



Republika e Kosovës
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Ministria e Financave
Ministarstvo za Finansije - Ministry of Finance

Departamenti i Buxhetit Komunal/ Departamentat Opstinske Budzeta / Municipality Budget Departament

ASSESSMENT REPORT ON THE ADEQUACY OF THE MUNICIPAL FUNDING SYSTEM FOR 2014

Secretariat of the Grants Commission
Ministry of Finance
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1. INTRODUCTION

This report presents the evaluation of the Grants Commission (GC) on the suitability of the financing system at the municipal level throughout the year 2014. The report presents the results of the evaluation and the main challenges identified by GC, and thereby provides recommendations for further improvements in the current system municipal financing.

Evaluation of GC is based on the principles set forth by the Law on Local Government Finances (LLGF) and in accordance with the Law on Local Self-Government (LSG). More precisely, the adequacy of the system is evaluated by measuring the implementation of the basic criteria set out in LLGF for allocation of intergovernmental grants and including estimates of municipal own revenues in the general government budget..

2. GRANTS COMMISSION DECISIONS 2014

For 2014, the Grants Commission has approved government grants for municipal financing, as follows:

- General Grant - in amount of Eur. 137.6 mil.
- Specific Grant on Education - in amount of Eur. 142.6 mil.
- Specific Grant on Health - in amount of Eur. 39.4 mil.
- Financing of Secondary Health - in the amount of EUR 1.8 million.
- Financing of Residential Services - in amount of Eur. 0.2 mil
- Inclusion of projections of the municipal own revenues in General Government budget in the amount of Eur. 67.2 mil.

Throughout the budget process, the Parliamentary Commission for Budget and Finance has allocated additional funds of EUR. 1.4 mil. for the local level, resulting in respective increase in the general fund, approved by the Budget Law for 2014.

3. EVALUATION RESULTS 2014

a. General Grant:

Law on Local Government Finances sets out the principles, criteria and basic formulas for the total grant allocation for municipalities individually. General Grant with closed system is calculated with the participation of 10 % of projected revenues of the overall budget, while the previous allocation per capita has been improved by adding some parameters, which primarily reflects the ethnic diversity and territorial of municipalities.

The Grants Commission evaluates that the criteria applied in the basic formula for the allocation of general grant individually by municipalities for 2014 approved by GC, have been in accordance with LLGF..

b. Specific Grant on Education

Law on Local Government Finances sets out the standards and basic criteria on specific grant allocation for pre- university education proposed by the MEST and in line with sectorial policy allows determining the steady budgetary impact on the financing of minimum standards in the education sector. Specific grant of education with open system, is legally based on minimum cost standards for efficient service delivery. Compared with the previous year, the number of students for 2014 marked a decrease in total of municipalities, according to data from MEST and approved by the Grants Commission.

Grants Commission evaluates that determining the specific grant for education in 2014 by municipalities is based on the formula proposed by the MEST, and is in line with the principles set forth in LLGF. However, GC evaluates the adequacy of municipal financing system for education is challenged by the quality of the collected statistics on which the criteria LLGF are applied.

c. Specific Grant on Health

Before the entry into force of LLGF, determination of the specific grant of health was based on the concept of per capita simplified method. While, after the entry into force of this law, the open system model that supports the allocation of health grant provides factors such as age and gender structure of the population, the average number of visits recorded, and the average cost of health services for each municipality. However, due to the lack of health and demographic statistics, related efforts of modeling in practice should be limited in the implementation of simple per capita allocation of the amount determined based on the estimated number of visits and the estimated cost per visit observed throughout in municipalities.

Grants Commission evaluates that applying and determination of the principles of health specific grant allocation stipulated by LLGF is impaired by the lack of reporting of relevant demographic statistics and health care. Moreover, the on-going efforts of the central government to evaluate the average cost of primary health care services are to be concerned, leading to the reduction of the right to health grant to all municipalities.

d. Municipal Own Revenues

Law on Local Government Finances and the Law on Local Self-Government has reconfirmed and strengthened the municipal authority regarding the definition, management and collection of municipal source revenues (OSR). Municipalities have used a wide range of potential OSR, wherein can collect municipal taxes, levy fees and levy charges on large a scale of activities and civil documents. Municipalities also develop commercial activities especially for real estate that can generate its potential own income.

Based on the legal framework in force and comprehensive analysis of the performance of municipalities, from the perspective of the real capacity of the collection of own revenues from property tax as a potential revenue for municipalities, the Grants Commission concludes that the level of projections on the respective collection has been lower, namely under the real capacity of the collection.

4. RECOMMENDATIONS

To enhance the suitability of *specific grant* allocation for education as an element of municipal financing, the Grants Commission recommends the following:

- Efficient improvement and implementation of Information System Management by MEST through Municipal Education Departments for the reporting of basic statistics in the pre-university education;
- MEST in line with the legal mandate set forth should develop necessary capacities for the timely delivery of education standards, the formulae parameters as well as the supporting inputs envisioned under LLGF;
- Accuracy, reliability, transparency and availability of education statistics on time should be provided by MEST to all Municipal Education Departments, including the minority communities for whom the statistical data are not updated for the last school years 2009-2014;
- Projection and implementation of formulae of the education grant, including also its long-term implications for the municipal budget should not be viewed as an independent action, but rather should be viewed within the context of sectorial policies of Government, namely should be completely integrated in MTEF for education;;

To further improvement of financing through specific grant for health, the Grants Commission recommends:

- MoH should ensure to incorporate standards set forth for the delivery of qualitative primary healthcare services in the specific healthcare grant according to LLGF and integrated in MTEF.
- MoH should ensure the efficient implementation of Information Management System in primary and secondary healthcare, including the reporting of basic demographic statistics and criteria on the registration of the number of visits throughout all municipalities.

Grants Commission also recommends strengthening of the municipal capacities to raise the real performance for collection own municipal revenues , and in particular from property tax.