On 17 November 2007, simultaneously with the national (Assembly of Kosovo) election, municipal elections were held. Local councilors as well as – with a second round on 8 December – municipal mayors were elected in the 30 municipalities of Kosovo. The elections were boycotted in the Serbian populated municipalities, the results of which were thus not accepted by SRSG. As measured by mayoral seats won, the winner was the centre-leftist Democratic Party of Kosovo (PDK, headed by Hashim Taci), the second being the liberal-conservative Democratic League of Kosovo (LDK, founded and headed, until his death, by Ibrahim Rugova), while the third and last participant was the centre-right Alliance for the Future of Kosovo (AAK led by Ramush Haradinaj).

After declaring the independence of Kosovo in February, 2008 a new legal and administrative system was established. The basic laws were passed in the four-month-long transitional period set by the Ahtisaari plan. In the first year the new division of labor between the two major international organizations, the UN led mission and the European International Civilian Representative has been developed, together with the arrangement of the international military presence under the NATO.

Following the transitional period general and local elections were supposed to be held in nine months after the comprehensive proposal on the status of Kosovo came into force. The local elections were organized with some delay only, nineteen months after declaring the independence of Kosovo. As in the case of many elections, the importance of this local election goes beyond the actual appointment of the councilors and the mayors. It could be regarded also as the test of the national government leading the country through the first steps of independence. In this respect position of the main political force of the government (PDK) was weakened by the leading opposition party (LDK). A new major political party also emerged (AAK), which is the sign of general criticism against the former political establishment.

Organization of the local elections was also a trial for the national government and the international community. From administrative point of view the actual process of the two round local elections was managed properly. However, the most critical element of this local election was the creation of the new municipalities, identified by the new constitution. In this respect the government and the international community did not operate successfully.

The Municipal Preparatory Teams, required for arranging the administrative conditions for the five plus one new municipalities were set up with a significant delay. Only three new municipalities were qualified for holding the local elections. Even in their case the approval from the international community came in the last minute. This hesitation confused some local Serbian political party organizations, so some of them could not formally certify their lists. Finally there were 22 Serbian lists certified in 17 municipalities of Kosovo. (KIPRED, 2009).

The tension around the local elections was increased also by the fact that during the year local assemblies were dissolved – and, subsequently, local elections in the framework of the parallel institutions were held – by the Belgrade authorities in three Serbian dominated municipalities. These local elections were organized in Gračanica (Pristina), Pec and Leposavic between August and December 2009. In these local elections the combined voter turnout in Gračanica and Pec was only 14%. The results of these elections also showed the dependence of the Serbian municipalities on the shifting political balance in Belgrade. In these municipalities the political parties formerly being in power (DSS, SRS) were weakened and the present governing forces in Belgrade (DS) gained more seats.

In the case of the Kosovar local elections in November 2009 voter turnout data shows that the Serbian participation in the enclaves was relatively high. The average Kosovo-wide turnout rate in the first round of the elections was 45%, while in the three Serbian dominated municipalities it was 23-27%. (Table 1.) In Ranillug it was lower (12%) and the turnout was minimal in the Northern territories. The second round of mayoral elections showed even higher participation in the enclaves, which for example in Strpce resulted the election of a Serbian mayor.

**Table 1. Local election turnout**

Serbian (parallel) elections	Turnout in %
2003	49,0%
2007	54,5%
2008	52,0%
2009	
Leposavic	69,2%
Pec and Gračanica	13,6%
<b>Kosovo elections</b>	
2007	31,8%
2009	
Mayoral elections, first round	44,7%
Municipalities with Serb population	
Novo Brdo	25,6%
Strpce, total	27,4%
• Serbs	19%
• Albanians	61%
mayoral, second round	54%
Gračanica, total	23,0%
• Serbs	27%
• Albanians	6%
Ranillug	12,4%
Klllokot/Verboc	25,2%
Mitrovica	34,9%
Leposavic	0,6%
Zubin Potok	6,7%
Zvečan	0,5%

Source: <http://www.kqz-ks.org>, KIPRED, 2009

Summing up the above developments one may conclude that the last months of 2009 brought at least two important political shifts in relation to Serbian local communities across Kosovo.

- Firstly, parallel elections held in August and November showed that K-Serbian political sentiments changed in favor of the moderate forces, while public support for the more radical nationalist forces has evaporated, at least for the time being.
- Secondly, the – in comparison with the parallel elections – turnout rates of K-Serbian citizens on the Kosovo organized local elections in municipalities south of the Ibar was relatively high. This is a qualitatively new phenomenon in Kosovo. It can be interpreted that the legitimacy enjoyed by the Kosovo decentralization framework has achieved a level comparable to that of the parallel institutions.

These two developments – both of which seem to have deep, structural sources rather than being temporary shifts of the political pendulum – suggest that the November 15 elections may become the starting point of a new epoch in Kosovo’s decentralization process. Nevertheless, this era is already full of challenges many of which are already clearly visible (KIPRED 2009). It is the lacking administrative and public service capacity of newly created/elected local governments, and their potential conflicts with the pre-existing parallel ones that deserve special attention and immediate action on the part of Prishtina.







### 3. BASIC FEATURES OF LOCAL GOVERNMENTS

The process of decentralization in post-war Kosovo has from the outset been characterized by two constant, parallel features. One of these features was a strive towards the functional – and partly rather technical – imperatives of effective and efficient provision of local public services within a generally centralized administrative and political culture.

The other major factor of decentralization, however has been – as a Kosovar government document, possibly somewhat harshly, put it – a “top-down proposition of the international community as a vehicle for reengaging the minority ethnic Serbian communities into the political process” driven by “international geopolitical demands [rather than] ensuring effective and efficient local service delivery on the ground” (Republic of Kosovo, 2008). Decentralization in Kosovo is regarded by many Kosovar Albanians as a gesture towards Serbia. According to them the Ahtisaari proposal gave too many powers to Serbian entities, without preventing them to obstruct the Kosovar system of government.

The task portfolio of municipalities and the scope of their competencies in international comparison is quite broad. It includes, among others, local economic development, urban planning, environmental policy, all public local utilities, primary and secondary education, primary health care, social affairs, public housing, and any additional matter not explicitly excluded from their scope of competence by law.

This wide portfolio is substantially enhanced in the case of Serb majority municipalities, where it includes the accreditation and operation of higher education facilities (in the case of Mitrovica/Mitrovica North with outlets in Leposavic and Gracanica) and secondary health care services (with outlets in Gracanica and Strpce). The operational details of the various local functions reflect an exceptionally strong element of ensuring the autonomy of Serbian municipalities in diverse sectors of local life.

For example, Serbian schools are entitled to use curricula approved by the authorities of the Republic of Serbia. In addition, Serbian municipalities in Kosovo are allowed to receive ad hoc as well as regular financial and technical assistance from authorities of Serbia proper. All such “ethnically sensitive” issues are, as a last instance, decided by a decision procedure mostly ruled by the international community; specifically, the international Civilian Representative/EU Special Representative appointed by the UNSC and the EU Council of Ministers, respectively.

The structure of local governments in Kosovo is similar to the neighboring countries of the former Yugoslavia and to Bulgaria, Poland. Outside Prishtina the former 29 Kosovar municipalities covered dozens of villages and sub-municipal units. There were 1,412 villages, thus one local government spread over 47 villages (geographical units) on the average; with the total of 453 sub-municipal governments. This is similar to Serbia (37 settlements/municipality) and the average population size of the villages with sub-municipal governments is 1,200 (like in Bosnia and Herzegovina).

With a few exceptions these large size municipalities have ethnically mixed populations: 5.2% of the population resides in a municipality of different ethnicity. In ten out of the present 38 municipalities the proportion of minority ethnic groups is significant, their share is above 10%. However, these are not necessarily Serbian minori-

ties: among the old and new Serbian dominated local governments there are four also with significant (non-Serbian) ethnic minorities. The total Kosovo Serbian population amount to 129 thousand, 54% of which lives South of Ibar river.

The new administrative system create some smaller municipalities, which will have an impact on municipal economic and administrative capacities, so consequently on local government finances, as well. The boundaries of the 1,303 cadastral zones in the rural areas are close to the village borders. So according to the new law on administrative boundaries almost in one third of the 38 new municipalities the number of these units will be below 20.

*Table 2. The size of local governments as measured by the number of cadastral zones*

Number of cadastral zones	Local governments	
	number	percentage
50-	8	21,1%
21-49	18	47,3%
-20	12	31,6%
<b>Total</b>	<b>38</b>	<b>100,0%</b>

With the exception of Gracanica – which is composed of units of three former municipalities (Fushë Kosova/Kosovo Polje, Lipjan/Lipljan, Prishtinë) - and the enlarged Novo Brdo the new municipalities are carved out from pre-existing municipalities. In some fortunate cases these new municipalities have good transportation network and easy access to central places, but some villages will be administratively cut off former nearer and easily accessible urban centers (especially in Gjilan/Gnjilane).

The Serbian dominated local governments are among the smaller municipalities in Kosovo. The average population size of local governments in Kosovo outside the capital city is 45 thousand, while the size of Serbian populated municipalities is usually below 20 thousand. In general, the creation of the new municipalities made the local government system more fragmented. These smaller units can be hardly financed by the standard methods of intergovernmental transfers. Their functions and lower revenue raising capacity will need specific funding mechanisms as the internal equalization mechanisms will not be as efficient as in large municipalities. So the size and the geographical position of the new municipalities will raise the need for cooperation between neighboring local governments.

Municipal assemblies – ranging in size from 15 to 51 deputies – are elected for a four-year term. Likewise, the municipal mayor is elected for a four-year term by direct elections (Articles 35-36 and 57 of the Law on Local Self Government). Assemblies are

<sup>4</sup> Péteri, 2008

<sup>5</sup> Based on the population data from the Annex 1. of Law on Local Government Finances.

<sup>6</sup> ESI, The Lausanne Principle, 7 June 2004. Numbers base on data of Kosovo Coordination Center (Government of Serbia, Principi organizovanja samouprave nacionalnih zajednica na Kosovo i Metohiji, Belgrade, January 2003

elected according to a proportional election system whereby each municipality is considered as a single electoral jurisdiction. The election system guarantees a minimum representation of at least 30% of each gender in the municipal assembly (Article 8 of the Law on Local Elections).

The financial framework is in line with the international standards; moreover, it foresees – an undefined amount of – supplementary funding for so-called enhanced competencies entitled to Serbian municipalities. Framework legislation to ensure the ethnic homogeneity of municipalities – and, possibly, the associated increased competency area – exists obliging the government to “engage in consultations” with prospective new municipalities inhabited by local ethnic minorities.



## 4. INSTITUTIONS AND MECHANISMS OF POLITICAL ACCOUNTABILITY

### 4.1 Assessing local democracy in Kosovo: A framework for analysis

Decentralization/local government – howsoever we name it – means the transfer of certain policy making (both decision making and implementation) competences from the central state to locally elected bodies and their apparatuses. These transferred competencies may range from certain administrative services to local economic development, running local infrastructural services, and managing cultural affairs, to mention but a few.

The creation and maintaining of such elected local government structures is a general feature of developed present-day political systems both in Europe and elsewhere. The most general justification underlying decentralization involves such keywords as ‘bringing government closer to the citizens’ and thereby enhancing the responsiveness, the effectiveness, the participatory potential and, in the final analysis, the legitimacy of the democratic state.

In addition to this general one, decentralization in Kosovo – like in some other countries having significant, geographically concentrated ethnic minorities – is driven by additional motive, too. Namely, it involves the creation of a few new municipalities where ethnic minorities – most prominently, K-Serbs – are in majority, thus granting these minority enclaves institutionally entrenched guarantees of at least some level of self-determination and autonomy.

As we argued earlier a key determinant of these enclaves’ inclination regarding whether or not to get involved in the Kosovo decentralization or, alternatively, to stay in the parallel one is the quality of local governance these K-Serbian communities expect to enjoy (or suffer) in the two ‘competing’ decentralization regimes. The current and the next section compares the institutional frameworks, in which the two decentralization regimes operate.

But what should be the specific criteria, according to which one should evaluate the two institutional frameworks? What constitutes ‘good local government’ in terms of formal institutions?

While there are, of course, a broad host of possible evaluative criteria for the sake of simple and effective presentation we will focus on two critical ones:

- a.) Firstly, local governments have to possess a political leadership politically accountable to the local electorate. This precondition is likely to be met if
  - aa) a number of competing political actors (political parties, prospective politicians) seeking to gain and retain local political power are present, and

- ab) the ability of any such political force is conditional upon the local electorate's preferences and decision (that is, without the expressed will of the electorate no political force should be able to gain or retain power, at least on the longer run).
- b.) Secondly, the political force in power has to possess at least some room for maneuver in relation to local policy making. Without this decentralization, or local autonomy, is illusory and meaningless.

It is important to emphasize that the existence of these preconditions does not, in and by itself, guarantee high quality local governance responsive to the needs of the local community. However, if any of these preconditions is stably missing then decentralization may safely be assumed to do much harm to the local community. In order to establish this conclusion one may rely not only on the normative theory of democratic governance but also on mere common sense alone. It is easy to see that the non-fulfillment of any one of these preconditions precludes the existence of any systemic motif driving local policymaking towards the local public interest.

This and the next section examine the extent, to which these critical preconditions of successful decentralization are met in the reality of Kosovo local communities.

## 4.2 Political accountability in the Kosovo decentralization regime

The groundwork of the formal, legal-institutional framework of local politics and policymaking is laid down in two pieces of legislation, the Law on Local Self-Government and the Law on Local Elections (both dated 2008). The two key actors of local governance are the mayor and the Assembly.

### 4.2.1 The mayor

The mayor is clearly the "strong figure" of the local political scene. (S)he is elected directly by the citizens. Most of the executive competences – including the setting up, direction, staffing, and financial management of the municipal administration – are delegated to him. Moreover, the Law on Local Government assigns to him "all competencies not explicitly assigned to the Municipal Assembly or its committees".

The high visibility and strong powers of the mayor as the political and administrative leader of the municipality, coupled with the highly competitive nature of this post, seems to fulfill the formal-institutional preconditions of political accountability. This conclusion is supported by the findings of the field research, whereby mayors tend to appear as well-known, central figures of the local government scene.

However, irrespective of the various – presumably not infrequently covert, behind-the-scene – political deals affecting the distribution of competencies between the Mayor and the Assembly (Assembly committees), the latter does retain some key powers. Most of all, it approves the budget, which makes it an actor that is impossible to cir-

cumvent. In addition to its core competencies defined by law local statutes, depending on the political deals underlying local coalitions, may assign more specific and extended functions to the Assembly and its committees.

Therefore it is justified to examine more thoroughly the extent, to which municipal assemblies are – or may be expected to be – politically accountable to the local electorate.

#### 4.2.2 The Assembly

From a formal, legal-institutional perspective the electoral systemic framework in which the Assembly operates seems, at the first sight, to fulfill the preconditions of local democracy in general, and political accountability in particular. Assembly members, in accordance with international (e.g. Council of Europe) standards, are elected by the local citizens in a universal, secret suffrage, and local governments are empowered with a broad range of local policy competencies etc. However, we argue that from a closer perspective serious gaps in political accountability may be revealed. Below we present some evidences supporting this proposition.

It is a general, and in an international comparison quite peculiar, feature of the election system is that it merges several features, all of which have a clear tendency to detaching the Assembly as such from the electorate and to making them, from a citizen's perspective, an alienated, faceless and distant mass of people.

- The first such feature is that each municipality operates as a single electoral zone. Consequently, it is hard or practically even impossible for candidates and councilors to develop close ties with any single sub-municipal, spatially defined constituency (such as rural vs. urban, "uphill vs. downhill").
- This is exacerbated by the comparatively definitely large size of municipalities (with an average population of around 65 thousand).
- The above two institutional features practically imply a third one present in the electoral system. Namely, citizens cast their votes not to individual candidates but, at least relatively, "faceless" lists of competing political entities. This has a tendency to impersonalize politics to an additional extent; especially so as the method, by which these party lists are created is left up to the markedly obscure practice of the political parties/entities competing at the elections .

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<sup>7</sup> Albeit the order, in which candidates figuring on the list gain a mandate, is determined by their popularity as voters vote not only on the party lists but they may also vote for a single candidate within the party list they have chosen. These individual votes are summed up to determine the order, in which candidates of any given party list gain mandate in the Assembly,



This problem of alienation between local politicians and the electorate is exemplified, for example, in a UNDP (2006) document stating that “there are many villages that have no representative in their Municipal Assembly, while other villages are overrepresented, there is currently a debate on a new division of administrative units. There is also a proposal by the Council of Europe to increase the number of local authorities in Kosovo to 120 and to implement a two-tier structure at local level”.

These limitations of political accountability are “hard-wired” in the legal-institutional framework irrespective of the operation of the more informal, subtle mechanisms of political accountability. However, further analysis reveals some additional and possibly more fundamental gaps of accountability mechanisms.

When outlining the investigative framework of this analysis we proposed that effective local democracy is preconditioned upon the existence of competing political actors seeking access to power by means of maximizing the support/approval of the local electorate. Thus in the following we examine the presence of such an accountability mechanism – or, better said: the weakness or even lack thereof – for political actors featuring in local assemblies. There seem to be two such actors:

- a.) Most of all, it is the individual politicians who may be expected to be the key actors of local politics.
- b.) Alternatively, one may argue that even if, for some reason, individual politicians are not exposed directly to mechanisms of political accountability, groups of them – that is, municipal level organizations (sub-branches or branches) of political parties – may well feature as central, politically accountable actors of local politics.

Below we examine the extent, to which these two – alternative – local political actors can be, under the given legal-institutional arrangements, expected to be exposed to political accountability mechanisms, and thus to be induced to act in the interest of the local citizenry.

#### ***4.2.2.1 Individual politicians***

Under the given rules of the game laid down in the Law on Local Elections individual candidates’ access to power depends on two factors, both of which are only quite distantly related to citizen’s perceptions of their policy performance.

The first determinant of candidates’ access to power is the number of votes received by the given party list. Each of the party lists can be assumed to be composed of a mix of relatively better performing as well as of some relatively less popular candidates. Therefore it is reasonable to assume that the number of votes received by the party lists, most of all, dependent on the overall position of the given party – and not the given individual politician! – in terms of local popularity. In principle one might argue that there is a strong correlation between the popularity of a given party’s individual candidates running for councilor position on the one hand, and the popularity of the given party, on the other. However, this is true only on the level of aggregates (groups).

On the level of individuals we face a serious so-called collective action problem. This means that the policy performance – and thus the popularity – of any given individual cannot be expected to strongly correlate with the popularity of the totality of the group (that is, that of the party list). Instead, individual politicians can hide behind their party. Being part of a group of candidates they can avoid the negative consequences of their wrongdoing and mismanagement whereby these will not fall directly on them but will be dispersed among the entirety of the party. The other side of the same coin is that outstandingly positive policy performances will not “pay” for the high-performing individual politicians, either. To the contrary, weakly performing, negligent politicians can easily free-ride on these high performances.

The second factor determining individual candidates’ access to power is the intra-party decision making processes, by which candidates for the party lists are selected. One may argue that even if – as we have shown above – real political competition among individual candidates/councilors for citizens’ votes is weak and ineffective,

- (i) candidates do compete for being selected to the party list, and that
- (ii) it is party headquarters’ major interest and concern that in this competition only the best performing local politicians be admitted on the local lists.

In order to maximize a higher-order, common interest such a selection mechanism has to counteract individual political ambitions and, after all, decide upon the fate of oftentimes powerful and ambitious politicians. Local politicians and candidates are usually among the societal strata possessing the largest extent of economic-financial and political resources and informal connections. These people may be expected to use all these means of influence in order to “convince” their local party branch that they should be selected for the list (moreover, as much “up” on the list as possible) – irrespective of whether that would increase or decrease the total number of votes received by the list.

Therefore such a selection mechanism has to be able to resist to all kinds of powerful biases and external influences, be they of an economic, financial, political, or even physical nature, coming from either central (national level headquarters) or local levels. In the face of all such pressures and individual interests the selection mechanism has to maximize the “common good” of the local party organization as a group: that is the number of votes received by the party list.

It is not difficult to see that under the present conditions of Kosovo – in terms of political culture, power structures, and government practice – it is highly unlikely that local party organizations would be able to operate such a strong, effective, unbiased and autonomous decision making mechanism. In fact, both previous research and the present field research abound in evidence supporting/illustrating the overwhelming weight and role of central structures and particularly central, national level party centers and politicians vis-à-vis local party branches and figures.

To a large extent, central party influence takes a personalized form. As KIPRED’s (2009) analysis summarizing their qualitative case studies concludes “influential figures of the political parties in power, which are originally from specific municipalities, are usually the final authority to make such decisions. In the municipality of Shtime,

the minister of Kosovo's Security Force, Fehmi Mujota, who was a former mayor of this municipality, is a very influential personality. The same role, in the municipality of Malisheva, belongs to Fatmir Limaj, the minister of Transport and Post-Telecommunications. Opposition members and civil society activists, claim that such figures are all and everything in their respected municipalities."

Central party power is not a new phenomenon. An earlier report illustrates the extent, to which party centers have the upper hand over local branches by the following story. "This hierarchical structure of the political parties sometimes places pressure on local leaders to conduct policies that may not necessarily be in their best interests, but which are demanded by their party centre. Such was the case in the municipality of Klina after the 2002 local elections, when the LDK branch was asked to end its coalition with the PDK and to instead align itself with the Albanian Christian Democratic Party (PSHDK) - the traditional partner of the LDK leader at the central level. Many local politicians, including members of the LDK and the PSHDK branches, were critical of this decision." (KIPRED 2004)

It is particularly important from our current point of view that the decisive influence of national level party centers is also present with regards to the setting up of the party lists. The report cited above found that "the three major parties - the LDK, the PDK and the AAK - are characterized by strong vertical hierarchies. [...] Party centers nevertheless manage to [...] have the final say over local electoral lists - since the patronage of various central figures is of key importance to local players and cliques" (KIPRED 2004).

In sum, we may say that, in the absence of direct citizen influence on individual candidate's electoral success or failure, local party organizations would not be able to perform the task of representing and enforcing local public interest. There seem to be no actor or mechanism being either able or motivated to effectively act as a mechanism of selection and competition ensuring the political accountability of actual and prospective local Assembly members. Local citizens are, under the given legal-institutional constraints, unable while the party headquarters are either able or much motivated to do so.

#### ***4.2.2.2 Local political party representatives***

Even if - as we have shown above - individual Assembly members are not exposed to effective mechanisms of political accountability towards the local citizenry, local level units of political parties might be so, at least in principle. As candidate selection is entirely in the hands of individual parties the political birth as well as the longer-term political survival of "simple" Assembly members is fundamentally determined by the party they belong to. Such a unilateral dependence of individual Assembly politicians on party structures can reasonably be assumed to create the preconditions of an effective control of faction members by the faction/party leadership in the Assembly. This strict faction discipline, in turn, might make local party organizations, as opposed to individual councilors, a real, key player of local policymaking. Therefore it is justified to examine the extent, to which these entities are exposed to mechanisms of political accountability.

How would such a “spare mechanism” of political accountability – whereby local citizens’ preferences are mediated by national party centers – work? A few paragraphs above we concluded that it is party centers, rather than local party organizations, that select most or all local politicians, and that apart from this particular aspect there is an overall impression that party decision making structures are strongly centralized in general, too. This means that national level party centers have the means to decisively influence “who is in and who is out” on the municipal level. National party centers, moreover, not only possess these means but they also need to use it to promote their interests in the local scene.

We argue, however, that such a centrally-driven mechanism of local political competition is unlikely to ensure real political accountability towards the local citizenry. This is so because of various reasons.

Firstly, the preferences and votes of any single municipality may only marginally contribute to party centers’ goal of maximizing their overall – that is, national level – power. In other words, a major precondition of political accountability – that access to power must be conditional primarily upon local citizens’ evaluation of policy performance – is not met.

Secondly, local democracy is local by definition; if important things are decided by distant party centers then the key aspect – locality – gets out of the picture. This is problematic for various reasons:

- Central party figures and committees surely possess distinctly less information about the (actual and prospective) performance of local candidates than local citizens have. Therefore – even if they wanted to do so – they are much less able to assess and predict policy performance reliably than local citizens are.
- Moreover, the more decision making is delegated further away for the final “principals” – local citizens – the more tendency of biased decision making there will be. National level decision making centers of political parties – as all agents – surely will have, in addition to maximizing local electoral popularity, a number of other, possibly conflicting motifs in selecting local candidates. These may emanate from national level (as opposed to local) inter-party as well as intra-party political struggles, deals and ambitions.

### 4.2.3 Other local institutions of political accountability

In the large municipalities covering dozens of villages the participation techniques and the forms of community representation have not been developed sufficiently, so the political party influence is not amended by other forms of representation. The municipal Communities Committee is a mandatory, permanent structural element, but members nomination depends on the political parties, similarly to appointment of the village representatives in the sub-municipal entities (bashkesia lokale). These village heads have limited influence on the elected local governments. Other forms of public participation – such as public hearings or public referenda – are also rather formal in the municipalities.

Development of effective mechanisms of political accountability is constrained by the frequent changes in the local leadership. There are local elections in almost every second year, despite the fact, that by law the councilors and the mayor have a four-year-long term. There is no continuity in municipal leadership, which would be needed for designing and implementing municipal strategies.

Other institutions of political accountability and civic control are not developed either. The number of community based civil society organizations is still low. The number of registered NGOs is 2,500, which means the population per a non-governmental organization is 800-900 and probably not all of them are active .

The local media is relatively well developed: there are 15 local television and 73 local radio stations . They are located proportionally in the major regions of the country. In this field the ethnic proportions seemed to be properly followed: one third of the radio or television broadcasters provide their services in Serbian and additional 30% of the broadcasters have programs in two languages. However the access of Kosovo Serbian population to news media is strongly varied in space and oftentimes very insufficient (for more details see the next section).

Transparency is another basic condition of accountability in the public sector. Developing the culture of transparent municipal organizations is a long term process. The opening of the local procedures and involvement of the general public in the decision making would require a lot of efforts on both the municipalities' and the citizens' side. One indicator of the openness at local level is whether a municipality has a website or not. Presently 79% of local governments have their own websites and the seven municipalities which have no websites are the Serbian ones and two of the newly created ones . The control over elected local leadership and towards the service providers through greater transparency and citizen participation is a critical condition of further devolution.

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<sup>8</sup> Mushkolaj, 2006. In transition countries the number of population per NGO is 100-200, so significantly lower.

<sup>9</sup> Out of 114 media broadcasters. IMC annual report, 2007, <http://www.imc-ko.org/IMG/pdf/210.pdf>

<sup>10</sup> Kosovo municipalities, short profiles. AKM, 2008 June

### 4.3 Political accountability in the non-cooperating municipalities

For the sake of brevity we will not perform such a detailed analysis of the parallel decentralization framework as it was the case with the Kosovo decentralization regime characteristic for the cooperating municipalities. This shortcut is made possible by the fact that the two systems are very similar; in fact, from our current point of view, almost identical. Therefore we only discuss the differences of the Serbian legal-institutional framework as compared to the Kosovo one.

The main conclusion of the previous analysis was that the formal-institutional framework in effect in Kosovo's cooperating municipalities, coupled with the ever-centralized party decision making structures – both formal and informal – offers only a limited chance for the operation of effective mechanisms of political accountability.

With regards to the non-cooperating municipalities this conclusion holds definitely even firmer true. That is, even most of those weak elements acting towards more political accountability located in the Kosovo framework are missing in the parallel Serbian one. Three such differences are emphasized here.

Firstly, the mayor as a highly visible, powerful, directly elected – all in all: politically clearly accountable – figure of local politics is entirely absent. Mayors are elected indirectly, by the local councils. Therefore their position is burdened with all weaknesses related to the lack of political accountability identified in relation to the local council.

Secondly, the order, in which individual candidates on the party (so-called electoral) lists receive their mandate is unrelated to their local popularity (as it was the case in the Kosovo system where this order is determined by the number of votes received by each individual candidate). In the parallel system each citizen casts one vote only, namely, to the party list (s)he prefers the most. The motif of the second vote indicating the most preferred person from the party list chosen is absent here. Instead, the set of candidates actually receiving mandate from among those present on the list is determined by the nominating party.

Thirdly, and quite peculiarly, the aforementioned party decision regarding the order, in which candidates on the list get their mandate is made after the elections have taken place. Therefore it is impossible, even theoretically, for the voters to know in advance which persons they are actually providing access to power by giving their votes to any given party list. To the contrary; it is quite convenient for the parties to put some "strong names" on the list and – in the view of the election results and the intra- as well as inter-party deals following the elections – leave them completely out from the final winning list.

All these differences act towards the same effect: the progressive weakening – or, rather, the practically total elimination – of the preconditions of political accountability, at least with regards to the level of individual politicians.

As in the previous subsection here it is necessary to examine the other potential level of political accountability: the one based on a competition between political parties (or parties' local branches) as opposed to individual politicians. In relation to the cooperating municipalities this level was found to have quite modest chances to be effective anyway. With regards to the non-cooperating municipalities this chance is

further weakened by the even larger extent of power centralization. While the weight of national level party power centers was found to be overwhelming compared to that of local party organizations and other players, this is probably even more so in the non-cooperating municipalities.

This may be expected to hold true because various reasons:

- The parallel structures are kept alive – by political, security, and most of all, financial means – solely by one actor, the Serb Republic. This uncontested dominance of a single actor creates a similarly uncontested and complete dependence on local side. This is in more or less contrast with the situation to be found in the cooperating municipalities, where – although with an overwhelming weight of Prishtina based central structures – one still finds a number of other important actors such as the international structures and some NGO's.
- Another reason why structures of power and influence can be assumed to be more centralized is the larger role played by informal – and oftentimes (partly) illegal – structures and processes in the operation of municipalities. Transparent and formalized mechanisms of funding, central supervision and so on are important safeguards of local autonomy. If, however, these mechanisms are blurred then channels of central influence become more unrestricted; moreover, the possibility and thus the probability of illegitimate or even illegal influences may be expected to increase.

#### 4.4 Summary conclusions

Local democracy means the effective representation of societal interests on a local level. A primary precondition of such a representation is that those in power be accountable to the citizens they represent – that is, to the local electorate. Such an accountability may be ensured only by such a competition for political power, the outcome of which is primarily determined by the local citizenry. The above analysis examined the extent, to which these preconditions of political accountability are met in the cooperating and in the non-cooperating municipalities.

The main conclusion reached was that in terms of the legal-institutional framework

- in the cooperating municipalities these mechanisms are markedly weak; nevertheless
- in the non-cooperating parallel municipalities they are even weaker, practically non-existent.

As far as it was possible to assess these conclusions seem to be reflected by the real-life processes well-founded revealed by the field research.

An additional remark related to the directions of change observable in the two sceneries that is the K-Serbian and the Prishtina based decentralization regimes. The latter has shown a tendency towards increasingly more local political accountability. The

“post-Ahtisaari” changes to the legislative framework included, among others, the direct election of a powerful mayor, the introduction on personalized party lists (as opposed to anonymous ones) as well as the introduction of relying on citizen preferences in establishing the order, in which candidates on the party lists receive mandates. The Serbian changes, at least so far, have shown certain tendencies of the opposing size. Most peculiarly, the 2007 changes to the electoral framework include the introduction of the indirect election of the mayor.





## 5. ROOM OF MANEUVER IN LOCAL POLICY FORMULATION AND IMPLEMENTATION

Local governments' powers are determined by three basic factors:

- (i) what the municipal functions and competencies set by the national laws and regulations are;
- (ii) how much autonomy they enjoy in managing these devolved functions in terms of defining the forms of service delivery, appointing personnel, etc. and as part of it
- (iii) what the scope and form of fiscal decentralization is, that is how the local government services are funded.

Obviously these general factors of local policy formation and implementation are very much defined by the specific conditions of decentralization: the governance traditions, the stage and trends in public sector development, the level of economic growth and other factors such as the presence of the international community.

Kosovo has a mixed legacy of local policy formation and management. On one hand the region has been part of highly centralized states since the Ottoman times and later during the period of the socialist-communist former Yugoslavia. The single political party mechanisms of the Yugoslav times seriously constrained the scope of municipal and regional self-government of the autonomous province. On the other hand, during the 1980s as some form of self-rule the so-called parallel structures of the Albanian population were created. These fragmented structures with low level of accountability at least provided basic public services in the hostile political-administrative environment.

So the importance of decentralization is well understood in Kosovo, although the parallel municipal institutions of those times cannot be regarded as fully fledged, democratic local governments and they should not be confused with the mechanisms of the present-day parallel structures in the Serbian municipalities.

Since 1999 the international community also promoted decentralization. However, the central control over the public services and municipal budgets continued to be rather strong. The presence of the international community and the international development assistance programs is significant. Donor dependence influences local decision making in many ways and they create complicated coordination mechanisms with and between the UN and the EU organizations. The international assistance in financial terms is decreasing, but it is still around 10% of GDP. However, half of official development assistance is used for technical assistance and does not directly flow into the Kosovar economy.

In Kosovo the public sector has a significant role in the formal, "white" – as opposed to black or grey – economy. In this country with very low per capita GDP, the local government is an important economic actor, both as employer and purchaser of goods and services. According to the labor statistics only 46% of the population is economically

active, but 40% of them are unemployed. The number of those employed in the formal economy is only 145 thousand, so together with the typically agrarian unofficial employment the total labor force in the country is between 350 and 400 thousands. Among the officially employed great majority, 100 thousand people work in the public sector and out of them 42 thousand at the local level.

At the relatively low level of development of Kosovo, this large economic weight of local governments makes the municipalities and their service organizations very attractive for citizens as employers and for businesses as potential clients. The devolved human public services, comprise a vast majority of local government expenditures and most of the local employment is concentrated in these sectors (86%) .

The most important conditions of economic development are related to infrastructure and public administration. Both official government plans and enterprise surveys show that the electric energy supply and the road network are the most critical elements of infrastructure. In the field of governance, the overall quality of public administration (e.g. lower corruption) and special services like customs service are regarded as the most pressing preconditions of economic development.

The level of public service performance is moderate. Basic services are available mostly in urban parts of the large size local governments. There are quite high regional differences in Kosovo. The northern part of Kosovo is better equipped with utilities and there is a high urban-rural divide, as only large cities have specific services, like waste collection, district heating. Due to historical reasons the Serbian population has better access to water and sewage treatment services. But as the number of Serb resident in urban centers is gradually decreasing and the rural areas have lower level of service, the differences along the ethnic lines slowly diminish.

In this transitional period the costs of independence will also be a significant burden for the public budgets . Among the various elements of these estimated costs of EUR 426 M for the period of 2008-2011, the external debt of Serbia apportioned to Kosovo will be EUR 241 Million, that is app. EUR 60 million annually. The rest is related to building the new multi-ethnic state, which has to deal with the minorities, new local governments with enhanced functions, and will have to create new security and administrative institutions.

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<sup>11</sup> Based on 2009 budget plans, see Hajnal-Peteri (2009). All other data in this chapter are from the same report. Data and information on the Serbian funds used in and for Kosovo are from Transparency Serbia (2009) report, written for our project.

<sup>12</sup> MTEF, 2008, based on Tongue, Kevin (2008): Financial Impact Assessment on Kosovo Independence – Abridged Version; EAR

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Our brief assessment below will focus on the three critical components of decentralized public service provision mentioned earlier. The most important factor defining the local autonomy is the (i) scope of municipal functions. Beyond the size and types of local competencies the (ii) conditions of service management also determine the quality of decentralization. This institutional and legal environment comprises of the following components, briefly discussed below:

- access to public property and forms of ownership,
- local autonomy in managing service organizations;
- supervision of service providers,
- employment regulations.

The (iii) forms of municipal financing are influenced by the size and forms of own source revenues, the revenue sharing system and the grant schemes. Capital investment financing is usually dominated by intergovernmental transfers, so the size and techniques of funding municipal capital projects are important factors of local autonomy.

The below subsections will provide a brief overview of these aspects of municipal autonomy both for the cooperating municipalities and for the Serbian communities. This parallel analysis will help to define the scope of autonomy in the field of municipal service management.

## **5.1 Local functions and competencies**

### **5.1.1 Cooperating municipalities: broad competencies – restricted powers**

Local governments in Kosovo provide a wide range of services and they have broad administrative functions. According to the new constitutional-legal framework local governments are responsible for twenty different types of services by law. Local budget spending is approximately 6% of GDP. Before the most recent wave of fiscal decentralization in many SEE countries the scope of local functions was similar. In some other countries the level of decentralization measured by municipal share in public funds was even lower (Table 3. and 4.).

**Table 3. Local government expenditures as percentage of GDP**

	Local budget in GDP (%)	Local expenditures in general government expenditures (%)
Albania (2003)	4.02	14.9 <sup>13</sup>
Federation of BiH (2000, municipalities)	4.4	4.9 <sup>14</sup>
Bulgaria (2005, forecast)	5.1	12.9
Croatia (2003)	5.16	10.4
Macedonia (2003)	1.64	7.7
Moldova (2005)	9.5	25.9
Serbia (2004, planned)	6.3	n.a.
Slovenia (2003)	5.06	11.8
Kosovo (2009)	6.4	25.0

Source: Péteri, 2008

**Table 4. Local government budgets, 2009-2010**

	2010	2009
Local budgets as percentage of GDP	6.4%	6.0%
Local budgets as % of Kosovo Consolidated Budget	25.0%	22.2%

Source: MTEF, 2010-2012

The relatively high share of local spending is partly explained by the fact that public education and primary health care are devolved to the municipal level. Almost half of local government expenditures are spent in the education sector, and much of the local governmental employment is concentrated in the school sector. Beyond these two human services local governments typically finance public utility services and manage the municipal administration. Local governments are the most important employers in the public sector.

<sup>13</sup> In the so-called old municipalities, without Prishtina

<sup>14</sup> MEF-Treasury, 2008: Nine-month budget report.

**Table 5. Local government expenditures by sectors, 2009**

Programs	Stafi	Shpenzimet e plota
Education and science	72,4%	48,5%
Health and Social Welfare	13,7%	11,0%
Public Services, Civil Protection, Emergency, Agriculture, Forestry and Rural Development	2,5%	10,9%
Urban Planning and Environment, Cadastre and Geodesy	1,7%	8,4%
Mayor and Municipal Assembly	0,9%	6,9%
Administration and personnel, inspectorate, procurement	5,0 %	5,1%
Economic Development	0,2%	4,1%
Budget and finance	1,9%	2,1%
Culture, Youth and Sports	1,1%	1,5%
Community Office	0,5%	1,4%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>

Despite the labor intensive nature of decentralized public services, one third of local government budgets are used for capital expenditures representing one-fifth of total budget sector investments. There is a strong ministerial control over capital investment projects. Regardless of the fact, that capital projects are mostly financed by general grants and municipal own source revenues, the locally implemented projects – mostly road building, water infrastructure – are under central government control.

In the field of current spending local governments are autonomous in allocating central appropriations among service organizations and sub-municipal entities. The education and health care budgets are financed by earmarked grants, so municipalities cannot reallocate them between sectors.

<sup>15</sup> See OSCE/UNMIK, 2008: Water Supply Issues in Kosovo

<sup>16</sup> UNDP, 2006: Public Services and Local Authorities Under Review, Kosovo Mosaic

**Table 6. Local government current and capital expenditures in 2009**

Type of expenditures	Local government expenditures (%)
Wages and Salaries	52,3
Good and Services	9,3
Utilities	3,5
Subsidies and Transfers	1,3
Capital Outlays	33,6
<b>Total</b>	<b>100,0</b>

Wages and salaries are mostly financed by the earmarked education grant. The maximum expenditure ceilings are set by the annual budget law. General grants and own revenues are more important sources of current budget funding in the case of goods, services, subsidies and transfers, but these items represent minor share of local government budgets.

**Table 7. Financing local expenditures, 2009 budget**

	Wages & Salaries	Goods & Services	Utilities	Subsidies & Transfers	Capital expenditures	Total
General Grant	18,0%	42,7%	48,5%	6,5%	64,1%	35,1%
Health Grant	10,7%	16,7%	19,2%	0,0%	4,0%	9,4%
Education Grant	70,6%	25,4%	30,0%	0,2%	3,7%	43,9%
Municipal Own Source Revenues	0,7%	15,2%	2,3%	93,3%	28,2%	11,7%
<b>Total*/</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
Type of expenditures	56,0%	9,4%	2,9%	1,3%	30,4%	100,0%

\*/without Prishtina and the new municipalities

The new municipalities represent 2.2% of total local budgets in 2010, slightly lower compared to 2009. As the central budget grants are the largest items among local revenues and they are mostly allocated by the number of population, the share of the new municipalities is proportional to the population number. Since 2009 their appropriations were separated in the budget and the "parent" municipalities were obliged to use these funds only for the purposes of those communities.

**Table 8. Local government budget by groups of municipalities**

	Population	2010	2009
Old municipalities	80,2%	80,8%	80,2%
Prishtina	17,4%	17,0%	17,4%
New municipalities	2,4%	2,2%	2,4%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

In reality not all the local government functions are devolved to municipalities. The new municipalities established after the piloting experiment are not authorized to deliver some administrative services. In these municipalities the transfer of services was selective, so some of the functions specified by the Law on Local Self-Governments like issuance of passports and ID cards were kept at central level. The local elections in November/December 2009 might influence the status of these new municipalities and their real autonomy could increase.

The actual provision of public utility services (water, waste management, etc.) is not under full local government control, either. The allocation of public utility company shares to municipalities has not been completed. Consequently the local governments cannot exercise their property and supervision rights over these very important local services. That is another discrepancy between the legal regulations and the actual local government powers.

In summary despite the relatively broad competencies set by the law, the scope of real local autonomy is limited. The actual municipal powers are constrained by the central control over municipal decisions and by the methods of fiscal planning and allocation of public funds.

### 5.1.2 Serbian communities: narrow functions - high discretion

Presently the Serbian communities operate as local "mini-states" managing both central and local government services in their own jurisdictions. They have relatively limited municipal powers, because some of them are not considered even as autonomous local governments by the Serbian legislation. Compared to municipalities in Serbia proper, most of them have limited functions and the citizens have to commute for administrative services, secondary education and health care services either to the municipal centers in Kosovo (e.g. to Gracanica) or to the neighboring cities in Southern Serbia.

Assignment of competencies to local governments is further complicated by the fact that some of the parallel municipalities are regional centers so they provide services for the citizens in South Serbia. For example, the regional hospital in Gjilan is accessible for the population of app. 150 thousand from three municipalities in the Preshevo valley in the neighboring country.



According to the present legislation in Kosovo the newly established Serbian local governments will have enhanced functions. So based on the Ahtisaari comprehensive proposal the already rather diverse municipal portfolio will be substantially broadened after the local elections, when the new municipalities become fully operational. As mentioned earlier these future municipalities with Serbian majority will have the competencies in higher education (accreditation and operation of facilities in the case of Mitrovica/Mitrovica North with outlets in Leposavic and Gracanica) and secondary health care services. These extended functions will also ensure autonomy in cultural affairs and control of police station commanders, as well. Obviously all these functions should be managed within the overall professional and financial regulatory framework set by the Kosovo government.

In the realm of human services public education and health services are the most important ones. In public education there are only 67 primary schools, 35 secondary schools and two vocational training schools (these educational institutions operate in several, detached school units). The university education is partially funded by the state, but there are also students who pay tuition. At all three level of education the institutions are relatively small, but highly staffed. In the primary schools the pupil/teacher ratio is very low (8.5), at the better paid secondary schools it is even lower (6.3).

**Table 9. Education services**

	Number of organizational units	Pupils, student	Professional staff	Total staff	Pupils serviced by one professional staff	Average size of service organization
Kindergarten (groups)	137	2,579	86	229	30.0	19
Primary schools	67	13,626	1,607	2,546	8.5	203
Secondary schools	35	6,713	1,061	1,544	6.3	192
University faculties	10	8,924	930	1,325	9.6	892

Despite these high numbers of actual education staff in Kosovo, there are additional employees on the ministry's payroll, too, who do not live and/or work in Kosovo. Their proportion amounts to one sixth of the total of education sector employees; however their share in labor costs is much smaller, only 3%. So the anecdotal evidence widely shared in Kosovo that Serbian teachers draw salaries and sit in Belgrade cafes, might be true, but their actual salaries are minimal compared to the other labor costs in education.

**Table 10. Employees and their salaries in education (December, 2008)**

Categories	Employees		Gross salary	
	Number	%	EUR	%
Neither live nor work in Kosovo	1,111	17.6%	230,015	2.6%
Live but do not work in Kosovo	88	1.4%	21,151	0.2%
Work and live in Kosovo	5,123	81.0%	8,595,060	97.2%
<b>Total</b>	<b>6,322</b>	<b>100.0%</b>	<b>8,846,226</b>	<b>100.0%</b>

Health care services are organized around three centers, based in Gračanica, Gjiłan and Kosovska Mitrovica. The municipal and other health centers, the pharmacies belong to this network of clinics and hospitals. Total health care expenditures in Kosovo were RSD 7.2 Million, which is 5% of total health care expenditures in Serbia. This amount is significantly higher than the share of the estimated Serbian population served by these service organizations, which are rarely visited by the Kosovo-Albanians. This fact proves that the health care centers' network with small and dispersed institutions is highly inefficient and probably it is also highly overstaffed.

There are several public enterprises having units in Kosovo. They were established for providing services like electricity, railways, road maintenance and telecommunication, or they are supposed to manage public property (forests, state owned land and buildings). They cannot perform all their functions in present Kosovo, but some services are still provided. For example the Serbian post offices operate even in the municipalities in the enclaves.

The network based services such as electricity are more connected to the Kosovar system. The public enterprise „Elektroprivreda Srbije“ (EPS) provides electricity for two types of customers: the Trepca mining factory in the North and for other residential and institutional users. In the books of EPS it is reported as transfer of electricity to the Kosovar electric company (KEK) operating under UNMIK. The two electricity grids are connected and in principle EPS will collect bills in the north, although it will not be able to provide full electricity to the north. (KIPRED, 2009). The tariffs were not paid by the customers, so this EUR 1,5 Million is showed as an arrear and probably will be accounted as a loss at EPS.

**Table 11. Electricity provided by EPS in 2008**

	MWh	In EUR
KEK/ UNMIK	23,929	1,028,928
Trepča Factory	11,541	496,266
<b>Total</b>	<b>35,470</b>	<b>1,525,194</b>

## 5.2 Service management practices

There are three main issue areas of public service management determining the real power relations between central and local governments: (i) appointment of managers and, more generally, authority over human resources management issues; (ii) funding services, including the ownership/control over physical assets and (iii) autonomy in defining the content, performance level and methods of service delivery. These central-local relations in Kosovo are determined, among others, by such factors as the inherited centralized management practices, the concentration of power under the international rule since 2000 and the lack of administrative and management capacity at local governments. All these factors influence the implementation of supervisory competencies and inspection services in the three broad areas mentioned above.

### 5.2.1 Cooperating municipalities: evolving framework of efficient service provision

From a purely formal-legal aspect, municipalities in Kosovo have full autonomy on employment decisions in the local administration. So local governments can hire and fire local public servants and staff of the budgetary organizations. However, the relevant line ministries and in the case of municipal staff, the Ministry of Local Government Administration have informal influence over appointment and promotion. They exercise this power through boards and committees, referring to legal and professional requirements.

In the field of finances the two most important services, the public education and health care are controlled by the relevant ministries. That means ministries have strong influence over budgeting, capital investment planning and use of funds. The property rights over the buildings and equipment at the service organizations are not clearly regulated. In principle local governments own the local assets, but their actual powers in exercising the ownership rights are determined by the central government.

The content of public services provided at local level is controlled by the relevant line ministries. There are standard rules and regulations, which are supervised by the regional units of the sectoral ministries. According to the law on publicly owned enterprises (POEs) if an enterprise is identified as service provider either to less than three municipalities or as operator in the field of waste collection, it shall be a Local POE, otherwise it shall be a Central POE. The local government serviced by another municipality's company should have shares in these POEs. Local governments' shares

are proportional to the population served by the company. The ownership rights of the POE are exercised by a special Municipal Shareholder Committee, which consists of the mayor and two councilors.

In order to minimize the conflict of interest and corruption risks by improving the neutrality of the company management, the rules regarding appointment, remuneration, and other competencies of the company officials are very detailed. All information on POEs' finances, including salaries and remuneration, internal regulations and business plans should be made public.

POE management rules limit the contractual relations in local service delivery and do not help the concentration of capital. Large municipal companies will be automatically turned into central POEs so they will not benefit from economies-of-scale. Presently joint municipal ownership can be found only at one regional water company, where Ferizaj is the owner in 85.3% and Kacanik is the minority share holder 14.7%.

Water and other network based natural monopoly services can be managed only in a cooperating environment. The case of Gazivode/Gazivodë reservoir clearly shows how municipalities depend on each other in this respect. The water reservoir is located in a Serbian dominated municipality in the Northern part of Kosovo, but the water is actually processed in an Albanian populated village. The water service is provided not only to the large factories, power plants and mines in the North, but also to the divided city of Mitrovica and it is an emergency service for Prishtina. The management structure of the regional water company provides the organizational form of cooperation, however the Serbian representatives left the board.

In the case of the regional water companies the user charges are set by the ministry. However, local governments have special regulatory powers, like in Malishevë/Mališevo and Rahovec/Orahovac, where the municipalities provided water free of charge to families receiving social assistance.

Due to economic conditions and historical reasons the Serbian population is richer and the overall wellbeing of the Serbian households is higher than the Albanian ones. Moreover, there are clear regional – and consequently ethnic – differences in access to basic public utility services. A 2006 survey of public services showed that municipalities in Northern Kosovo and generally in the cities are better equipped with utilities.

On the average 74% of the population has access to tapped water and 61% to sewage network in Kosovo. However, Serbian population benefited more from these urban services: access to water is 16% higher and to waste water service 19% higher, compared to the Albanian population. District heating is available in large cities, but only 6% of the population has access to it. So the typically urban Albanian population is better served; their advantage to Serbs in district heating is 5%.

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<sup>17</sup> ILO, 2006: Wage and Skills Survey of the International Labour Organisation (March 2006)

<sup>18</sup> Based on Law No. 03/L-087 On Publicly Owned Enterprises.

The unemployment rate surveyed in 2006 was higher by 50% in the case of the Albanians (46%); and the share of Albanian population in extreme poverty (13%) was three times higher compared to Serbs. The overall wellbeing of households in general is reported to be higher by Kosovo Serbs: one a four grade scale half of the Kosovo Albanians select the two upper grades (compared to 68% of the Serbs).

These differences will influence the local public service management, too. In the Serbian dominated municipalities the preferences for local services might be different and the slightly better income status of Serbs could allow the broader utilization of private sector based service management techniques. However, this is just a theoretical option. Presently the residents of the Serbian municipalities do not pay the user charges for the local public utility services. This "tradition" of non-cooperation with Kosovar institutions was always present. Even the participation in earlier international programs, like the establishment of pilot municipal units or designing programs for IDPs return was rejected.

#### **5.2.1.1 Restricted municipal ownership**

Municipal ownership rights are critical elements of public service management. Effective service management entails the municipal control over the infrastructure networks, the operational assets, the service organizations and business property. They determine the forms of service provision: whether the municipal functions are delivered by public entities and what role the private (corporate) sector will play in municipal service delivery. The local ownership will create new incentives for municipalities, because their responsibilities will go beyond the daily management of devolved public services. They will be faced with the comprehensive tasks of operation, maintenance, management and development of municipal services

Under the UNMIK administration assets of the former socially and publicly owned enterprises were managed centrally by the Kosovo Trust Agency (KTA). Since 2008 KTA has been transformed to Privatization Agency of Kosovo (KPA). Municipal water, sewage and solid waste management companies were used to be owned by the Kosovo Trust Agency, but with the new legislation on publicly owned enterprises the ownership structure is going through a transformation in these months. According to the new law there are 16 local POEs, typically each of them is owned by one single municipality, providing solid waste management services, district heating and water management. These publicly owned JKPs (Communal Service Enterprises) inherited from the Yugoslav times had to be transformed to joint stock companies by the end of 2008, but this corporatization process has not been completed, yet.

In the case of the water sector the transformation was completed, so there are six regional water companies and two irrigation companies. Local governments establish contractual relationship with these regional water companies and often several municipal competencies are transferred to the company. Municipal solid waste management is connected to the centrally owned landfill POE, called Kosovo Landfill Management Company, which is a joint stock company. The Kosovo Landfill Management Company JSC is in a controlling position, as primarily the landfill charges determine the costs of waste management services. KLMC also operates landfills through service contracts.

<sup>19</sup> [http://www.ks-gov.net/oag/Reports\\_ENG/Municipalities%20Own%20Source%20Revenue%20ENG.pdf](http://www.ks-gov.net/oag/Reports_ENG/Municipalities%20Own%20Source%20Revenue%20ENG.pdf)

<sup>20</sup> MEF-Treasury, 2008: Nine-month budget report

Despite the legislative framework local governments have not become real owners of the publicly owned enterprises such as like water or solid waste companies. The shares of each and every municipality have been determined by the government, but most of them do not exercise their ownership rights. The shareholders' meetings are not organized and the municipal influence on appointing the company management is still rather limited. So the potential benefits from the efficient forms of service management and from private sector participation cannot be realized.

The future of municipal land, which might be used for urban and business development purposes, is also unclear. The case studies showed that central and local control powers are mixed, which limits local discretion (e.g. the business park in Shtime has been established on a land with debated ownership).

### ***5.2.1.2 Lacking local supervision and control capacity***

Local government autonomy in managing service organizations is defined by the sectoral rules on service content and performance, by the technical supervision and inspection system, and the regulations on other aspects of service management such as employment. In this paper we cannot give a detailed overview of all these aspects of municipal service management. These sectoral rules are under permanent change and the municipal practices are rather different in each service area. So here we shall highlight only some of the most important elements of service management in the case of the most important municipal functions.

The legal and administrative rules of service management grant significant autonomy to local governments. For example in public education there is a framework curriculum, which is divided into general subjects and optional community-specific "national" subjects (language, history, art). The school directors are appointed by special committees consisting of local and national government representatives. In the case of the public utility and communal services the central government's powers dominate primarily in technical inspection, user charge setting, while the local committees are supposed to exercise the daily management responsibilities.

Despite these progressive regulatory reforms, the present municipal practices deviate from the national legislation in many respects. For example in public education the lack of capacity and willingness to teach in any minority languages prevents the non-Serb nationalities (Bosniaks, Gorani, RAEs) from using the Kosovo-Albanian textbooks and curriculum. In the Serbian dominated municipalities the Kosovo-Albanian curriculum is simply neglected by the schools. There is a strong central government and general political influence over the appointment of the teachers and the school directors. Despite the formally competitive process the selection committee is dominated by the representatives of the central government (Ministry of Education and Sciences and its regional directorate).

Our studied municipalities also showed that both the school directors and the teachers are political appointees, which sometimes leads to peculiar local decisions. For example if a local government does not accept the headmaster appointed by the selection committee then another school director is hired by the municipality (e.g. in Shtime). So the same position is filled by two employees, which duplicates the management, leads to inefficiencies in decision making and to financial losses, as well. Another way

of bypassing national regulations is not to fill a teacher's position for a month. In principle vacant positions have to be re-advertised, but it rarely happens, the educational staff is simply nominated. In this case the risk of political influence is much higher.

There is an overall lack of qualified human resources in most of the municipalities. Teachers as the only educated people in the municipality are often nominated local government directorate heads. In two of the new municipalities (Mamusha, Hani i Elezi) studied by our project this was the case, where clearly not administrative-managerial capacities, but political affiliation influenced the appointment for these technical managerial positions.

The local control over municipal service provision is exercised by the directorates and the committees. The local governments are autonomous in defining their internal organizational structure. But the previous UNMIK regulation from 2007 still strongly influences the municipal administration, so presently still the similar 6-7 directorates operate in each local government. The heads of directorates are all political appointees. The most important directorates are in the education and health sectors where the directorate heads control local employment; the administration directorate is usually responsible for public procurement.

The committee structure is similar to the departmental one, so there is a political body parallel to each directorate in the larger municipalities. The committees were set up in all the studied municipalities, but sometimes no committee sessions were called. Even if the committees are not active, the committee members are still paid (usually €100/month). Weak committees do not support the decision making in the municipal Assembly, which consequently will not be able to control policy formulation and implementation.

In the case of the local public utility services the rules regarding appointment, remuneration, and other competencies of the company officials are very detailed. The direct control over service companies is limited, because the Municipal Shareholder Committees usually do not exercise their real powers. On the local government's side there is a reluctance to take over the full responsibility of communal service company management. Municipalities have limited ownership rights and they lack the technical and financial capacity to supervise the regional and the local public companies.

The user charges are set by the ministry and capital investments are funded by the central budget. Consequently local government cannot be made accountable for the service delivery, because they lack the effective control over the basic conditions of utility services. However, this attitude might change with the increasing local demand for better services and with higher private sector participation in utility service provision.

### 5.2.2 Serbian communities: ambiguous regulations

Serbian public administration has kept the structure of the five administrative districts (Okrugs) and 29 local governments in Kosovo. These public actors are supposed to provide the administrative and human services, like education, social assistance, cultural and health care services. The classical public administration services (e.g. issu-

ance of certificates, permissions) are delivered through the municipal administration. However, the central organs (ministries, Health Insurance Fund, Pension Fund, etc.) are responsible for the salaries and other current expenditures of other services. The capital investments are financed through the National Investment Program (NIP), ministry budgets and a special development fund. So there is very limited local autonomy in public service provision.

#### ***5.2.2.1 No access to local property***

The future of public property has not been decided in Serbia, so it is still predominantly categorized as social and public asset. The parallel local governments in Kosovo have no full power over the assets managed by the local service organizations. Since the mid-1990s, when the former municipal public enterprises were taken over by the national government, local governments have not been able to practice their ownership rights. In Serbia the owner of the local public utility companies (PUCs) is the central state, despite the fact, that the founders were the local governments.

The PUCs operate under a specific legislation. These regulations limit the scope of private sector participation, so private shareholders are not allowed to hold a majority position. Beyond the operational assets of these PUCs, the ownership of infrastructure networks is puzzled, because municipal investments do not appear in the local government balance sheets. There are other regulatory constraints on these specific corporations, for example the annual increase of user charges is capped by law. All these rule prevent local governments from getting the efficiency gains of decentralization in the public utility sector.

The ownership of municipal land is also controversial. There is no full local ownership over the urban land, only the long term "rights to use" might be sold or invested. In some of the future new municipalities in Kosovo even these long term lease agreements cannot be used. Our case studies reported that in some instances the present Kosovo Albanian municipal leadership has awarded land on the new municipalities' territory to private users, before these local governments could have been established (e.g. in Klokot/Viti). Local governments as users of the socially and publicly owned assets are cannot collect construction land charges and leasing fees in Kosovo. Here the land is under international and Kosovar state control, so these revenues are not available for the Serbian parallel municipalities.

#### ***5.2.2.2 Centralized management of municipal services***

Due to the limited scope of local government functions, the Serbian municipalities have lower autonomy in service management than their Kosovo counterparts. In the field of human services they are responsible only for the primary level services (public education and health care). All the secondary schools, policlinics, hospitals and the Centers of Social Work are operated by the central government. For managing these services the ministries have created their own deconcentrated regional administrative units with diverging boundaries.



The public education, being the largest spending item in the Kosovo municipalities, is in the parallel municipalities operated by the Serbian Ministry of Education. The administrative division of the Serbian government is still operational in the present Kosovo, so the school system is managed through those entities. These Serbian schools are heavily overstaffed, for example in Gjilan the 514 Serbian paid staff in education serve only 2,365 pupils (4.6 pupil/personnel, while the average ratio in this municipality is 15-16 pupils/staff). The curriculum, the textbooks and regular technical assistance are provided by the Serbian ministry.

The network of general practitioners and the primary health care centers are managed and financed through the local governments. However, in the case of health care the separation of service provision between the Kosovo-Albanian and the Serbian dominated municipalities is not so evident. The primary health care units operate close to each other (e.g. in Gracanica only 11 centers out of 16 are financed by Serbia) and the regulated routes of patients are different from the natural catchment areas of the hospitals (e.g. Gorani people are supposed to use the Mitrovica hospital, but Prizren is on the way to Mitrovica, so they stop there for treatment).

Local public utility and communal services are financed by the local government transfers and subsidies. Until recently no user charges were paid by the households and the municipal institutions for the water, waste collection and other utility services (including electricity). This practice of management and funding justified the need for financial transfers from Serbia. Often these companies and capital investments were the vehicles to siphon funds illegally through non-existing companies or projects.

In the case of administrative services the Kosovo Albanian local governments cannot enforce the basic rules of licensing in the Serbian dominated areas. Because of potential inter-ethnic conflicts shops and businesses often operate without license or employees are hired without work permit in the Serbian parts of the municipality. Consequently they are deprived of municipal support and investments in their territories, which further separates the two communities. Documents issued by these parallel Serbian structures are not accepted by Kosovo public authorities.

The Serbian employees of various public institutions were banned by the Belgrade government from receiving salaries from the Kosovo budget after the May, 2008 elections. Otherwise they were threatened not to receive their salaries from the Serbian government. The public sector salaries are significantly higher for Serbs in Kosovo than the average salary in Kosovo. They are also above the Serbian average, because of the extra payments and bonuses specifically intended for public employees working in Kosovo. The difference between salaries for Serbs started to decrease last year, when there was a 50% cut in teachers' and health care workers' remuneration.

Despite the prohibition by Belgrade of receiving salaries from two (that is, both Serbia proper and Prishtina) sources, the number of teachers and health care workers on Kosovo payroll is large. According to our case studies the number of public employees receiving salaries from the Kosovo national and local government is significant: in Gracanica 195 health sector employees (30% of total health care staff); in the education sector 308 employees (app. 20%) and in the administrative services 618 municipal employees.

Within this very specific political-administrative environment the recruitment of local civil servants and municipal employees is highly politicized. The public sector employment mechanisms ensure loyalty and hierarchical relations. Political changes in the local government reach all levels of employment, including the members of the public utility company supervisory board (e.g. in Gracanica).

Under these special circumstances the central authorities of Serbia are not in a position to control the daily management of services provided at local level. There is rather limited information at the Ministry of Kosovo and Metohija (Serbia) on the actual decisions at the local level. This leads to waste of domestic funds and to lower international financial assistance, as well. For example in Rahovec the lack of regulatory powers resulted in a school for Serbs being built but eventually filled with RAE pupils, who learn in Albanian.

Formally the public funds from Belgrade are disbursed through the Serbian treasury system in Kosovo. There are 248 treasury units in Kosovo, concentrated in 12 local governments. The payments are made mostly to educational institutions and to units of public administration. As local governments are parts of the national treasury, the local spending is controlled. However, it is mostly formal checking of the transactions, whether the payments were made according to the plans and they are in compliance with authorization rules and procedures.

**Table 12. Serbian treasury units in Kosovo**

	Total	Edu- cation	Administ- ration	Social and health care	Commun- alurban services	Cul- ture, sport
1. Pristina (Gracanica)	59	28	12	9	5	5
2.Kosovska Mitrovica	50	3	28	3	13	3
3. Gjilan	49	31	12	4		2
4. Leposavic	42	16	13	2	6	5
5. Strpce	24	10	9	2	1	2
6. Zubin Potok	15	1	12	0	1	1
7. Pec	3			3		
8. Prizren	2			2		
9. Dragas	1			1		
10.Dakovica	1			1		
11.Zvecan	1		1			
12.Ranilug	1		1			
<b>Total</b>	<b>248</b>	<b>89</b>	<b>88</b>	<b>27</b>	<b>26</b>	<b>18</b>

The real local accountability is weak: the local government financial reports are not accessible for the general public and they are even not always known by all national government units. The complicated central funding mechanisms through the line ministries and the special Ministry of Kosovo and Metohija result parallel decisions and lack of real control.

Fiscal planning in Serbia is still based on bargaining and negotiations between various central actors. Fund allocation is dominated by project based decisions, instead of clear norms and budgeting rules. For example in the case of public education the salaries and numerous professional programs are paid by the Ministry of Education, but some of the operational and maintenance costs are financed by the Ministry of Kosovo and Metohija.

In this highly centralized system of public service management the five administrative districts (Okrugs) are supposed to be responsible for legal-administrative supervision and inspection. There are only 31 employees with a limited budget of RSD 50 Million for these purposes. They do some technical inspection in agriculture, environment, trade, etc., but due to the limited capacities they cannot implement their supervisory functions. But as our case studies showed in the field of tax administration there was no information available of their activities.

The most often criticized aspect of public sector operation and management is the public procurement. In principle there are 250 entities in Kosovo which would operate under the public procurement regulations. However, the available information from various sources showed that only the Ministry of Kosovo and Metohija advertised some

larger capital investment projects (e.g. construction of school). All of these contracts were awarded through a negotiation process.

This low number of public procurement cases might be explained by the fact that the funds from Belgrade are used for financing labor costs and the purchased assets and other equipment are delivered to Kosovo from other parts of Serbia. There might be a limited number of service providers in Kosovo or these purchases could have lower value, not reaching the threshold of public procurement. The weak administrative control and audit practice could also explain the limited information on public procurement at the Serbian municipalities. However, mismanagement of public funds has led to dismissals in the past year, even of whole municipal councils. The reasons given are formal, but there are rumors that political motivation was strong to redirect the Kosovo funds to the representatives of the new political parties being in power in Belgrade.

## 5.3 Funding rules

### 5.3.1 Cooperating municipalities: good basis for improvement

Local governments are funded by two types of grants and various own source revenues. Within the group of central budget transfers the general (34%) and specific (48%) grants dominate the local budgets. The specific grants are mostly used in the education (39% of total revenues). The municipal own revenues are primarily local property tax and other fees, charges and taxes.

**Table 13. Local government revenues, 2009-2010**

Type of revenues	Share in local budgets (%)	
	2009	2010
General grants	35.0	33.9
Specific grants	49.9	48.0
Of this:	40,4	39.1
• education grant	9,5	8.9
• health care specific grant		
Own revenues	15.3	18.1
<b>Total revenues</b>	<b>100.0</b>	<b>100.0</b>

Source: <http://mef-rks.org/en/download/521-grants-commission>

### ***5.3.1.1 Formal equality of intergovernmental transfers***

The grant schemes evolved during the past years were strongly controlled by the international community. The present system of intergovernmental transfers is regulated by the most recent Law on local government finances. The total amount of the general grants is set by law at 10% of recurrent central budget revenues. The general grant aims to guarantee the minimum level of services on an equitable basis. In 2010 general grants were allocated on the basis of the following criteria: 86% according to the population number, 6% proportionally to the surface area, 5% by the number of minority population and the rest is a lump sum, fixed transfer (adjusted by population number).

The specific grant allocation schemes went through a transformation during the past years. Presently the education grant is connected primarily to the number of enrolled pupils. But the salary needs of the teachers are calculated with differentiated class sizes (in standard and in minority schools) and diverse salary averages (lower in primary and higher in secondary education). The support staff is financed by the actual, appropriated number of employees. The health care services are allocated by number of population, but performance based payments are also planned to be introduced in 5% of the grant.

These two specific grants are “open-ended” but they are controlled by the relevant ministries. Formally the decision on the grant formula is approved by the Grants Commission, comprising of nine members: four representing the government, four the municipalities and the chair of the Parliamentary budget committee. Technical support and information to the Grants Commission is provided by the Ministry of Finance and Economy.

The allocation mechanism of grants and even the population numbers used for budgeting purposes were not modified during the first two years of independence. So the allocation of funds followed a very similar regional pattern. The total amount of per capita grants is almost identical at municipalities of different size both in 2009 and 2010. (Chart 1.)

**Chart 1. Total grants per capita, 2009-2010**  
Total grants per capita, 2009-2010



The delegated functions are fully funded by the central budget by additional grants from KCB. Local governments are responsible for providing these services on an equitable basis and they have autonomy in implementing them. The enhanced competencies are strictly controlled by the relevant ministries and the grants connected to them cannot be reallocated.

Local governments with minorities that is with Serbian population receive extra funding for compensating the higher costs of services provided for the minorities. Earlier under "fair share" financing scheme the minorities received funds from the local government budget in proportion to their population number. This system of compulsory share of minority budgets was abolished in 2009. The reasons were the lack of reliable population data, rejection of Kosovo budget funding by the parallel municipalities and the false reporting. So these funds were built into the general grants scheme. Local governments might receive funds from Serbia legally. These transfers are additional revenues to the resources provided by KCB and they are aimed to support municipal own competencies. The funds can be received only through certified commercial banks and they should be reported in the local budgets and to the Central Treasury.

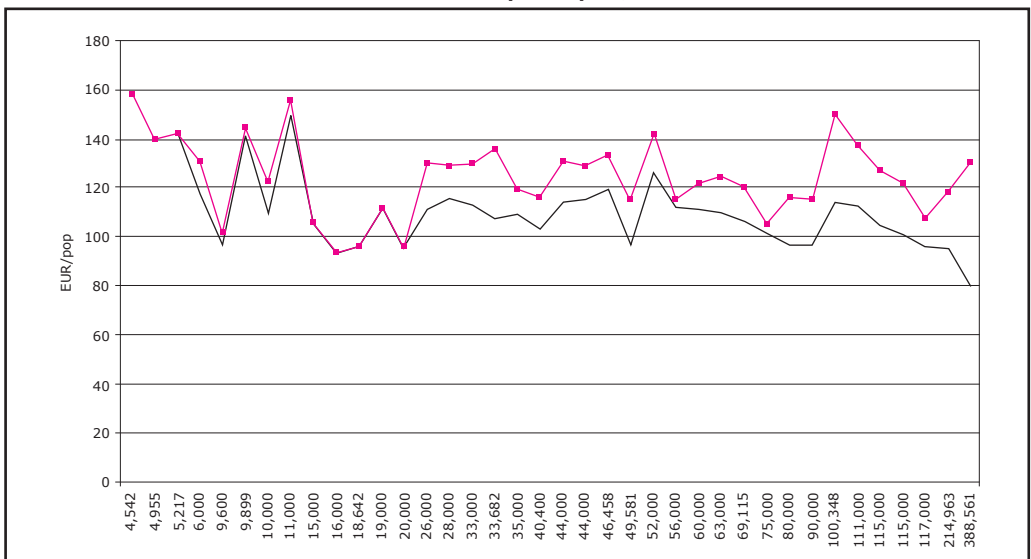
Per capita expenditures are rather uniform in municipalities with different size. That means the grant allocation system completely compensates the differences in own source revenues and neglects the variation in current costs and capital budgets. (Chart 2.)

**Chart 2. Per capita expenditures, 2009-2010**  
**Total revenue per capita, 2009-2010**



The own source revenues are mostly generated in the larger municipalities. The difference of total per capita revenues and grants is low in the smaller localities and no own revenues were planned in the new municipalities. (Chart 3.)

**Chart 3. Total revenues and grants per capita, 2010**  
**Total revenue per capita, 2010**



According to various surveys the local needs for public services are quite basic ones and they are rather uniform: rebuilding of the infrastructure (roads, water), electricity, better functioning administration are reported as high local priorities . .

### 5.3.1.2 Concentrated own source revenues

Local governments are authorized to collect various types of own revenues. These taxes, user charges, license and impact fees, co-payments for municipal education and health care services, rents and sale of local assets amount to approximately 18% of local government budget revenues (with a 35% budgeted increase in 2010). They are reported in the treasury system, so in principle they are part of the general government financial system.

Due to the large size municipalities in Kosovo and the low share of own source revenues, the regional allocation of local government funds is relatively even. The seven largest local governments (beyond the divided city of Mitrovica) represent 52% of the population and only 53% of the local budgets. However, the own source revenues are more concentrated: 74% of total own revenues is raised in these seven cities, dominated by Prishtina, the capital.

**Table 14. Concentration of resources, 2010**

	Population	Total budget	Own revenues
	in percentage of total		
1. Prishtinë	17,4%	18,2%	38,8%
2. Prizren	9,6%	9,2%	9,8%
3. Ferizaj	5,0%	5,5%	5,4%
4. Gjilan	4,5%	5,4%	7,2%
5. Gjakovë	5,1%	5,3%	5,1%
6. Pejë	5,1%	5,0%	4,7%
7. Podujevë	5,2%	4,5%	2,5%
<b>Total</b>	<b>51,9%</b>	<b>53,1%</b>	<b>73,6%</b>

One of the latest audit reports focused on municipal own source revenues . According to this report local governments do not properly follow the rules and procedures, source documents on transactions are missing, cash management is inadequate. Municipalities do not have uniform asset recording systems, so property related own revenues cannot be collected.

<sup>21</sup> MTEF, 2008, p. 96

<sup>22</sup> The request for advisory opinion submitted by Serbia was about whether Kosovo's declaration of independence was in accordance with international law.



Half of the local own revenues originate from the property tax. It is a significant municipal revenue, almost 0.5% of GDP, which is a share similar to other countries in the Balkans. It is a value based property tax and administered by the local governments. In the municipalities cooperating with the Kosovar government property tax collection has increased by 2008, that is the collection rates were higher compared to 2007.

However, the Serbian dominated local governments either do not report these own source revenues (Zubin Potok, Zvecan, Leposavic) or the collection rate is low. Compared to the previous year only two thirds of budgeted revenues were collected in Novobërdë and Shtrepce . The political tensions affect local finances this way, as well, so the lowest property tax collection rate was in the municipalities with Serbian population.

### ***5.3.1.3 Limited financial management autonomy***

Local governments have autonomy in using their own source revenues. Excess revenues might be used by following the municipal assembly decision on these additional own revenues. The only limitation is that own revenues related to education and health care services (e.g. co-payments) should be used in the same sector.

Spending autonomy of municipal budgetary organizations is limited. They cannot exceed the appropriated staff positions set by the annual budget law. Local governments are not allowed to re-allocate expenditures on goods and services to labor costs in any format, such as allowances or in-kind support. These employment related expenditure items are reported to the relevant ministries and the Ministry of Public Services. Despite the centralized system in practice budgetary organizations hire staff beyond the budget ceiling and often salaries are not processed directly through the financial management and information system .

Fiscal planning is a well regulated, long term process. Public sector budgets are prepared for three years, the present one is for the period of 2010-2012. Local government budgeting process is highly controlled by the national government. The planning arena is dominated by three ministries: (i) Ministry of Finance, being responsible for fund allocation; (ii) line ministries, defining professional staff capacities and technical standards, norms for planning municipal service delivery, (iii) Ministry of Public Service, allocating staff positions and specifying salary schemes with actual levels of payment. The usual participatory mechanisms (e.g. public hearings) are rather formal and do not work.

During the budget preparations the main negotiations are on the staffing level. The planning process on public sector employment is controlled by the ministry through various boards and committees, despite the fact that the local governments have formal autonomy in employment decisions (e.g. appointing the school director). In general a mayor has to keep close contacts with the central government agencies, so a mayor quite often travels to Prishtina visiting various ministries.

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<sup>23</sup> MEF-Treasury, 2008: Nine-month budget report

<sup>24</sup> MTEF, 2008, p. 96

The general regulations on financial management for all the public institutions have been legislated in 2008. This law primarily specifies the requirements on municipal reporting, sets the rules and timetable of fiscal planning. That is all the issues relevant primarily for the national government are regulated by this law. Other areas of financial management, like local performance measurement, contracting procedures, transparency requirements still have to be improved.

Spending autonomy of budgetary organizations is limited. Detailed fiscal information by service organizations (e.g. by schools) is also missing, because the unit of planning for the ministries is the local government. Consequently the internal allocation of funds between service organizations also follows the national standards. All these factors limit the local governments' knowledge on their service organizations. In the case of human services, like education, health care the input based indicators do not help the inspection and professional control.

Kosovo Treasury operates through the Treasury Single Account for the entire public sector. Beyond managing public transfers through the commercial banks, it has a strong control function, as well. The Treasury is involved in debt financing and it also manages the international grants in a centralized way. The authorization of payments and the actual disbursement of the municipal funds are separated at local level. The commitments approved by the local functional and fiscal departments have to be authorized by the regional office of the Treasury, as well. All the original documents have to be hand-delivered to the nearby sub-offices of the Treasury. There are plans to decentralize the financial management and information system, first piloting in ten selected municipalities.

Kosovo Consolidated Budget is audited. The Office of Auditor General (OAG) operates in Kosovo since 2003. During the past three years the OAG was active in auditing individual local governments and has also made audits on specific, cross cutting issues (e.g. on own source revenue management). The audit reports are made public by law. In 2006 audit reports have been issued on all local governments, in 2007 only nine – large – municipalities were audited.

However in 2007 none of their financial statements were approved by the OAG, because they did not present fairly the financial position of municipality. The often mentioned shortfalls were inaccuracy of financial statements, problems with reporting own revenues and assets, lack of internal control mechanisms and irregular procurement procedures.

### 5.3.2 Serbian communities: a lot to lose – even more to gain

There are only estimates on the scope of funds stemming from Belgrade to the Serbian entities in Kosovo. Based on the formal request of Transparency International local chapter to all the potentially affected government organizations in Serbia, the direct support for various purposes related to Kosovo was approximately EUR 400 Million in 2008. This figure includes pensions and unemployment benefits for Serbian citizens from Kosovo but currently living in other areas of present-day Serbia. Leaving these items aside, the direct funds from various national government agencies equal to EUR 245 Million. However, the Transparency Serbia survey of government funds was not complete, because not all the ministries responded to the formal requests made under the freedom of information legislation in Serbia. So the actual expenditures in Kosovo from Serbia might be higher.

This lower estimate compared to the Kosovar public funds is still incredibly high: it is roughly one fifth of the total general government revenues (Table 14.). But it exceeds the total amount of local government expenditures in Kosovo and is 54% higher than the total municipal grants provided by the Kosovo Central Budget for current budget purposes. Taking into account that the Serbian economy is approximately ten times bigger than the Kosovar one, these funds from Belgrade are less significant from the Serbian point of view. They amount to only 1% of the Serbian GDP and 3-5% of budget expenditures in 2008.

The significance of this funding from Serbia in terms of its impact in Kosovo could be estimated by comparing it to the number of potential users. The estimates on population number are not very reliable, because the last census in Kosovo was in 1991. According to various estimates the Serbian population living in Kosovo is approximately 1,5-2% of the total population of present Serbia. This ratio is in line with other estimates, like the share of registered voters or number of pupils. So also from Serbian point of view the amount allocated to Serbs in Kosovo is higher than the real weight of Serbian population living there.

**Table 15. Flow of funds from Serbia (2008)**

Comparative items	EUR Mil- lion	Total Serbian transfers (€399M) in %	Serbian ministry budgets (€245m) in %
General Govern- ment revenues, Kosovo	€ 1 303.3	30.6%	18.8%
Central Govern- ment revenues, Kosovo	€ 1 270.8	31.4%	19.3%
General Govern- ment expenditures, Kosovo	€ 1 256.2	31.8%	19.5%
Local government expenditures, Kosovo	€ 204.8	194.8%	119.6%
Current transfers to LGs from Kos- ovo Central Budget	€ 159.5	250.1%	153.6%
Total donor assist- ance in Kosovo	€ 343.2	116.3%	71.4%
Kosovo GDP	€ 3 841	10.4%	6.4%
Serbia GDP	€ 34 259	1.2%	0.7%
Budget expendi- tures of Serbia. 2008	€ 7 843	5.1%	3.1%

Source: <http://www.mfin.gov.rs>; Kosovo Consolidated Budget, 2008.; TS, 2009

On the Serbian side there are three main types of expenditures related to Kosovo. (Table 15.) Firstly, various public services are provided to the Serbian citizens parallel to the services available for any residents of Kosovo (including Kosovo Serbs): education, health care, communal and utility services, public administration following the previous territorial administration-local government structures. These items form the majority of public expenditures: in 2008 they amounted to more than half of the reported Serbian funds spent on Kosovo. Secondly, there are some indirect costs, like organizing the new ministry on a territorial basis, paying public debt raised in Kosovo. These expenditures are equal to 15% of total reported costs in Serbia in 2009.

Finally, there are direct public expenses of various social benefits, but they are provided for the Serbian citizens not necessarily living in Kosovo, but originating from there. In 2008 there were 32 thousand pensioners receiving funds from Belgrade. For the poor families (23 thousand people) the Serbian income support scheme (MOP) provides subsidies to reach the centrally set minimum income level. These pensions, unemployment benefits for displaced persons, etc. are approximately equal to one third of total Serbian expenditures on Kosovo. So they are significant Serbian budget expenditures, but they cannot be taken account as direct expenditures on Kosovo, because they are used for Serbian citizens living in the territory of Serbia.

These figures clearly show, that the transfers from the Serbia state to Kosovo Serbs outnumber significantly both the current transfers to all local governments from the Kosovo Central Budget and development assistance of the international community to all Kosovars. So they cannot outweigh the financial incentives of Belgrade.

**Table 16. Public expenditures in Serbia on Kosovo**

	2008		2009 (plan)	2009 in % of 2008
	EUR Million	%	EUR Mil- lion	%
Ministry of Kosovo and Metohija	72,3	18,1%	43,6	65,8%
• Salaries	Salaries	11,1%	33,8	83,8%
• Capital expenditures	Capital expendi- tures	2,0%	6,9	88,8%
• Miscellaneous	Miscella- neous	5,0%	2,9	16,2%
Other state organizations	173,2	43,5%	189,9	119,5%
Pension Fund	92,3*/	23,2%	99,7	n.a.
National Employment Service	48,6**/	12,2%	54,5	n.a.
Municipal own source revenues	5,8	1,4%	5,3	100,0%
Public debt	n.a.	n.a.	65,8	n.a.
Miscellaneous	6,3	1,6%	n.a.	n.a.
<b>Total</b>	<b>398,5***/</b>	<b>100,0%</b>		<b>125,5%</b>

\*/Pensions, without Pension Fund administration costs;

\*\*/Unemployment benefits, without the costs of administration

\*\*\*/ Average exchange rate in 2008: RSD 78/EUR 1 \*\*\*\*/ Average exchange rate in 2009: RSD 85/EUR 1

The present global financial crisis and its consequences on the Serbian national budget will lead to cutbacks in the funds available for the Serbian parallel municipalities in Kosovo. The first sign of reduction in salaries were already visible at the end of 2008. Following the IMF stand-by loan agreement with Serbia the local government grants were cut by 37% in April, 2009. It will decrease the public funds available for services and municipal administration in Kosovo, as well. Cutbacks typically address three types of budget appropriations: the pay of "Kosovo supplement"; the funds of potential double use, that is transfers from Kosovo and from Serbia; and public funds misuses (especially diversion by opposition parties). Cuts on the other budget lines are in line with general fiscal restrictions.

### 5.3.2.1 Extended public sector employment

Public funds are allocated through various channels. Primary responsibility is with the new ministry organized on a territorial basis. In principle Ministry of Kosovo and Metohija manages all the public services and the public administration in Kosovo. There are 5.3 thousand people on the payroll of this ministry, but they also provide social assistance, primary for those who live in Kosovo. However, the local government services are managed centrally, so staff of the typical municipal services (education, culture, etc.) is on the relevant ministries' payroll (for example 6.3 thousand Ministry of Education employees). The employees of health care service organizations are all on the Office of Health Insurance payroll (6.8 thousand persons).

Altogether there are 19.4 thousand public sector employees, mostly directly providing services in Kosovo, whereas the estimated number of Serbian population is 130 thousand people. So deducting from this total population the number of pensioners, approximately one person in each family is connected to the public sector.

**Table 17. Serbian public sector employees, 2009**

Ministry of Kosovo and Metohija	5,291
Ministry of Education	6,342
Employees on other ministries' payroll	510
Office of Health Insurance: health center employees	6,847
Electric company (EPS)	363
Total public sector employees	19,353

Most of the public employees are financed by three agencies of the Serbian government: Ministry of Education, the Health Insurance Fund and the Ministry of Kosovo and Metohija. The average monthly gross salary at these large employers in the education and health care is EUR 920-1,000. The average salary at the Ministry of Kosovo and Metohija is lower, because this ministry provides the funds for the low paid municipal employees.

Public employees receive relatively high salaries: the gross monthly income of EUR 892 is much above the typical Serbian salaries (see Table 18. below). This fact can be explained by the higher public sector salaries and the special Kosovo supplement schemes.

**Table 18. Employment and salaries financed by Serbia in Kosovo. 2008**

Organization	No. of employees	Gross salary	Rroga mujore bruto për kokë banori (DRS)
Ministry of Education	6,342	5,983.6	78,624
Health Insurance Fund	6,938	5,980.0	71,827
Ministry for K&M	5,291	3,427.6	53,985
EPS	363	335.3	76,980
Ministry of Labor	132	179.7	113,451
Court in Leposavic. K. Mitrovica	103	46.7	37,809
National Employment Service	75	86.5	96,099
Republican Geodetic Institution	43	46.7	90,465
Administrative districts (Okrug)	31	27.4	73,754
Other ministries	35	48.8	116,079
TOTAL (EUR Million**/)	19 353	16,162.4 (207.2)	69,595 (€ 892)
Serbia gross wages (2009 May)			
Serbia net wages*/			32,746 (€419)

\*/ <http://www.mfin.gov.rs/eng/3627/>

\*\*/ RSD 78=EUR1

The system of special allowances for those working in Kosovo is regulated by government "conclusions". These lower rank legal regulations set the following categories of eligibility for this special supplements:

- a) Public employees living in Kosovo have the right to double salary;
- b) Public employees who work. but do not live in Kosovo receive an allowance of 25%;
- c) Elected and appointed officials who live and work in Kosovo are eligible for a salary increase of 20%;
- d) Elected and appointed officials that work in Kosovo but do not live there. are eligible for an increase of 5%;
- e) Formally employed persons, who have no jobs but still live in Kosovo are eligible for minimum salary with 30% supplement. total of RSD 11.084;
- f) Formally employed persons, who do not work and do not live in Kosovo are eligible for minimum salary of RSD 8.526.

**Table 19. Salary schemes of local employees in Kosovo. 2009**

Salary schemes and supplements	Number of employees	In percentage
Double salary for public employees living in Kosovo	2,920	55%
Elected and appointed officials that live and work in Kosovo: additional 20%	170	3%
Public employees working, but not living in Kosovo: additional 25%	54	1%
Public employees from Kosovo, working in other parts of Serbia for a regular public sector salary	116	2%
Formally employed, having no work but living in Kosovo: eligible for minimum salary with 30% supplement	492	9%
Formally employed, having no work and do not live in Kosovo: eligible for minimum salary	1,539	29%
<b>Total</b>	<b>5,291</b>	<b>100%</b>

### 5.3.2.2 Indirect expenditures of funding Kosovo-Serbs

The third group of Kosovo related expenses consists of the special administration costs occurring in this territory and the lost public revenues. The Ministry of Kosovo and Metohija was established in 2007 for managing the various public functions in the region. It has a wide scope of competencies, directly providing public services, providing financial, legal, technical help to non-Albanian population, dealing with the issues of the refugees, formulating national policies and regulations, establishing international contacts with both the UN institutions and other international organizations. The ministry employs 175 staff, out of it 144 are civil servants; one third of them are hired only for a fixed term so they are above the number of full time employees allowed by the national public employment regulations. The ministry has local offices in Kosovo, as well.

In the case of the most important utility service – electricity – a flat rate for using these utilities (“pausala”) was introduced. Serb residents in some municipalities have reached an agreement with KEK on billing this lump sum (e.g. €26 per household in Strpce) and also paying the delinquencies.



## 5.4 Summary

The basis of local government autonomy in Kosovo-Albanian and in the Kosovo-Serbian municipalities is rather different. The municipalities cooperating with the Kosovo institutions are formally responsible for a wide range of functions. They have increasing powers in some areas of devolved services, primarily in the case of human services. Intergovernmental finances are dominated by simple transfer schemes and there are limited incentives for raising local property tax.

In the case of the parallel municipalities the scope of local functions is narrower. Public services are mostly controlled by the ministries and national government agencies. However, being far from the Serbian state institutions and having rather obscure funding mechanisms, this central monitoring is rather formal. Local government funding is heavily centralized, there are no municipal incentives at all for raising own revenues.

In the highly centralized system of Serbian grant allocation the financial management regulations are hardly enforced. Reports on local government budgets are not available in the Serbian Treasury system. The procurement rules and regulations are rarely followed, despite the fact that capital investments are significant local expenditures at the Serbian communities in Kosovo.

The Serbian tax administration exists in the enclaves, but local taxes are paid mostly in the Northern territories. The local property tax revenues reported to the Kosovo budget were dropped to a minimal level during the past two years in the Serbian municipalities.

The communal services are usually provided free of charge, referring to the low income level of the Serbian residents. The local governments and the communal water and solid waste management companies are financed primarily through national transfers, so they are not interested in collecting these local revenues. The Serbian residents do not pay for most of the communal services received by referring to the non-acceptance of the Kosovar institutions. There is a common interest of the service providers and the customers in non-payment. The actual costs are paid ultimately by the taxpayers of Serbia. Lack of own source revenue raising incentives at the parallel municipalities in Kosovo destroys the basic condition of accountability.

Despite these diverging regulations and the different administrative-organisational practices the actual management of Serbian parallel and Kosovar local governments is comparable. In both cases the national party politics heavily influence the local political and administrative leadership. Political accountability in the Kosovo-Albanian local governments is restricted by the heavy dependence on central government decisions. In the case of the Kosovo-Serbian municipalities the administrative accountability does not work, which enhances the strength and influence of the local management.





## 6. STAKEHOLDERS' MOTIVATION

The previous two sections shed some light on the extent, to which the Kosovo decentralization regime is able to 'compete' with the parallel one in terms of its formal, institutional framework. As we explained in the introductory section this focus on the formal, institutional features of the two decentralization regimes is justified by

- (i) the relatively tangible, visible and stable nature of these institutional features and any external influence exerted upon them (as opposed to the inherent ambiguity, uncertainty and volatility of such features as intra-governmental a socio-economic power structures), and
- (ii) their relatively direct and short-term "manipulability" by Kosovo's policy makers (as opposed to the uncontrollability of economic and demographic factors or those rooted in international politics).

However, one must not lose from sight the very limitations of this institutional focus. Actual societal/political practice may depart from formal institutions rendering them only a symbolic role and thus obsolete or even counter-productive. As, among many other examples, the recent history Europe's new, post-communist democracies often shows us creating various new institutions (of liberal democracy, of market economy, and so on) is only a first step, which has to be followed by constant efforts and societal support in order to be effective.

Clearly, it is almost impossible and hopeless to enumerate the many different elements and prerequisites of societal and political "follow-up" of decentralization on both the K-Serbian and K-Albanian side (let alone the others). However, it is possible – to paraphrase Skocpol's famous proverb – to "bring the society back in" by highlighting to motives driving K-Serbian enclaves to cooperate, or adversely to refrain from cooperating, with the Kosovo decentralization regime.

It has become customary to talk and write about the "demand for", and the "supply of", parallel structures (cf. OSCE 2007 etc.). The application of this metaphor is an important step in understanding the problem complex as it differentiates between various stakeholders exerting influence on the extent of cooperative behaviour on the Kosovo Serbian side. Classifying stakeholders on the basis of whether, put simply, they belong to the realm of "the government" versus to that of "ordinary citizenry" is, on the other hand, overly simplifying. Such a simplification disregards the multiplicity of relevant stakeholders, the complex patterns of their interests and interactions, and the difficulty of classifying them into "buyers" and "sellers" of parallel structures.

Therefore, going further into this direction, we intend to supplement the previous institutional assessment with a more fine-grained depiction of various stakeholders as well as their motives determining their stance towards cooperation with the Kosovar decentralization regime. Focusing on the complex set of actors and their patterns of operation and interests – as opposed to simplifying the problem to what and why "the Serbs" do and don't do – seems particularly necessary as the future outcome of decentralization reform depends not on some key unitary decision maker but is likely to emerge out of a complex pattern of interactions between a multiplicity of actors, interests, and values.

Going from the bottom to the top – that is, from citizens through public servants and local elites to the political leadership in Belgrade – we examine what motives these stakeholders make to opt for non-cooperation - and thus using, maintaining, funding etc. parallel structures - and, alternatively, which ones may drive them to engage in (more) cooperative behaviours. It is emphasized that throughout the remainder of the section the order, in which the various factors are listed is not intended to reflect their importance.

## 6.1 Citizens

The “grand players” of national and international politics as well as their motives and actions often receive and overwhelming, possibly even exclusive, attention in the public discourse around decentralization reform in Kosovo Serbian municipalities. While we admit the importance of these factors the forthcoming analysis departs from the other end of the political spectrum by briefly identifying and enumerating factors supposedly influencing the actual “(end)users” of public and politico-administrative services – that is: Kosovo Serbian citizens – when forming their attitudes regarding, or even actually deciding between, Kosovar vs. parallel institutions.

### 6.1.1 Anti-cooperation motives

- (a) Concerns for insufficient physical security and freedom of movement. Many (administrative, health, public utility etc.) services offered by Kosovo Government organisations are more or less inaccessible to Kosovo Serbian users because of the limited extent of their (perceived) freedom of movement. While most services are offered in Kosovo Albanian areas Kosovo Serbs often fear from travelling through/ in such areas by means of public transport or private cars with Serbian number plates. Other means (such as UNMIK buses or the “Freedom of movement train” having existed before the declaration of independence) are either scarcely available or expensive.
- (b) Quality of service. In a number of key service areas the service received, or expected to be received, from Kosovo government service providers does not conform to certain preferences of service recipients. This is the case, for example, with schools following Kosovar standard curricula, or medical services provided by Kosovo Albanian service personnel (see next paragraph too).
- (c) The psychological dimension of provider-customer relationship in personal services: trust and the lack thereof. It is a rather widespread belief that Kosovo Serbian clients can adequately, and consequently should, be served by Kosovo Serbian service personnel. As an OSCE report notes (OSCE, 2007)) in the specific case of health services for Kosovo Serbs this gap in personal trust is supported by another belief regarding the insufficient professional skills of ethnic Albanian medical personnel.
- (d) However it seems this belief is rooted in different – deeper and broader – factors than expected service quality. The phenomenon is not limited to either the health care sector or to Kosovo Serbian ethnicity as “the idea that a community can only be served by members of its own community is embedded in the perceptions of both

Kosovo Serbs and Kosovo Albanians" (OSCE 2007) – although these perceptions may vary according to individual characteristics or swings and sways of general public attitudes.

A specific but paramount aspect of service quality and trust is related to the language issue. Although the legislative framework strongly supporting the use of all minority languages is in place the practice lags significantly behind. Much of the service and administrative personnel – especially the younger generation – does not speak Serbian, some of the municipal documents and service bills are in Albanian etc. It constitutes a real problem for K-Serbs willing to utilise services as most of them do not speak Albanian (this is of course strongly varying between locations).

(e) This leads further to the issue of protecting and promoting other, deeply rooted symbolic values related to cultural and religious identity, and embodied in religious and historic sites and monuments. While the current legislative framework, again, offers extensive safeguards in this area the low level of trust among K-Serbs regarding the extent, and most of all, the reliability/irreversibility of implementing these safeguards might induce them to oppose "signing in" for cooperation.

(f) Resentment against K-Albanian rule. Patterns of socialisation, beliefs and attitudes transmitted by culture and mass media, and personal/historical experience related to the Yugoslavian "heydays" and/or the troubled years since then leads many K-Serbs to possess a basic dislike of cooperating with the Prishtina government. This attitude might be based also on real dangers of living under the Kosovar rule as investigation of the crimes committed under the war could be re-launched by the new state.

(g) Inadequacy of information available to citizens. The level of information available to Kosovo Serbian citizens on local, regional and national level issues is oftentimes insufficient (sometimes extremely so). This is especially so in (some of) the South-Kosovo enclaves where either broadcasts from Serbia proper or the brief daily news broadcast by Kosovar media (RTK) in Serbian are often impossible to receive (HLC 2008). Internet access, printed media, and radio broadcast in Serbian are also scarcely available to many citizens, and so are local municipal news (such as those displayed on municipal news boards).

The serious inadequacies of information lead to two major consequences. Firstly, many citizens are unaware of their rights guaranteed by Kosovar legislation (for example, regarding the use of own language or anti-discrimination) as well as practical information regarding services offered by the Kosovar government. Secondly, the selective and often distorted coverage given by the poor selection of the news by the media available creates and maintains false beliefs regarding, and negative attitudes towards, the conditions and consequences of utilising Kosovar government services.

(h) Kosovo Serbian citizens benefit in a number of ways from the relatively lawless situation characteristic for Kosovo Serbian municipalities. For example, according to available information many of them do not pay for public utility services and/or do not pay local taxes. This condition of lawlessness is exacerbated in Northern Kosovo where it creates lucrative possibilities for organised criminal groups which, in turn, creates strong and effective interests in maintaining the status quo. In these cases the pure economic, financial interest is simply disguised by the political slogans and preferences.

### 6.1.2 Pro-cooperation motives

While the previous list of factors inducing negative attitudes towards utilizing Kosovar government institutions of decentralization there are other factors, often similar to those listed earlier, that (may) have an effect of opposing sign. These can be summarised as follows.

- (a) Physical access to services. Although – as referred to above – the limited physical access to services creates, in some service areas, serious impediments for K-Serbs in utilizing municipal service institutions of the Kosovar government there are cases when the opposite occurs. For example, in a number of enclaves the Albanian service provider (e.g. the office issuing drivers' licenses or passport in Gji-lan) is much closer and cheaper to access than the parallel service provider. Another set of such instances includes public utility services such as water or sewage where the physical necessity of connecting networks creates unescapable imperatives for cooperation (this is the case with, for instance, the water supply of Prishtina).
- (b) In a number of administrative areas – such as issuing/renewing drivers' licences, number plates, passports – it is difficult to avoid utilizing Kosovar government services since documents issued by parallel structures are not accepted by Kosovar authorities, which creates serious problems when travelling through territories or borders controlled by Kosovar security forces.
- (c) Business activities/functional imperatives of economic development. As it has been the case in a myriad of cases throughout history, the most effective and long-term factor of cooperation emanates from needs and pressures related to pursuing business on a mutually beneficial basis. The logic of markets – the pursuance of buyers and sellers belonging to different ethnicities to find and contract with each other – may, and probably will, penetrate through many walls between Kosovar and parallel structures (see e.g. the case of the skiing resort in Strpce, or local agricultural markets for the people in Gracanica in Prishtina).
- (d) A need for a sense of orderliness and rule of law. As numerous depth interviews conducted with "ordinary" Kosovo Serbian citizens show (cf. HCHRS 2008, doc\_14) many of them are seriously concerned with the anarchistic rule of criminal or quasi-criminal clans and local strongmen. Political agitators and party people directed from Belgrade and making promises are less and less believed by the electorate. Local politicians and administrators allied with them and pursuing corrupt and nepotist practices serving their own and their families' interests only are not supported. Cases of "week-end Kosovo Serbs" living in Serbia proper but regularly appearing in Kosovo to reap the benefits intended for "real" Kosovo Serbs; usurpers of donor programs – all these phenomena seem, increasingly, to belong to a mode of operation primarily geared to maximising the short-term benefits of a small circle of actors at the expense of the broad citizenry, un-

der the disguise of sublime catchwords. There are signs that such a perception of Kosovo Serbian realities increasingly yields ground, especially in the enclaves where the possibility of “sacrificing” K-Serbs by the Belgrade government in exchange for North-Kosovo seems increasingly realistic.

- (e) A need for a long-term perspective. As many Kosovo Serbian interviewees complain one of the most pressing problems, experienced chiefly in the enclaves, relates to the lack of a viable, realistic and appealing image of future life in Kosovo. The need for such an everyday perspective involving, but not limited to, such issues as support for returnees, arrangements on property claims and related compensation schemes might all produce elements of reconciliation.
- (f) Many Kosovo Serbs believe, that the real power lies in Prishtina, although they might not admit it openly. It is mainly expressed in the dominance of the Kosovo Judicial System, the Kosovo Police and of the Kosovo Cadastre.
- (g) Receiving direct financial incentives from Prishtina such as pensions and social benefits.
- (h) Cooperating with the Kosovo side has created a certain space for opposing political parties and politicians. As they must not fear the competition of the strong Serbian parties SRS and DSS during elections, there is space for instance for the Kosovo Liberals, which are sharing power in Prishtina but also in different municipalities.
- (i) Common experience of a Kosovo fate. Serbs that intend to stay in Kosovo want to participate in the benefits of being a Kosovo citizen, for instance in access to better opportunities to cooperate in internationally financed programs (UNICEF, UNDP, EU). The examples of Montenegro and Republic of Macedonia, which have propelled themselves into a more “successful” international orbit than Serbia proper.
- (j) A commonly shared feeling among all Kosovo Serbs, that they are (i) special – survivors of the Serbia homeland; (ii) neglected by Belgrade and (iii) despised by their fellow citizens in Serbia proper.

## 6.2 Public servants

Another major actor influencing the existence and operation of parallel vs. Kosovar government structures is, clearly, those working, or potentially working, in these institutions. The importance of public servants’ – administrators, medical staff, teachers and so on – stance towards the decentralization regime stems from various factors. Firstly, in order to serve/contact with K-Serbs there is a practical need to employ people speaking Serbian. While some Albanians – especially older, “indigenous” ones living in mixed areas – speak the language this is far from being the rule.



Another factor relates to the acceptance of the service by the citizenry, which often depends on whether the given service is being provided by the member of the recipient's own nationality (see earlier). This is especially the case with the police and the justice system, but also in the "more municipal" areas of health care and education. Finally, there is the key question of which government – the one in Prishtina or the one in Belgrade – employs the bulk of public service personnel, and thus controls the operations of municipal institutions and sets the rules for delivering and receiving their services. This is not only an issue of control and power but also of symbolic importance.

Some of the key motives influencing public servants' choices between Kosovar government vs. parallel structures are summarised as follows.

### 6.2.1 Anti-cooperation motives

- (a) Monetary benefits from employment by parallel institutions. Employment by the parallel institutions is paid much better than in the Kosovar government sector. For example, in the parallel structures school teachers make €400-500 per month as opposed to the €150-200 paid by Kosovar government structures. It is noted that the salaries paid by the Belgrade authorities are exceptionally high even by standards of Serbia proper as it includes an additional 100% salary – allegedly lately reduced to 50% – top-up in order to induce K-Serbs to stay in Kosovo. The situation is similar in other sectors; for example, health care professionals are paid by the Serbian Ministry of Health in the range of €400 to €700 plus the top-up and more, whereas Kosovar government salaries range between €200 and €280 per month (OSCE 2007: Parallel structures in Kosovo) .
- (b) Pressure by Belgrade authorities to cease employment relationship with Kosovar government authorities. It was customary until the declaration of independence, but to some extent still is, to be in employment relationship with both Kosovar government and parallel institutions, especially in the school and the health sector. However, after the declaration Belgrade authorities started to require their employees in Kosovo to cease employment with PISG authorities, and in many cases even to give some proof of this. The latest – but very thorough – collection of evidence on this issue is presented by the report of HLC issued in April 2008; on the basis of the report one may conclude that it is attributable, at least to a significant extent, to this change in Belgrade policy that from Spring 2008 employment of K-Serbs in Kosovar institutions dramatically decreased.
- (c) Fear from reprisal by members of fellow Serbians. Cooperating – for example, in the form of being in employment relationship – with PISG/ Kosovar authorities may provoke informal pressure, harassment and even violent reprisal by certain members of the local Kosovo Serbian community.

## 6.2.2 Pro-cooperation motives

- (a) The operating features of parallel institutions are, understandably, far from being perfect not only from a citizens' point of view, but also from an employee perspective. While many of these imperfections can be considered as customary in the region, some of them are more specific to parallel institutions in Kosovo. One example is the direct "political" influence in selection and promotion decisions frustrating many well-qualified professionals (the quotation marks refer to the fact that beside, or rather instead of, political considerations personal and family ties play a pivotal role).
- (b) The permanent uncertainty around, and haphazard nature of, budgetary, procurement and other important areas is another major factor of concern. Lacking clear rules of regular support from Belgrade and heavy dependence on political preferences outside the control of the Kosovar Serbs increases tensions even among the loyal public sector employees. Predictability and stability are critical conditions of managing public services effectively, so this is definitely an argument for being part of the Kosovar government system.
- (c) It is also obvious that the short term approach on non-payment of user charges and local taxes cannot be followed in a decentralized setting. So as the methods of Serbian fund allocation are getting slowly normalized and will follow the standard practices of inter-governmental finances in Serbia, then there will be a need for own source revenue raising.
- (d) Benefitting from (double) employment by the Prishtina authorities creates incentives for certain segments of public employees (such as some health care, education or KPS employees), even in spite of Belgrade's threatening of reprisals.

## 6.2.3 Local politico-administrative elite

It seems meaningful to differentiate between "ordinary" employees of parallel institutions (described above) and those positioned in the top echelon of the local politico-administrative hierarchy as on the basis of available evidence there seem to be substantial differences between their stances towards decentralization as well as the motives underlying that. It has to be noted that other local elites, most of all, economic elites would be interesting to analyze too, but we found very little information on them in the materials studied. Therefore it seems to be necessary to pay in the course of subsequent field research additional attention to mapping out the structure, identities, and features of these members of the municipal elites.

#### 6.2.4 Anti-cooperation motives

- (a) Local politicians – being on the top of the institutionalised local power structure – are elected on the basis of anonymous party lists. These lists are compiled by (or at least under an overwhelming influence of), and thus reflect the preferences of and political deals struck by, party centres in Belgrade. It is clear that under such conditions mechanisms of political accountability to the local electorate and thus a real devolution of power to the municipal level exists to a very modest extent only.  
This institutional framework of the electoral system is very likely to maintain a firm grasp of Belgrade over the local political elite. As Belgrade's stance towards decentralization in Kosovo rests on the pursuit of a "functional division" of the territory – thus on maintaining and strengthening parallel structures – this circumstance seems to create a steady and firm stumbling block against the success of Kosovar decentralization reforms.
- (b) As institutional/legal safeguards of a politically neutral civil/public service are entirely missing/ineffective, top positions – indeed: all positions – of municipal administrative and service organisations fall prey to the governing political group of the day, or at least to background deals between various political groupings rooted in national level politics of Serbia proper. Therefore the above-mentioned grasp of Belgrade power centres on parallel institutions is likely to reach down to the lowest echelons of organisational hierarchy.
- (c) Mechanisms to ensure the loyalty of both elected and appointed officials includes ensuring re-election/continued employment and the official material and status related as well as certain informal/illegal benefits (related e.g. to corruption, nepotism, and the like) related to that.

#### 6.2.5 Pro-cooperation motives

Under the current institutional arrangements it is, on the part of local politico-administrative elites, difficult to see any real systemic (that is, non-arbitrary and non-personal) motives to engage in cooperative behaviour with Kosovar decentralization. However, the gradual changes in the general attitude of the ordinary people and in the preferences of the municipal administration might bring in methods of doing business for the local elites, as well. They might be also built on the traditions of co-existence in a multi-ethnic state before the war.





## 7. CONCLUSIONS: FACTORS AND FORCES INFLUENCING COOPERATION

Following the previous detailed institutional and stakeholder analysis this section aims to summarize the major factors influencing Serbian local governments' cooperation with the Kosovar institutions. Our intention in this concluding section is to identify some technical issues, which will be the basis of outlining solutions and formulating recommendations in the remaining part of the report.

The starting point is that improved decentralization in cooperating Serbian municipalities will contribute to stability and development in Kosovo. For enhancing decentralization those factors should be identified which influence Serbian communities' willingness to cooperate with the Kosovar institutions. These possible causes of cooperation will be assessed from two points of view:

- a) which are the factors supporting and hindering cooperation of the Serbian municipalities with the Kosovar institutions;
- b) where do these forces originate from, that is are they primarily under the control of Prishtina or they are managed by Belgrade?

A key finding of this study was that in Kosovo the improved decentralization in the long run may be the key attraction for the K-Serbian communities scattered across Kosovo south of the Ibar to join the Kosovo institutions and cooperate with the new state. So a well functioning local governance system is a major "pull factor". On the other hand there are unfavorable features of the present Kosovar local government system, which are against cooperation (the "push factors").

Some of these pull and push factors are, however, under the control of Serbia. Presently on the Serbian side obviously there are stronger forces preventing collaboration: first of all the significant financial support through public channels and the traditional, cultural/ethnic linkages. However, there are also indirect factors promoting future cooperation – or, put another way, broadening the gap between Belgrade and K-Serbs – such as the highly centralized power structure and consequently heavy dependence on Belgrade, creating unstable financial conditions for the Serbian municipalities in Kosovo.

Here we look at the motivations of local communities as a whole. However, it is acknowledged that narrower group or even personal interests – such as those identified in the earlier section on stakeholder perspectives – might go against the motivation of elected bodies and, in the final analysis, that of K-Serbian citizens. Individuals can gain short term benefits in a badly operating local government system, so they are personally interested in obstructing modernization and opposing any reforms. We believe that this approach is not sustainable and in the long run the interest of the local communities and municipal institutions coincide. So the grouping of the factors influencing cooperation in Table 20. mainly has an institutional focus, but it takes into account the narrower group interests, sometimes overriding local communities' motivations.

**Table 20. Groups of factors influencing cooperation**

Factors of cooperation	Forces originating from	
	Kosovo	Serbia
Supportive factor	1. Positive features of local governments in Kosovo	3. Malfunctioning Serbian local government system
Hindering factor	2. Unfavorable decentralization trends	4. Money and politics

The following sub-sections enumerate and briefly explain the factors belonging to the four groups identified in the above table.

## 7.1 Kosovo controlled forces of cooperation

### 7.1.1 Positive elements of Kosovo decentralization schemes

The most important factor motivating Serb communities to join the new Kosovar system is the institutional and legal environment developed on the basis of the Ahtisaari proposal. The constitution and the local government system provide a proper framework for autonomous operation of all the municipalities joining this system. The emerging legal, administrative and fiscal regulations in Kosovo could be especially useful and appealing for Serbian population in the enclaves.

Here the Serbian villages should rely on the services provided at the Albanian dominated urban centre of the municipality. The geographical-urban structure of the new municipalities will further the cooperation with the neighboring Albanian municipalities, because these new municipalities often do not form compact entities. The population living in these scattered structures will search for alternative access to administrative and public services, provided by the adjacent locality.

Compared to the present Serbian rules the mechanisms ensuring political accountability of local politicians are more effective in Kosovo. The mayor as the key actor of the local government is directly elected; moreover, contrary to the parallel (RoS) electoral framework the electoral system lends at least some degree of (political) responsibility to individual politicians thus creating some degree of political accountability in the Kosovar municipalities.

The room of manoeuvre in local policy making is greater, because local governments have broad competencies by being responsible for educational and local development functions. Thus local politicians and local governments are able to respond to the specific needs and preferences of the local communities in a more flexible way. The local fiscal architecture is based on modern principles of intergovernmental fiscal relations: they provide clear, transparent, stable and predictable rules of grant allocation. It results formally equitable funds for local governments of different size, as the transfers are predominantly assigned proportionally to the population living at these municipalities.

For the ordinary Serbian citizens all these institutions and regulations could provide better access to administrative and basic public services. They could join the Kosovar business networks, directly benefitting from the larger economic space. At the same

time it would serve the basic human need for normalization by giving a sense of orderliness and offering a positive perspective.

### 7.1.2 Negative features of the Kosovar system

However, the Kosovar local government system is far from being perfect. So there are several factors working against the potential cooperation in the Serb municipalities. In Kosovo decentralization has a mixed legacy, supplemented by the almost decade long centralized approach of the international community. The ordinary Kosovar citizens lived in the period of Yugoslav centralization and experienced also the strength of self-rule during the parallel structures in the 1980s. These two different types of attitude form the general public standpoint towards decentralization.

The relatively underdeveloped economy is combined with high public sector employment. In general, unemployment and poverty is higher in the Albanian municipalities, partly due to the inherited economic drawbacks. There are legitimate fears on both sides, that the local government jobs will not be available for the minority population under the present regulations, unless some ethnic quotas are enforced.

Mechanisms of political accountability might be further improved to a significant extent, as well. The local assembly of the Kosovar municipalities is elected by casting vote on party lists in a single one ward per local government, so there is no direct representation through individual wards. Through the national level political party mechanisms the party centres possess decisive influence on who gets and remains in power, as opposed to the arena of local politics/citizenry. This further strengthens the pressure from the centralized political party machinery. The institutions of sub-municipal representation in the large size Kosovar municipalities are weak.

Despite the legal framework de facto room of maneuver for local policy making is somewhat limited. Despite the formal decentralization the central and local powers are not balanced. In the case of education, health care and the utility services the local governments are in fact heavily dependent on the relevant line ministries. For the Serbian local governments it might be also problematic that the transfer of competencies in the new municipalities was rather selective in Kosovo.

In the future it could also lead to conflicts in fund allocation that Serbian municipalities in general have slightly better access to local services. Joining the standard Kosovar system could lead to losses in central budget transfers.

On the Kosovar side local governments have limited power over utility services, because they do not control full ownership of the assets and the user charges are set by the relevant ministries. In general there is a strong ministerial control over local service provision and staff positions. The grant allocation is heavily influenced through the centrally controlled fiscal planning process.

The internal municipal administrative and management structure is rather weak. The elected committees have formal roles, only.



There are several other factors which would make the cooperation more attractive for the Serbian residents in the enclaves. They could be influenced by the Kosovar government: the conditions of citizen security might be improved; better customer protection in relation to service providers has to be guaranteed. They could be achieved by introducing simple techniques, like providing more information on the local government issues for the general public, using Serbian language in administration and paying special attention to Serbian symbolic objects and cultural heritage.

## 7.2 Factors controlled by Serbia

### 7.2.1 Shortcomings of the Serbian local government system

Institutional factors promoting cooperation with the Kosovar government originate from the malfunctioning Serbian local government system.

Mechanisms of political accountability in the parallel local governments are more limited than in the Kosovo decentralization regime: the Serbian mayor is indirectly elected, the anonymous party lists are filled in with candidates only after the elections, and even that is on the basis of national party headquarters' decision.

Room for local policy making is smaller in the parallel local governments than in the Kosovo system. K-Serbian municipalities have limited functions and competencies; they do not control local assets at all. The public sector employment, promotion rules and the local recruitment practices are highly politicized.

The recent fiscal restrictions showed that local government's revenue base is rather unstable. Cutback of public funds in Belgrade will disproportionately affect the funds for Kosovo. The losses at public enterprises (e.g. EPS) could also question the policy of strict separation of public service networks. At the very personal level the lack of enforceable rules and general uncertainty might indirectly urge cooperation at local level.

### 7.2.2 Serbian forces against cooperation

Presently the factors inducing Serbian communities not to join the Kosovo institutions are significant. There are carrier opportunities for political cadres in the parallel municipal system following centralized rules of the game. At this personal level the lack of local political accountability, earlier identified as a major shortcoming of the Serbian system, also works against the cooperation.

The limited room of maneuver in local policy making results in many short term personal benefits for the Serbian residents supporting non-cooperation with the Kosovar institutions: they do not pay local taxes, user charges in the utility sector; the higher personal income in the public sector is guaranteed by the Kosovo salary supplement and they enjoy the Serbian personal income support schemes. The personal interest of the Serbian citizens, the public servants at the parallel municipalities and the local elite

strongly works against the cooperation. These forces originate from the badly organized Serbian local government system. It does not provide sustainable alternatives for the Serb residents and cannot show the benefits of a properly operating municipal administration for the public employees and the elected leadership.

There is no effective central control, audit and supervision over the local administration and the service organizations. This low level of administrative accountability leads to uncontrolled decision making powers at local level, which again could help to shift public resources to personal gains.

Perhaps also the political leadership and the administration of the newly created Ministry of Kosovo and Metohija might have different institutional interest in reforming the present linkages between Belgrade and the municipalities in Kosovo. In general there is a visible political party interest, combined with personal stake to maintain the allocation channels to the Serbian entities in Kosovo.

### 7.2.3 Summary of factors

Table 21. below summarizes these specific forces encouraging and blocking cooperation in the Serbian enclaves. Following the previous logic of grouping the factors, these items in the upper left box are those positive elements of the decentralization policy in Kosovo, which might be attractive for the Serbian, non-cooperation municipalities. They - and more importantly the citizens of these Serbian municipalities - could benefit from joining the Kosovar system of local governments and municipal public service provision.

These potential advantages and gains from the cooperation are even more visible by comparing them with the weakly functioning parallel institutions in the Serb enclaves (listed in the upper right box of Table 21.)

Obviously there are several options for improving the Kosovar local government system, as well. These factors ripened for change are specified in the left bottom corner of the table. These factors hindering cooperation are under the control of the Kosovo government and other Kosovar non-state public actors.

Finally, the most important Serbian forces against potential municipal cooperation in Kosovo are listed in the right lower box of the summary table. Presently their weight is the highest, they overwrite all the other factors influencing the local level cooperation in Kosovo. However, there are risks attached to these conditions controlled by Serbia, so in the future they might not be as stable and dominant, as they are today.

**Table 21. Specific factors influencing cooperation**

Factors of cooperation	Forces originating from	
	Kosovo	Serbia
Supportive factors	<ul style="list-style-type: none"> <li>a) Legislative framework nurturing good local governance</li> <li>b) Need for inter-municipal cooperation</li> <li>c) Some degree of political accountability (mayor)</li> <li>d) Wide municipal functions, broad competencies</li> <li>e) Modern system of IGF</li> <li>f) Better access to public services</li> <li>g) Benefitting from the larger economic space (market)</li> <li>h) Orderliness and positive perspectives</li> </ul>	<ul style="list-style-type: none"> <li>a) Low political accountability of mayor and assembly</li> <li>b) Limited functions and competencies</li> <li>c) Lacking municipal ownership</li> <li>d) Attractive public sector employment</li> <li>e) Overpoliticized public sector recruitment</li> <li>f) Unstable fiscal support from Serbia</li> <li>g) Lack of enforceable rules; overall personal uncertainty</li> </ul>
Hindering factors	<ul style="list-style-type: none"> <li>a) Centralized past; mixed sentiments towards decentralization</li> <li>b) Lack of economic opportunities, causing high reliance on public sector employment</li> <li>c) Less-than-optimal political accountability of the local assembly</li> <li>a) Influential national level political party machinery</li> <li>b) Weak representation at sub-municipal level</li> <li>c) Restricted de facto municipal powers, unbalanced central-local relations</li> <li>d) Limited de facto control over, and accountability for, utility services</li> <li>e) Poor municipal administrative capacity</li> <li>f) Formal role of Assembly committees</li> <li>g) No guarantees of protecting citizen and customer interest</li> </ul>	<ul style="list-style-type: none"> <li>a) Career opportunities through the centralized system of administration</li> <li>b) Short term benefits from non-payment of public revenues</li> <li>c) High income support, primarily through public sector employment</li> <li>d) Weighty group interests: uncontrolled local bureaucracy, unaccountable political entrepreneurs</li> <li>e) Institutional interest of maintaining Serb administration</li> <li>f) Political party financial interest in maintaining the present funding schemes towards Kosovo</li> </ul>

## 8. WAYS OUT: POSSIBLE SOLUTIONS AND RECOMMENDATIONS

The previous summary of factors promoting and forces discouraging the involvement of K-Serbian local communities in the Kosovo decentralization regime clearly showed that there are several options both in Kosovo and in Serbia to promote municipal cooperation in the enclaves. The Table 21. above highlighted these issues will help to identify potential solutions and to formulate some recommendations for the Forum 2015 and KFOS.

### 8.1 Possible ways of intervention

The factors influencing cooperation – as they were presented on the previous pages - help to define the main directions of interventions and possible areas of solution for overcoming the problems of non-cooperation.

- (i) Promoting the benefits of decentralization. Among the supportive factors a lot can be done, both in the Kosovo enclaves and in Serbia proper. There is a general lack of trust towards the Kosovar institutions in the Serbian local governments, which is partly caused by the limited experiences and the ignorance of working with the Kosovar public sector in general. So an active campaign on promoting the benefits of decentralization by simply comparing the positive elements of the Kosovar local government system with the present Serbian one could be an argument for cooperation. The possible topics of this promotion campaign are the specific items in the first row of the Table 21.
- (ii) Further decentralization reforms in Kosovo. The most important task is to make the Kosovar local government system more attractive for the Serbian enclaves. Most of the factors affecting this appeal are listed in the left bottom box of Table 21. However, there are some hampering factors, where transformation will need time and adaptation is slow (e.g. economic development, overcoming the centralization tendencies).
- (iii) Launching civic initiatives for altering public attitudes in Serbia. The most critical factor preventing cooperation is outside of the Kosovar government's or any other local public actor's control. The financial benefits, political party funding, institutional and business interest cannot be counterbalanced at the recipients' side. Any reforms in this field depend solely on the Serbian government.

However, changes might be initiated in the Serbian domestic politics and policy making. Civic actions and advocacy campaigns might direct the public attention to the burden of maintaining the present scope of transfers and the methods of funding the Serbian minorities in Kosovo. Dissemination of public information on the real costs in comparison to the achieved results in public service performance and in the actual level of personal income of the Serbian population residing in Kosovo could change the political scene in Belgrade.

The success of these three major types of actions depends on several external conditions. They are partly related to the economic growth in both countries and to the general political climate. Stable economic development in Kosovo is critical for offering attractive alternatives to public sector employment and to improve public service performance. Economic growth would decrease the pressure on the public sector to absorb masses of unemployed and it will enhance the local and national governments revenue sources. Unintentionally the recent economic downturn had an indirect effect on the local willingness of cooperation in the parallel municipalities. The funds from Belgrade were cut back significantly, which showed to the locally how fragile this political support is.

Primary political condition of the potential interventions is the peaceful development of the two countries providing perspectives for joining the European integration process. It had been started in Serbia by introducing the visa-free travel in the Schengen countries and formally submitting the application for EU candidacy in 2009. There are initiatives to involve Kosovo in the overall visa liberalization system of the Western Balkans. Continued international assistance also depends on the political stability in the two countries. The cooperation and balance between the UN and the EU led administration and programs in Kosovo will be also influenced by the decision of the International Court of Justice .

## 8.2 Recommendations

### 8.2.1 Increasing political accountability

An important conclusion formulated above related to mechanisms of political accountability – that is, to the institutions ensuring that elected local government politicians be obliged to inform their constituency about their (past or future) actions and decisions, to justify them, and to suffer punishment in the case of eventual misconduct.

The importance of political accountability stems from various, related sources:

- without effective mechanisms ensuring accountability self-seeking politicians will strive to improve only the well-being of themselves and of their clientele;
- therefore high quality local governance is unlikely to emerge without legally entrenched mechanisms of accountability;
- therefore strengthening those mechanisms is not only a vital interest of K-Albanian local communities but it is also an important motivating factor orientating K-Serbian ones towards the Kosovo, as opposed to the parallel, decentralization regime.

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<sup>25</sup> MTEF, 2008, p. 96.

The actual extent, to which local politicians are accountable to those electing them depends on many factors. For reasons outlined in Section 1 here we mostly focus on the legal-institutional ones only. The previous analyses concluded that (i) the Kosovo system already has significant advantage in this regard, but that (ii) this advantage should be further strengthened in order to attract K-Serbian communities into the Kosovo system of decentralization. Therefore the following recommendations all aim at strengthening the legal-institutional foundations of political accountability mechanisms.

### ***8.2.1.1 Creating smaller electoral districts***

Consider splitting up of municipalities into a number of electoral districts, the boundaries of which reflect real societal differences within the municipality such as urban versus rural, wealthier versus poorer areas.

Currently each local government comprises one electoral district only. The size of these municipalities (that is, districts) is, in international comparison, quite large. Moreover, they are rather heterogeneous in terms of their social/demographic/economic features. Political parties and individual candidates competing for votes are, thus, by default unable to reflect to the important spatial differences in political preferences – say, between urban and agricultural, poor and rich etc. neighborhoods. All this makes councilors fairly “distant” from those electing them. Vice versa, citizens tend not to feel that those elected are “theirs”; that they understand and respond to the specific needs and preferences characteristic for them and their neighborhood.

Creating smaller electoral district reflecting socio-economic, cultural etc. differences within the municipality could have such beneficial effects as (i) better representation of diverse societal interests in the Assembly, (ii) bringing municipal politics and policymaking closer to the citizens, which could induce (iii) more citizen involvement and civic awareness and, in the final analysis, (iv) more effective mechanisms of political accountability.

### ***8.2.1.2 Introducing mixed election system***

Consider the introduction of a mixed election system, whereby some proportion of Assembly members are elected in individual constituencies (first-past-the-post system).

Currently, citizens in each electoral district (municipality) vote for party lists. Although the electoral support of individual candidates featuring on the list is an important determinant of the given candidate’s final success non-transparent, intra-party dynamics still plays an important role. This means that politicians on the one hand are able to “hide” behind their parties. For example, the low performance of a politician can be counterbalanced by the popularity of his party, so that in the end he doesn’t have to face the hard consequences of his political misconduct. On the other hand, citizens learn that “their” representatives are not (only) theirs but distant party centers are at least as important in determining the fate of a politician. Moreover, implementing the previous recommendation would practically automatically mean that at least some part of the Assembly would have to be elected in individual districts anyway.

As a result of the proposed measure – for example, by having half or two thirds of the Assembly elected in individual districts – would bring politics closer to the citizens. On the one hand, those elected (or seeking to get elected) in individual would have to pursue intense personal contacts with their constituency and follow its interests, values and moods. On the other hand, citizens could “learn the names” of their representatives and follow through their actions in the political arena thereby inducing them to better represent their constituency.

### ***8.2.1.3 Assign more powers to the local Assembly***

Consider assigning, by means of central legislative changes, more competencies to the Assembly vis-a-vis the mayor.

Currently the rights and powers of the Assembly are relatively weak in comparison to the mayor. Moreover, much of these rights and powers are hammered out in political bargains as the law stipulates surprisingly few, of any such powers. This weakness of the Assembly leads to several detrimental effects. Firstly, if the mayor and his narrow circle decides about most major policy issues then the publicness and the transparency of local politics suffers. (This would be especially so if the Assembly more truly reflected – in line with the previous two recommendations – the diverse interests and political sentiments of the local electorate) The modest extent of the publicness of policymaking, in turn, increases the distance between local politics and citizens, and increases the role of informal, mostly central (national level) party/political influence.

If, however, the Assembly is assigned more competencies then transparency – in other words, a sufficient level of information on the part of the citizenry as a major precondition of accountability – is more likely to emerge.

### ***8.2.1.4 Strengthen sub-municipal forms of representation***

Consider strengthening the organizational forms of intra-municipal representation (e.g. elected sub-municipal governments).

Presently the large size local governments cover several towns and villages. Interest of these communities should be represented on a territorial basis, as well. As in many transition countries (e.g. Bulgaria, Poland) forms of community governance are effective mechanisms of political accountability. Based on the previous system of *bashkesia lokale*, having an elected local leadership at sub-municipal level, the local demand for public services can be better formulated. They function as advocates and messengers toward the elected councils. Sub-municipal governments are able to mobilize local resources more effectively, so they play a critical role in community development.

### ***8.2.1.5 Promoting civic culture***

Consider creating central policies and mechanisms aiming at a strengthening of local civic awareness such as nurturing local political news media, local – possibly non-political - civic associations (such as those working for improving the green surfaces or the built and the natural environment).

The previous recommendations all targeted the legally defined rules, by which citizens' political preferences are translated into seats in the Assembly. However, as we argued at several points there are many additional factors – outside the realm of legally defined institutions and rules – influencing who gets (re)elected and why. This recommendations targets the most immediate set of those broader societal factors; namely, citizens' willingness/inclination to hold their representatives accountable.

As experience of many (newly) democratic countries show it is not enough to create the institutional prerequisites of political accountability. Howsoever perfect those institutions are, if citizens don't know and/or don't care about their representatives and politics in general then political accountability will not be there and thus politics lapses into backstage bargaining between self-seeking political factions and individuals.

Citizens' inclination to care – to try to get informed, to express their interests, to participate – in/about (local) politics is, to a significant extent, a matter of political culture. Such features of society are remarkably stable and this difficult to alter. However, relevant information on local policies and politics may significantly increase citizens' participatory inclination while the lack thereof may be a major hindrance. Likewise, small voluntary organizations representing/"fighting for" tangible and important micro-issues increase participatory tendencies and the transparency of local politics, thus contributing in the long run to an increased level of accountability.

## 8.2.2 More local powers in policy formulation and implementation

### ***8.2.2.1 Devolution in public service provision has to be continued***

The Kosovo-Serbian local governments have limited functions, so acceptance of Kosovo constitutional-legal system would open up new possibilities for them. Under the present Kosovo legislation there is a great potential not only for increasing the scope of locally provided services (e.g. public education, primary health care), but having access to exceptional (enhanced) functions set by the Law on Local Self-Governments.

However, as the assignment of competencies in the new and cooperating municipalities was rather slow and selective, this process has to be accelerated and finished. Fully operational and effective new municipalities were the best guarantees for the Kosovo-Serbian communities, that cooperation with the Kosovo state would bring them tangible results.

That is, they are able to exercise their full powers and their local autonomy is protected. The administrative and fiscal conditions of the enhanced functions in the Serbian communities have to be guaranteed. It would require specific regulations from the line ministries and additional funds from the Kosovo budget.



### ***8.2.2.2 Local property should be transferred to municipalities***

Without full local control over all the conditions of public service management the benefits of decentralization cannot be realized. The local government ownership over the property used for public service provision and for urban development is critical. Transfer of these publicly owned but locally used assets to municipalities requires comprehensive policies.

The legal and administrative framework has to be developed. This property devolution policy should be harmonized with the overall privatization strategy and the rules of potential restitution. Local governments should have full and exclusive ownership of urban land to avoid the ambiguous land regulations of long term usage. As in many transition countries the organizational forms and internal capacity of local public service management has to be developed.

These changes would bring significant improvements for the Kosovo-Serbian municipalities. Presently under the Serbian rule, local governments have very limited powers and the regulations on public property are controversial, as the founder and owner rights are mixed. The reform strategy on local public utility companies in Serbia is still under design. Local discretion over devolved assets was much higher for the local governments if they would join the legal and administrative system of Kosovo.

The Kosovo Albanian local governments have to become real owners of the service organizations devolved to municipalities. The transfer of ownership rights has to be implemented parallel to the establishment of an inventory of these new local assets. They have to be registered in the national cadastre and should be presented in the municipal balance sheets. Forms and rules of local publicly owned enterprise management have to be developed.

### ***8.2.2.3 Regulatory framework of local governments should be further developed***

Some of the basic constitutional-legal foundations of decentralized public services are already in place in Kosovo. But several pieces of the secondary legislation (e.g. on public utility services), the supporting institutions (e.g. decentralized treasury units) and the new policy development practices in a decentralized environment are missing or not complete. Transformation of the central control and supervision, the modernization of public administration and improvement of policy making practices requires coordinated reform efforts. At local level also the mechanisms and practices of municipal control, supervision and management over the service organizations have to be further developed.

The municipal administrative and human resource capacity to manage all the devolved services has to be improved. Primarily the competencies of the extensive local government committee system have to be enhanced and the committees' role has to be defined in the municipal management structure. The position of the various directorates in relation to national government ministries (agencies) should be strengthened.

A properly designed and transparent system of intergovernmental relations will make the Kosovar local policy making and regulatory framework more acceptable for the Kosovo-Serbian local governments. They might join a nationwide network of municipal services more willingly, when the national government influence is limited by law and

the elected bodies exercise effective control over the municipal administration.

In the rural areas of the large size Kosovo municipalities the Serb communities might benefit from the better access to public services. Information campaign on the tangible advantages of joining the Kosovar system would help to shape the general public attitude in the Serb enclaves.

Regulatory changes would force the Serbian local governments to make the flow of funds from Belgrade visible. When they join the Kosovar local government fiscal information system, then these additional funds should be part of the national reporting system.

#### ***8.2.2.4 Depoliticization of municipal administration***

The political appointment of local management should be gradually constrained, even if it cannot be completely eliminated. Pure political influence should be limited by development of a merit based civil service and public sector employment rules. This process has to be supported by massive capacity development in the local administration. Also the competencies of the political bodies (the Assembly and the committees) towards the municipal administration (the directorate heads, the lower rank civil servants, the managers of the service organizations and other public employees) have to be specified.

All these changes will improve the quality of public administration by defending its professional integrity and limiting the direct political party based intervention on daily management decisions. In addition, greater transparent will also make the elected leadership more accountable.

Clear management rules and lower direct political party influence on municipal administration would make the Kosovo local government framework more acceptable for the Kosovo-Serbs. A depoliticized local government administration might help to replace the present fragile system of Serbian monetary supplements and the present strong influence of unaccountable local politicians over municipal decisions.

In the newly established municipalities straightforward government policies should guarantee the operational conditions of local administration. These municipalities would require physical space, provision of equipment and also new recruitment regulations. Ethnic quotas, compulsory use of minority languages would enhance the willingness of local government to accept the Kosovar rules.

#### ***8.2.2.5 Further improvement of the fiscal framework***

The high grant dependency with simple fund allocation mechanisms have to be renewed. The present system of intergovernmental finances in Kosovo has limited incentives for increasing efficiency and lacks proper equalization mechanisms. Allocation of general and earmarked grants should take into consideration differences in the costs of services between municipalities of different type and size and to some extent the diverging own revenue raising capacity, as well.

Parallel to these changes the heavily centralized municipal financial management should be gradually transformed. The methods of fiscal planning have to be improved and major service organizations should have higher spending autonomy (primarily in the case of public education).

These improvements would be a major change for any Serb local government joining the Kosovo local government system. The proposed rules of fund allocation would increase transparency, predictability and stability.

Obviously acceptance of the Kosovar system of intergovernmental finances would make the raise of own source revenues obligatory. Local services cannot be used free of charge any more. But the "political costs" of putting fiscal burden on local population would be compensated by the greater local fiscal autonomy, the capability of long term municipal strategy design and implementation.

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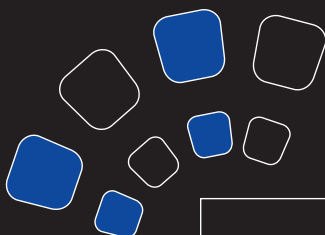
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