
Criteria for Allocation of Grants from the Central Budget for the Municipalities in Kosovo

Author: Bashkim MUSTAFA, University of Prishtina, Kosovo

Since the end of the recent conflict, UNMIK began its work with Kosovo authorities for establishment of the Government institutions (regardless of Kosovo's final status settlement), there was always a feeling that the responsibility for Public Finance Management is a significant issue and it should bear an important place in the executive branch. Initially, in order to fulfill this function, UNMIK established the Central Fiscal Authority (CFA) and then in 2002, CFA was transformed to the Ministry of Finance and Economy (MFE). Although, Kosovo was still under the jurisdiction of UNMIK until 2008, MEF has completed the activities related to the Ministry of Finance in a national level pursuant to the Constitutional Framework and the Law on Management of Public Finances and Responsibilities (LMPFR). Pursuant to the Constitution of Republic of Kosovo, municipalities have a special chapter and are divided from the Central Government. However they are subject to the LMPFR as well and the Law on Finances of Local Power, and regardless of existences of the capacity for generation and utilization of the property tax and the Self-generated Revenues (including here the charges, the fines for traffic violations) their funding still depends largely on the central government (education grant, health grant and general governance grant). As mentioned, their budgets are executed through the Treasury system which is a same system being used for the central governance Budgetary Organizations.

The purpose of this study is to show that despite the challenges it has gone through and great status changes, Kosovo has marked significant progress in the legal infrastructure in allocation of grants from the Central Government to the Local Government. Kosovo has continuously made an improvement of forms for allocation of grants, adjusting to the circumstances

on the ground, despite the fact there were many problems and in lack of accurate data of population census.

Keywords: *grants, budget, public finance management, central government*

Introduction

Local governance and local finances have existed since the early times. Local units have functioned and are funded with their steering bodies before the establishment of the state itself. Local governance enables the citizens to have all the services closer, and to provide them with the opportunity of expressing their concerns.

Fiscal decentralization is a key factor of local self-governance, therefore without sufficient financial support there can be no proper governance.

Thus, the transfer of power should be regulated with laws on funding of functions and competencies. This process has increased the responsibility of local governance, by managing the resources, transfers, local borrowings, financial management, participation of citizens in the local planning and local services. Finances pose a wide area and complicated area that covers every aspect of the live in the municipality. Just like throughout Europe, sources of municipalities are very limited and there is a continuous battle for achieving the matching of money with priorities and to achieve the maximum gaining. The Government of Kosovo was successful in implementation of the Unique Treasury Account approach for budget management and there are no extra-budgetary activities. The Law on Management of Public Finances and Responsibilities requires all the public money to be collected by the budgetary organizations and to be deposited to UTA and they cannot be spent until their allocation has been made.

So far, no proves of violation of this legal requirement had been presented by the central government agencies. Almost all the budgetary allocations of the public money is done as a result of the annual budgetary process, with exclusion of the relatively smaller amounts of the Self-Generated Revenues (SGR), related to the spending of tariffs of users that

are collected by the Budgetary Organizations and Grants Assigned by the Donors, which are allocated just as they are received from the donors, in the accounts of the Treasury. However all the public money expenditures, including the SGR and donor-assigned grants are included in the regular annual reports of execution and fiscal reports at the end of the year – thus ensuring a full statement of the central government operations, the complete funding of the donors which is received by the Government in cash, is channeled through Treasury. There is no bank account which operates outside UTA from the Project Implementation Units of from the budgetary organizations for implementation of the donor-funded projects. Therefore, the Treasury was able to include easily the full registry of bills and expenditures of the Donor-Assigned Fund in its financial statements¹. However, every movement of budgetary means in both central and local level is registered and supervised in the best possible way through Treasury Account.

Utilization of the public money in Kosovo and fiscal decentralization

The system of inter-governmental fiscal reports, initially established in 2001 and 2002, has suffered significant changes, especially after the deceleration of Kosovo's independence. However this system now presents an advanced fiscal decentralization. 2008 has marked the rendering of the legislation which has strengthened and improved the institutionalization of the municipal finance system. Law on Local Power Finances (LLPF) was rendered in 2008 under the framework of requested legislation in the Comprehensive Status Settlement Proposal. LLPF has presented transparent rules and has ensured funding for the provision of minimal standard services from the local governments.

2009 municipal budget, particularly the funding from the central government transfers, is prepared and approved pursuant to the new principles presented in the LLPF. The aggregate amount of transfers and horizontal allocation for individual municipalities was in accordance with

¹ www.gov-ks.org, Assessment of public finance management – public expenditures and financial accountability, May 2009

the rules and procedures set out in LLPF². Parameters for grants are determined and approved by the Grants Commission and are officially communicated to all the municipalities through Budgetary Circulars³.

During the preparation of the 2009 municipal budget, MEF has communicated with the municipal budgetary organizations through a number of Budgetary Circulars, which have provided general budgetary instructions to the municipalities, the budget development calendar, funding from government transfers and expenditure limits. The first budgetary circular, which included the initial assessments of transfers, was issued on June. It presented a delayed beginning of the budget compared to the budgetary calendar as foreseen in the LMPFR. This delay was mainly attributed to the need for finalization of MTEF 2009-2011 and the organization of the Donors Conference: the first circular is followed by the additional communication from MFE regarding the level of municipal funding allocated from government grants in form of:

(a) Second budgetary circular which contained the instructions for finalization of the municipal budget process;

(b) Of amendments in the second budgetary circular, which included the final funding and the limits of budgetary expenditures. This circular was rendered on October 27. According to the municipal budgetary calendar (included in LMPFR and annual circulars of MFE), municipalities have made the finalization of the budgetary proposals by September 30 based on the grant preliminary assessments, which came out to be unreliable. The information on the total funding from grants, which were different from the preliminary assessments regarding the amounts and structure, were offered to municipalities almost one month after the legal deadline for completion of the municipal budgetary process.

² Part III of the LFLP sets out rules for placement and distribution of government grants, including here the unconditioned general grant and two specific operational grants for education and health sector.

³ See the MEF web page for papers of Grants Commission on the policies and budgetary circulars which provide description of grants formulas and approved allocations for individual municipalities.

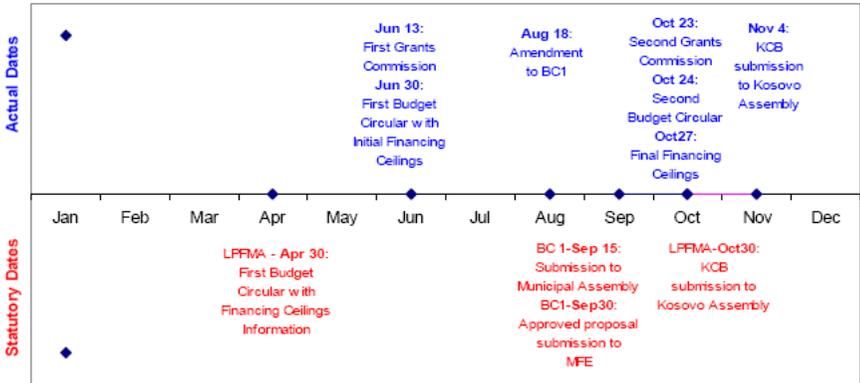


Figure 1: Calendar of the municipal budgetary process 2009

The determination of the final transfers and of the principles of allocation has been disordered from the ad hoc and last minute decisions on policies, which have weakened the objectivity and transparency of allocation of grants. These have been reviewed in details and have officially been approved by the Grants Commission and the overall impact was not considerable. However, it will be important for the authorities to make sure that the rules of the LFLP are applied completely and with transparency in the future. Therefore, the 2009 municipal budgetary process has demonstrated weaknesses regarding the distribution from the central budgetary authorities of reliable information and at the right time for the municipal financing, which has had an impact on the municipal budgetary process.

It will be vital for MEF to respect all the aspects of the municipal budget calendar, to ensure that the municipal officials are able to start the budgetary process on time and to have sufficient time to conduct all necessary internal procedures at all the stages of the budget development. It is also essential for the Municipal Assemblies to be able to review and approved the proposed municipal budgets and to allow the follow up of the time calendar as set out in the law (including the participation of citizens)⁴.

⁴ MEF, Budget book 2009, Prishtina

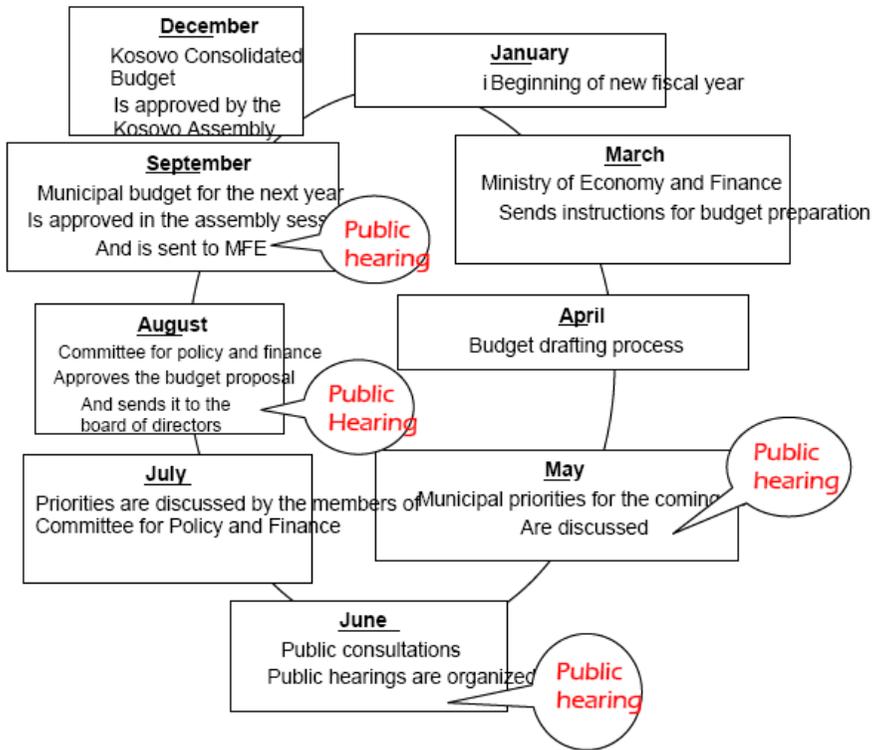


Figure 2: During the budget planning, the citizens are invited at public hearings on budget to provide their suggestions and comments regarding the municipal priorities.

1. Identification and building of criteria for allocation of the budgetary means from the central budget to the municipalities

Distribution of central government grants is done pursuant to the World Bank formula and other formulas which depend a lot on the demographic data, all these data are not updated, and on data based on the UNMIK and OSCE statistics of 2001. Given that grants are allocated based on formulas, there is little flexibility in reviewing the budget results deriving from them. This ensures placement of a high level of prediction with the time passing, and of a transparent approach.

However, it also implies that if the existing data are wrong (and there are such cases) then the underfunding and overfunding is also “fixed”. The Grants Commission has the authority of assigning these formulas, rendering decisions on the policies regarding municipalities and recommending the higher limit of municipal budget for every year. MFE has also recognized that the formula should be reviewed and in particular, the demographic data should be updated, as soon as the general census of people is completed.

The grants criteria are very simple. The general number of citizens in special municipalities is taken as criteria for allocation of general grants from the central government and no other criteria have been taken into account. The grants commission represents a key institution of the system of inter-government transfers in Kosovo and is in the legislative and institutional arrangements since 2001, pursuant to the Law on Management of Public Finances and Responsibilities (LMPFR).

The Grants Commission currently comprises of the Prime Minister of its representative, Minister of Economy and Finance, Minister of Local Power, a minister from a line ministry (assigned by the Government), the Chairperson of the Committee for Budget and Finance in the Kosovo Assembly and four mayors of municipalities, one of which comes from minority inhabited municipalities.

Functions mandate and composition of the Grants Commission is determined more clearly upon the entry into force of the Law on Finances of Local Power (LFLP) in June 2008. This commission has clearly defined responsibilities in the areas of municipal financing, particularly regarding the government grants⁵.

See annex 5 at the end of the assignment. It is a forum, which facilitates the communication and dialogue between the local and central governments. Regarding the municipal financing, municipal arrangements have in the past inter-government grants in amount of 22.5% of the central projected budgetary revenues by deducting the municipal revenues and the central revenues according to the memorandums of understanding, and have included three types of grants: general grant and two specific grants for

⁵ Ministry of Economy and Finance, Secretariat of Grants Commission, Department of Municipal Budget, April 2009, Prishtina

education and health, fixed in the nominal aspect. After entry into force of the LFLP-13, in essence presents and regulated the following main sources of municipal financing.

2. Current formula which is applied in Kosovo

The grants commission in close cooperation with World Bank and IMF, has used this formula by distributing the budget through grants:

- **General closed operating grant**, determined as 10% of the budget revenues of the central government.
- **Open specific operating grants**, for education and health, planned for financing of the cost of standard minimal services and which are allocated based on the formula set out by the Grants Commission;
- Specific grants for financing the increased competencies, transfers for financing of delegated competencies and extraordinary grants; detailed description of resources for financing of municipalities and criteria which regulate their assigning and allocation, may be ensured in the Law on Finances of Local Power.
- Financial assistance from Republic of Serbia: Limited municipal borrowings, which include the general principles that municipalities may borrow funds, but there will be need for additional legislation to specify the conditions, deadlines and procedures for those borrowings; it assigns the responsibility to the municipal assembly in the area of municipal self-generated revenues with aim of supporting the strengthening of municipal capacities⁶.

⁶ Midterm Expenditure Framework 2009-2011, pages 41, 42, 43

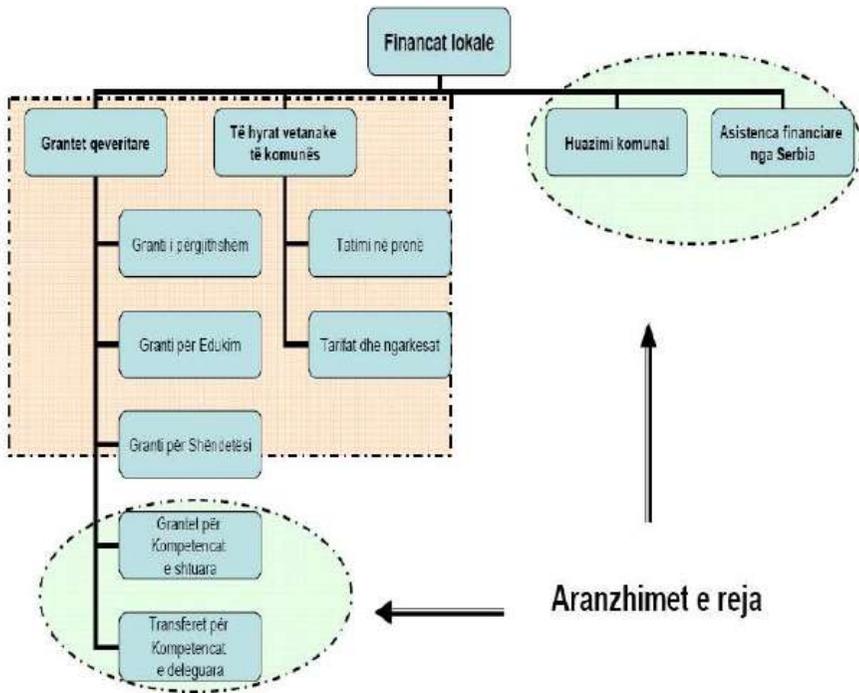


Figure 3: Structure of allocation of means from the Central budget to municipalities

Government has implemented a new system of funding for municipalities foreseen in the LFLP, starting from the 2009 municipal budgets. The decisions of the Grants Commission are essential for initiation of the 2010 municipal budgetary processes and finalization of the Midterm Expenditures Framework (MTEM) 2010-2012. According to the obligations deriving from the LFLP, the grants Commission requires determination of total amounts and the allocation formula for each municipality in an individual manner, including here the funding for new municipalities for these government grants: for the general grant, education grant and healthcare grant. It is expected the funding for expanded competencies will also be discussed and agreed. LFLP brings considerable changes in the system of municipal funding in the context of horizontal and vertical division, including these new principles:

- The general grant with closed system;

- Two specific open grants for education and health, which would fund the cost of provision of minimal level of standards in the preschool education, primary and secondary and the primary healthcare system.

The secretariat of the Grants Commission arranges the completion of all the activities of the administrative-technical expertise which are reasonably needed as a support for Grants Commission, is part of the Department of Municipal Budget, established by the Minister of Economy and Finance pursuant to the Article 32.5 of the LFLP. The main tasks of the Grants Commission Secretariat are: leading technical discussions with the line ministries and partners involved in the process, analyses the draft grants from the lines ministries, prepares budgetary policies and municipal fiscal policies pursuant to the government priorities and ensure the respecting of International Monetary Fund recommendations for budgetary policies and for the parameters that the Government aims at fulfilling for 2010-2012.

This has enabled a discussion on the right level of financing for municipal competencies and the analysis of the effects in case other funding options are taken into account.

Table 1: Total amounts for each government grant and self-generated revenues for 2009-2012 period

Grants and municipal revenues for three years (mil €)	Year 2009	Year 2010	Year 2011	Year 2012
General grant	85,0	94,3	99,3	104,4
Specific grant for health	24,3	24,8	25,4	26,1
Specific grant for education	103,6	108,5	114,0	116,0
Total financing of grants	212,9	227,6	238,8	246,5
Self-generated revenues	37,2	50,4	50,9	51,4
Total municipal funding from grants and revenues	250,1	278,0	289,7	297,9

General Grant for municipalities

The general grant enables a reasonable degree of stability in the municipal revenues, provides an adequate mean for establishment of equality between the municipalities, taking into account opportunities of residents of each municipality to have access in public services and enables

the adequate allocation of resources for the minority communities in the respective municipalities⁷.

Taking into consideration the reviewed schedule of transfer of competencies during 2009, the presentation of the Government policy regarding the future funding of transferred competencies, to avoid the double financing from other sources in addition to the General Grant. *The general grant* – The amount of the general grant is ten percent (10%) of the total budgeted revenues of the central government, excluding (i) revenues from the sales of assets, (ii) other extraordinary revenues, (iii) dedicated revenues and (iv) revenues from borrowing. See annex 2 at the end of the assignment.

With purpose of leveling the low capacity of self-generated revenues of smaller municipalities from the total of the General Grant, every municipality will accept a general amount (lamp sum) of € 140,000 a year, minus € 1 per capita, or o€ for municipalities with equal population or bigger than 140.000. The remaining portion of the General Grant is allocated to the municipalities in proportion with: (i) the population number, (ii) number of minority population, (iii) if the majority of population comprises of national minorities; and (iv) geographical size. The population is estimates to eighty-nine percent (89%); the number of minority population is estimated at three percent (3%); municipalities, whose majority population comprises of national minorities with 2 percent (2%); and geographical size with six percent (6%).

Lack of reliable demographical data and updated data presents the main obstacle for concluding the precise allocation of the general grant. In absence of population number records, LFLP has legalized the data that are currently available: (a) total number of population according to a 2011 research (same data are used during seven past budgetary cycles, thus we will be able to ensure comparability between years), (b) minority population according to a recent research of MAPL, (c) size of municipality according to MAPL and the Statistical Office of Kosovo⁸.

⁷ Secretariat of Grants Commission, Department of Municipal Budget, MFE, April 2009, Prishtina

⁸ Budgetary circular 2009-01, June 30 2008, page 13

The division of general grant for 2008 is presented in the Annex 3 of the assignment. Structure of the allocation of general grant is presented in table 2.

Table 2: Composition of the General grant for 2009-2012 periods

Formula component	Factors	2009 Budget	2010 Plan	2011 assessment	2012 assessment
Aggregate amount	Macroeconomic factor: budget revenues (mil euro)	899.0	942	992.8	1044.2
	Parameter: 10% of budgetary revenues (mil euro)	89.9	94.2	99.2	104.4
	<i>(change from year to year)</i>				
Elements	Population	2,236,000	2,236,000	2,236,000	2,236,000
	Parameter: 89% of the aggregate amount	75.65	80.8	85.2	89.8
	Municipal area (km ²)	10,901	10,901	10,901	10,901
	Parameter: 6% of the aggregate amount	5.1	5.4	5.7	6.0
	Minority communities in the municipality	116,599	116,599	116,599	116,599
	Parameter: 3% of the aggregate amount	2.55	2.7	2.8	3.0
	Population of minority municipalities	130,255	130,255	130,255	130,255
Parameter: 2% of the aggregate amount	1.7	1.8	1.9	2.0	

Specific education grant

Specific education grant and setting of the amount of this grant is based in an open system approach of funding according to the LFLP. Specific education grant should finance the minimal level of preschool education standards, primary and secondary and should be allocated for municipalities pursuant to the number of registered pupils, schools and other standards provided by the Ministry of Education, Science and Technology. The education grant is envisaged a normative financing. Also in case of the education grant we should also take into consideration:

- Emphasis of current and planned sectoral policies which impact the determination of the municipal financing.
- Emphasis of the grants education formula for MTEF period, by disclosing, describing and justifying the eventual changes compared to the previous year.
- Emphasis of the factors referential in respective macro projections such as the number of pupils, number of schools may serve as a basis for the education grant.

Allocation of the inter-governmental transfer for the specific education grant for 2009 reached the amount of € 86,7 million and later on for additional financial implications such as the licensing of teachers were allocated 16 million, also the increase of salaries of administration at 10% resulted in an increase of 0.9 million whereby the total cost of expenses for 2009 reached the amount of 103.6 million Euros.

The nominal increase of registered pupils for 2008/09 school year of 5367 pupils and the implementation of the new state education formula resulted in a bigger envelope of expenditures including the reforms which reach an approximate increase of € 10 million compared to the previous year⁹.

The approved formula for 2009 supports this recommendation including the indicators and assumptions below:

Municipal allocation = salaries for teachers + salaries for administrative personnel and supplementary personnel + goods and services + capitals

Salaries for teachers = number of teachers = (number of majority pupils / 21.3) + (number of minority teachers = number of minority pupils / 14.2) * average salary (216 Euros for the primary level and 236 Euros for the secondary level) * 12 months. Note: this includes the adjusting for 4 months for the paid maternity leaves.

Salaries for the administrative personnel = current number of employees* average salary (231 Euros for the primary and secondary level) * 12 months.
Salaries for the supplementary personnel = the current number of employees * average salary (130 Euros for the primary and secondary levels) * 12 months.

Goods and services = fixed amount for every school for every year (1000 Euros for a primary school and 2000 Euros for a secondary school) + fixed amount for every pupil (23 Euros for the pupils of majority community and 25 Euros for the pupils of minority community).

⁹ Secretariat of Grants Commission, Department of Municipal Budget, MEF, April 2009, Prishtina

Capitals = fixed amount of 7 Euros for every pupil (minor capital which includes refurbishments and maintenance of school facilities)¹⁰. Structure of allocation of education grants is presented in table 3.

Table 3: Specific grant of education for 2010-2012 period, using 2009 as basis

Specific education grant for 2010	Parameters	MFE version
Total number of pupils		469.139
Numbers of teachers' norms		24.016
Teachers' salaries	273,6 €	78.900.870 €
Maternity leave 10%		2.650.128 €
Number of administrative personnel	242,0 €	1.536
Administration salaries (+10 %)		4.502.265 €
Number of supplementary personnel	130,0 €	3.800
Supplementary personnel salaries (+10%)		6.805.777 €
Goods for every pupil		11.026.521 €
Goods for every pupil in professional schools	10,0 €	0 €
Inflation of goods for every pupil	1,0 €	0 €
Total goods for schools	1.239	1.325.000 €
Capitals	7	3.270.204 €
Accountants (155 positions)	271,7 €	0 €
Pedagogs (311 positions)	300,0 €	0 €
Mountainous schools		0 €
Fixed allocations for municipalities		0 €
On job trainings (22.5 Euros per teacher)		0 €
Personnel for new schools		0 €
Internet for all the schools		0 €

Summarizing table: Specific education grant

The Secretariat of the Grants Commission has analyzed the proposed specific grant of Education from MEST for 2010, including the new state formula with the implication of criteria and policies based on the pre-university education and increase of number of registered pupils for 2008/2009 school year and from the analysis it resulted with a proposal of specific grant of education in amount of 108,480,765 million Euros as a minimum of pre-university education financing.

¹⁰ Budgetary circular 2009-01, June 30 2008, page 14

The education grant for 2008 is presented in the Annex 4 at the end of the assignment.

Specific healthcare grant

Specific healthcare grant aims at funding the primary healthcare in municipalities expressed in an open-system grant which is based in the basic principles of LFLP. The health grant is foreseen to ensure only normative funding for the respective services through councils and consultations in the medical premises of families of the patients. The following are taken into account:

- Emphasis of the current and planned sectorial policies which impact the setting of municipal financing for primary healthcare;
- Emphasis of the healthcare grant formula for justifying the eventual changes compared to the previous year;
- Emphasis of the macroeconomic factors, including prices, inflation and number of population, which serve as a basis for the allocation of the specific health grant.

In line with the MoH strategy for presenting performance-based payments, specific health grant includes the component for funding the performance based payments for providers of the healthcare services (planned in a special-line program)¹¹.

Specific grant for health and setting of total amounts is based in the open financing system in line with the LFLP. Specific health grant should fund the minimum of the level of primary healthcare standards and should be allocated to the municipalities pursuant to the normalized population and standards provided from the Ministry of Health. The health grant for 2008 is presented in Annex 4 at the end of the assignment.

The approved formula of the healthcare grant for 2009 developed in cooperation with the Ministry of Health and World bank has taken into account the methodology based on the number of users. Based on the performance, for the payment system in the primary healthcare sector, 5% of

¹¹ Secretariat of Grants Commission, Department of Municipal Budget, MEF, April 2009, Prishtina

the total amount of health grant is distributed as individual amount for municipalities.

Municipal allocation = population (pursuant to the LFLP) * 2.8 visits (average) * 3.5 Euros (average for a visit; in the future the age and gender differentiation will be included as well)¹².

Table 4: Specific health grant for 2009-2012

Increase of population (%) MTEF	1,5	1,5	1,5	1,5
Last year inflation (%)	0,6	1	0,9	0,8
Total amount (mil. €)	24,3	24,81	25,44	26,05

<u>Specific health grant</u>	parametrat	Versioni	Versioni
		MSH	1
Average number of visits per capita	2,8	3	2,8
Average cost of visits (euro)	3,5	4,00	3,90
Population		2.236.000	2.236.000

13

Lateral effects which are produced by this formula, advantages and disadvantages

Allocation of grants in the Republic of Kosovo, according to the current formula, in absence of reliable, updated demographic data and many other indicators, poses a key obstacle for concluding the precise allocation of the budget. However, this formula has been enriched gradually, particularly in the Law on Local Self-Governance, where the number of indicators that were taken into account has increased as well as expanded competencies of municipalities.

¹² Budgetary circular 2009-01, June 30 2008, page 15

¹³ For 2010 Explanation: Analysis of the Secretariat of Grants Commission in the proposed version has taken into account the nominal increase of the number of population according to MTEF (1.5%), fiscal rule (1%, for 2010) and inflation for the average cost of visits. The total amount of specific grant for healthcare for 2010 in amount of 24.81 (mil. €) includes the performance (5%) in amount of 1.22 (mil. €)

The disadvantages of this formula are:

- Inaccurate statistics of population, this has impacted negatively as the movement and increase of population was high.
- Lump sum amount of allocation of the general grant, which cannot be taken as the only criteria, as it impacts the decreasing of distinctions in development, between the developed municipalities and the less developed ones.
- Allocation of the specific education grant. This allocation does not help those pupils where the distance of their schools is very large (rural areas), does not simulate the pupils where the economic and social state is difficult, there is lack of road transportation, does not provide elementary conditions to pupils with special needs, there is lack of pupils in schools, there is an old registry and always is based on them, there are lack of sufficient premises and nothing is in line with international standards. There are cases when the teaching process takes place in containers.
- Allocation of the specific health grants. The allocation of this grant does not meet even the minimum standards of health sector. This allocation does not allow for special service towards the more volatile categories of society, war invalids, people with disabilities, where there is lack of health space. In many rural areas, where the distance of the closest healthcare service is very large compared to international standards, there is lack of sufficient medical premises and adequate equipment for provision of primary services, where patients should move from one municipality to the other to benefit from an adequate service.

All these should be fulfilled during the allocation of grants in the future, and this are elementary standards, for a state that wants to be functional and aspired to join the European Union.

An advantage of this formula, taking into consideration the economic and social state of Kosovo and the high influence of international factor, is that this formula suits the current circumstances of Kosovo. Through it, the primary standards of funding of municipalities from the central budget are fulfilled.

Conclusions and recommendations

From everything that was analyzed and elaborated in this assignment, we can say that the process of allocation of grants is a very difficult process to be implemented, particularly in Kosovo, where there is lack of accurate data.

Criteria for allocation of grants should be more complex, taking into consideration other important figures which deal with municipalities, for example: rations based on territory of the municipality, distance of the local roads, number of schools, percentage of children below 16, that of the people above 60 and the percentage of self-generated revenues collected in the previous year.

The general grant – 10% of the complete revenues of the Government, the lump sum amount of € 140,000.00 a year minus € 1 per capita is not the only criteria which will impact the elimination of differences in development, between developed municipalities and the less developed ones. I believe that in the future, additional criteria should be imposed which would include:

- Level of economic development of each municipality;
- Degree of war damages and
- Establishment of an additional fund for undeveloped municipalities.

Main indicators which are used for the allocation of the rest of the grant (ratios 89%, 3%, 2% and 6%) lacking population census, have caused high dissatisfaction among municipalities. According to these ratios, 89% of allocation of grants is done based on the overall population, this criteria of course is not preferable to municipalities which have a large territory, and suffer as a result of geographical size criteria. We are mentioning the municipality of Skenderaj, which according to annex 1 of the Law on Local Finance Management has 374 km² or 98 km² more than the municipality of Drenas, whereas in case of the total central grant, for Drenas it is bigger than for the municipality of Skenderaj (I am unfortunately referring to the Municipality of Drenas).

I believe that with changing of these ratios until the full census of population, dissatisfactions would be smaller, my proposal would be if the Population would be 89%, I propose 80% of minority communities in municipality 3%, population of minority municipalities 2% and the

municipal area (km²) was 6% a propose 15%. I give advantage to the municipal area because this is the only accurate statistics (old estimations date from 2001 and are based on the number of population according to the OSCE data).

Specific grant for Education is an open system and we are unable to impact on it, because it is the respective ministries that make argument requirements for minimum financing of this activity of programs.

Although even regarding this, suggestions can be provides, since lacking sufficient transparency, we influence unfair allocation of the specific education grant.

We should take into account the distance of schools from localities, particularly in rural places with high oversea height (where the travelling of pupils and teachers is very difficult).

A memorandum of understanding should be signed between MEST and municipalities for supporting the pupils in difficult economic and social position, particularly those who are motivated for education. Number of pupils with special needs should be taken into account and the stimulation of teachers who were more successful during the year.

Specific health grant is done based on the open system and I suggest to take into account; the number of people with disabilities, people above 60, children up to 6, distance from localities to the family medicine center, number of local healthcare centers in local communities. The 1/3 ratio should strictly be respected (1 doctor / 3 medical technicians). The state of medical assets should be taken into account for provision of services in municipalities.

All these would be alternatives during the allocation of grants in the future, which also present elementary standards for the population of Republic of Kosovo, for a country that aims at being, functional and to join the European Union.

Despite these challenges and dilemmas on the allocation of grants, we may conclude that the process of functional and fiscal decentralization enables establishment of preconditions for the local governance authority to be engages in improving the social conditions and increasing of economic welfare in a local level. Through fiscal decentralization and allocation of grants in a proper manner, the local power may impact the increase of local revenues, using facilitating fiscal policies for local businesses and

stimulation of business start-ups, increase of level of administrative services and resolving problems in the local level.

Therefore with a good will of the central and local power in Kosovo, the process of allocation of grants will reach the desired standards, which we cannot avoid being a country that expects to integrate in the European Union.

References

- [1] Abrams, S. and Murphy F., *“The Design and Implementation of Local Development Strategies: The case of Central and Eastern Europe.”* In Local Governance and the Drivers of Growth, OECD, 2005
- [2] Bird Richard, M., *“Financing Local Services: Patterns, Problems and Possibilities”*, Centre for Urban and Community Studies, University of Toronto, 1995
- [3] Christina Lessman, *“Fiscal Decentralization and Regional Disparity: A panel Date Approach for OECD Countries”*, Institute for Economic Research at the University of Munich, 2006
- [4] Davey Ken and Gábor Péteri, *“Whose Money Is It Anyway?”*, eds. 2006, Local Governance Brief
- [5] Ebel. R. D. and G. Peteri, *“Intergovernmental Transfers in the Kosovo Decentralization”*, Briefing Book, Prishtina: Kosovo Foundation for Open Society and Budapest: Local Government and Public Service Reform Initiative, 2007.
- [6] Forumi 2015, *“Kosovo-Five Year Later: What agenda for the future?”* Prishtina, Kosovo Foundation for Open Society
- [7] Gobor Peteri, *“Fiscal Equalization in South Eastern Europe”* Fiscal Decentralization Initiative, USAID, LGI-OSI, Budapest, 2006

-
- [8] UNDP Kosovo Mosaic, *“Perception on Municipal Governments and Public Services in Kosovo”*, Prishtina 2003, 2006, 2009

 - [9] Reinvest: The roundtable of the international forum regarding the local economic development in Kosovo, *“SME Development in Kosovo”*, Annual Report, Prishtina, 2002

 - [10] Regulation 2000/49 on the Establishment of the Administrative Department of Public Municipal Services, Regulation 2001/36 on Civil Servants of Kosovo, Law 2002/19 on Primary and Secondary Education

 - [11] Association of Kosovo Municipalities: 1/2003, Expropriation of municipal property, Prishtina, 30.05.2003

 - [12] Reinvest: Early Warning Survey with Families, December 2003

 - [13] European Charter on Self-Governance, Council of Europe, Strasbourg, October 15 1985

 - [14] Administrative instruction no. 2005/7 on the implementation of responsibilities of Ministry of Local Administration regarding the monitoring and oversight of municipalities.

 - [15] OSCE Mission in Kosovo, Monitoring Department, Relations between central and local authorities in Kosovo, Legal, administrative and social aspects, February 2008

Internet sources:

www.forumi2015.org
www.esiweb.org
www.setimes.com
www.evropaelire.org
www.osce.org
www.oecd.org