

Harmonization of Development Strategy between Central and Local Level Local Self-Governance Situation in Kosovo

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This paper investigates one of the problems that Kosovo is facing beside other shortcomings it has shown in recent years. The issue of disharmonization between central and local government, in designing and implementing development strategies, has limited the equally economic development in all parts of Kosovo. Thus, in rising awareness of this issue the paper discusses the main shortcomings driven by no clearly definition of competences at local level, as it will be shown the case focusing in governance of Peja City. Whereby in turn, are given some most important recommendations and tools in overcoming these constraints, which would made the local governance more efficient in achieving better economic development and wellbeing of citizens in all parts of Kosovo.

1. Introduction

The current socio-economic situation in Kosovo has highlighted the difficulties that arise on the path towards improving the conditions and quality of life for citizens of the country. Improvement of these conditions depends to the high extent on the commitment and dedication of central and local institutions, as well as international partners. Applying advanced policies of local government would eliminate the challenges for a further progress. Central Government, in particular the Ministry of Local Government Administration (MLGA) is responsible for the activities to be undertaken, operations, promotion and affirmation of local government.

Therefore, the central government, based on state regulations and laws, provides local government reform, which citizens would regard as a right, obligation and responsibility to guide the development process through Municipal Units. In particular, these reforms have the objective to increase citizen participation in decision making, providing human resources, in order to increase the quality of public services in municipalities, the achievement of European Standards under the Action Plan for European Partnership and the establishment of legal framework of cooperation. Based on the problems, and other features which have hindered the achievements of a higher quality life for citizens, this paper discusses the main current problems, and describes the models and steps that would eliminate problems and provide more efficient and advanced development strategy, based on harmonization of central and local policies.

The paper first discusses the relationship between central and local authorities which is based mainly on local self-government strategy set out in Article 4 of the European Charter, a strategy aiming to achieve a high level of harmonic functions at local government leadership. Further, it is provided a detailed description of relations between central and local level, giving the key elements that reflects the Local Government situation in Kosovo. The following section presents detailed analysis of local Self-Government in Kosovo, which offers facts on the strengths, weaknesses, opportunities and threats with which local level is challenged in implementing development strategies. The next part

presents case study with focus on Peja City. In this case is introduced the performance achieved on implementing the developmental strategy, as well as key problems which have limited meeting the needs of citizens. A particular emphasis needs to be given to the Subsidiary; meaning that the needs are best observed and met by municipalities. Finally, according to the situation analyzed and the to date achievements and models implemented in different countries of the region, will be provided several recommendations. The awareness that these recommendation will raise would impact the putting into effect the development strategy by Local Government. Moreover, the effect would be in overcoming and eliminating the limitations of implementing the Development Strategies, which are deterministic in improving the citizen's life across Kosovo.

2. Relations between Central and Local Authorities

The emergence of democratic governance and free market economies has made local governments very important actors in giving efforts on local economic development. In an increasingly global market, where municipalities and regions are competing with other municipalities and regions around the world for new jobs and investment, institutional capacity, vision and leadership of local government plays a vital role in determining the economic welfare. Based on development strategies, most municipalities have listed economic development as a key priority for their community. This issue lies in the top agenda of local government, in particular because of political and economic uncertainty faced by municipalities in Kosovo. The relationship between central and local authorities in Kosovo should be based on the scope of local government as provided in Article 4 of the European Charter, paragraph 3 of which requires that "public responsibilities shall generally be exercised, by preference, by those authorities that are closest to the citizens"¹. Therefore, the Kosovo authorities should consider

these principles in the future law concerning the Local Self-Governance, mainly driven by further

¹ See further information at European Charter of Local Self-Government (Articles from 2 to 11).

definition of municipal authority. As part of this process, municipalities should consult appropriate issue of special importance that concerns them directly. A clear definition of responsibilities at the municipal level would support effective exercising of public functions as well as would identify clear definition of legal relationship with central authorities. The future law on Local Self-Governance, in accordance with the principles of the European Charter on Self-Governance, would be a step ahead for Kosovo towards harmonization of laws with European democratic standards. Following, the paper presents two key aspects regarding the interaction between these two categories which in turn directly affects the possibility of designing and putting into force development strategies, which are: definitions of competencies and fiscal matters at the local level²

2.1 Definition of Competency

Framework for Local Governance in Kosovo is defined according to state regulations, which are divided into: Municipality Own Competencies and Municipality Delegated Competencies. In the context of the Own Competencies, municipalities are responsible and have complete freedom of action to regulate matters of common interests at the local level, while in terms of Delegated Competencies, the central authorities entrust the local level to implement policies endorsed by central level within the framework of their competences, which are funded from the central level. Regulatory competencies, powers known as municipality "own" competencies, are such as; provision of basic local conditions for sustainable economic development, urban and rural planning and land use, issuance of permits for construction and development, local environmental protection, implementation of building regulations and building control standards, and provision of services dealing with public services and infrastructure. Beside these competencies, the regulation provides additional fields, which can be governed at the local level. These competencies which are called "voluntary" include activities related to tourism, culture, sport, youth activities, economic advancement and civic values.

As a separate category, in addition to municipal legislative competencies, the regulation stipulates the obligation of local municipalities to enforce central legislation which was delegated to them. This category includes: cadastral records, civil registries, voter registration, business and additional responsibilities within the scope of the Self Government to whom it was explicitly delegated. These competencies are referred to as competencies "delegated" to the municipality.³

² Organization for Security and Cooperation in Europe (2008), "Relations between Central and Local Level in Kosovo".

³ Basically, all the definitions described, are based on European Charter for Local Government, standards which facilitate the process of European Integration.

2.2 Definition of Fiscal Affairs at Local Level

The main concept in terms of fiscal decentralization is to reduce the centralized nature of governance⁴. Hereby, we have addressed four pillars regarding the process of fiscal decentralization:

- Expenditure allocation

The key principle in determining the level of governing (central or local) that should be responsible for financing the expenditure of the respective function is the principle of subsidiarity⁵. Therefore, government services should be offered from the lowest level of government, the level that is able to provide that service efficiently, as a result of knowing the environment where they act and live.

- Revenues

There are two typical sources of revenue: personal income and transfers from central government. In accordance with the European Charter, local authorities shall have the right to have their own sufficient financial resources, by which they may dispose freely within the framework of their powers. Thus, the municipality may set and collect tariffs or taxes.

- We should bear in mind certain principles of revenue:

Municipalities should be able to determine the tax rate.

The tax base should be relatively static.

Taxes withheld are to be transferred primarily by local residents.

Taxes collected must be adequate to cover the local demand for public spending. Collection of taxes must be able to grow responding to increased demand for spending, without changing the tax rate.

Collection of taxes must be predictable and not subject to significant fluctuations from year to year.

- Intergovernmental Transfers

Transfers or divided grants for the local level are determined by Grants Commission, whose role is:

To recommend to the Minister of Economy and Finance,

which are amounts acquired as general grants and grants for specific activities

To recommend the nature of competencies that should be given in terms of collecting tariffs and local taxes.

- Borrowing

Borrowing at the municipal level in Kosovo first requires a stable fiscal system, a strong financial management in municipalities, a credit market and developing appropriate legislation to regulate financial instability, as well as bankruptcy and reporting standards, at least in municipal level.

3. Analysis of the Local Government

Kosovo to the greatest extent still faces the lack of Rule of Law, the bureaucracy in institutions, corruption, as the main issues not only for the society but also in the economic context affecting the decline of

⁴ Marjan Nikolov (2007) "Intergovernmental Fiscal Relation in Kosovo"

⁵ Subsidiary: Is an organizing principle stating that matters ought to be handled by the smallest, lowest or least centralized component authority.

foreign investment, reflecting the lack of business environment. Likewise the lack of strategy development is affecting the country yet depending exclusively for years by imports, imports which are undermining the Kosovo's economic growth, which in turn brings fiscal evasion due to lack of customs points and smuggling of goods. - Furthermore, is worth mentioning the lack of capital market and direct dependency on loans to commercial banks, with high interest rates, which it further makes it very imperative to the establishment of a financial institution, as would be Developmental Bank, as the only mechanism for financing the business in promoting particular local development.

3.1 Implementation Problems in Developmental Strategies

Kosovo is still characterized by poor infrastructure and low productivity. Still there are power supply problems; there is an inadequate road infrastructure, which may be one of the main obstacles for a sustainable economic development.

Given the intention of Kosovo institutions for a sustainable economic development, policies should be developed for long term period, which would be a guide to economic development. This can be done by having access to comprehensive and long term planning for all sectors.

The issue of lack of investment at the municipal level in the past (as is the case in many transition countries), will result in a relatively high potential for capital investment in infrastructure in the near future, as well as the need for local capacity for planning and managing capital projects. Consequently, it is necessary to highlight some areas which should be analyzed when drafting policies and developmental strategies, which always need to be harmonized between central and local level.

3.2 The Influence of Internal and External Factors in Local Government

Below are presented some of internal and external factors, the consideration of which would address the design of proper development policies at the local level. Factors influencing the situation in Kosovo are described by SWAT analysis, including internal factor as are: Opportunities and Threats, as well as external factors which consists of: Strengths and Weaknesses⁶

Strengths:

- Ensuring of Local Governance by Constitution
- Local self-government in Kosovo has a relatively long tradition of functioning
- Local government is oriented towards the citizen
- The possibility of control and evaluation of local government from citizens

Weaknesses:

- The centralization of some competencies which could be practiced by municipalities

- No clear division of competences of two governmental levels of the country
- Municipalities with large territorial, economic, and population differences
- Insufficient cooperation between municipalities

No balanced Revenues which in turn produce uneven economic development and public services

- Dependency of municipalities on the central level to establish development policies
- Inability to exercise competences of municipal property

- Lack of experts in different fields across the municipality

Opportunities:

- Ratifying the European Charter of Local Self Government and implementation of best European experiences

- Implementation of local government reform regularly
- Establishment of e-governance

- Support from donors to invest in developing municipalities

- Development and involvement in regional development funds

- Development of appropriate forms of municipal revenues

- A functioning capital market, the lending and borrowing system in the municipality

- Developing partnerships between public and private sector in the economic development of municipalities

- Modernization of the administration

- Building leadership capacity

- Involvement of civil society in decision making processes

- Creation of a specialized center for local government development, the Institute for Local Self-Governance

Threats:

- Underdevelopment of complete or partial reforms in local government

- Insufficient care of central to local level

- Slow reform policy and municipal income tax

- Separation without criteria and transparency of financial means for municipalities

- Inadequate planning for development

- Delays in the privatization process

- Lack of development strategies for different areas

- Mistrust and fear of change with new structures

- Insufficient utilization of direct citizen participation

- Dependency of local government on central government

No willingness of skilled people to contribute and work for public services as consequence of unprincipled policy

- Political influence

- Financial shortfalls

Based on this analysis, we may conclude, that support from central government, will enable the capture of opportunities and to an extent to avoid weaknesses in the functioning of local government. However, so far Kosovo has gone to a very difficult stage of transition,

⁶ MLGA (2008), "Mid-Term Working Strategy of Ministry of Local Government 2009-2012".

and it is clear that the implementation of goals followed by additional problems, which will be seen the following, which is connected to perception of corruption, investments scarce, and the lack of funds.

4. Performace of the Municipality of Peja

In this section will be shown the directorate activities in the Municipality of Peja for 2011, which consists on plan achievements, according to economic categories in municipal level.

4.1 Directorate of Budget and Finance

Fulfillment of Fiscal Plan

Economic Categories	Realization in %
Wages and Salaries	84.17%
Goods and Services	93.16%
Municipalities Expenditure	82.55%
Transfers and Subsidies	91.59%
Capital Investments	75.93%
Total	82.51 % of 100 %

Source: Peja Municipality-Working Report 2011.

From these data we observe that the achievement of the plan is not implemented at the appropriate level, and the main emphasizes is seen in the context of capital investment. Moreover, here should be noted the Transfers and Subsidies Category, which would, to a great extent open the way to a faster economic growth and development.

Collection of Revenues

Economic Categories	Realization in %
Property tax	117.20%
Different commercial license	80.42%
Assessment of mortgage banking	16.67%
Vehicle registration fee	101.87%
Total	106.58%

Source: Peja Municipality-Working Report 2011.

Relying on these data on revenue collection of the Department of Budget and Finance, indicates that under planning's of department, it has exceeded annual implementation plan for **6:58%** of revenues. Realization of these revenues is still not at the level of possibilities which the city of Peja owns.

4.2 Directorate of Municipal Affairs and Public Services

Some of the documents drawn up and approved by the Municipal Assembly in the year 2011 are:

- Reregulation of Public Services;
 - Regulations on Tax and Tariffs;
 - Local Administration Plan for Wastes;
 - Implementation of Municipal Assembly Decisions, In particular for legal status of "NLP Environment" company.
- Having gone through the data we see that the Municipality of Peja in 2011 has conducted 47 projects in the field of infrastructure projects including road infrastructure, water supply, sanitation and regular maintenance of roads, traffic signs, lighting etc. Improvement of Infrastructure has been a priority of the government of Municipality of Peja, and therefore in this area, from municipal budget of 2011, funding was provided to the tune of over 3 million and 500 or 62% of the budget to capital investments. This sum was augmented by other donations in the amount of 7 million 200 thousand €. Although the budget allocation has been compliant with the need for investment in infrastructure, yet it has not reached the proper level at which it would establish new businesses, particularly in rural areas, due to the difficult access they have to the nearest market or even to those in region areas.

Realization of Projects in Public Services

Services Category	Realization in value
Water Supply	770,241 €
Infrastructure	1.916.375

Source: Peja Municipality-Working Report 2011.

4.3 Directorate of Economic Development

Activities of Center for Business Registration

Activites by Category	No.
New Business Registration	205
Modification in Business	170
Cessation of Business	45
Different Requirments	125

Source: Peja Municipality-Working Report 2011.

It is well known that City of Peja is characterized by ideal potential for tourism development, therefore, has been awarded with several projects for tourism promotion and regulation of infrastructure in attracting local and international tourists. Donors of these projects have been mainly foreign countries, and a small part by local budgets, which in turn highlights the shortcomings in the design of priorities which could bring the more rapid development. We must equally consider that, Strategy Development Plan has not fully incorporated the potential capacity or resources in order to exploit the possession that city of Peja has, for achieving more revenues and general infrastructure development. Here we should refer to human resources, with which Peja city possesses a very young age citizens, the agricultural resources, agricultural land and the possibility of investment in agricultural family businesses, as well investment in the education system, as one of the most important factors in growing long-term economic development.

5. Identification of Key Problems

Despite the achievements mentioned above, the city of Peja faces numerous challenges, which are characterized by lack of law and lack of financial assets for implementation of potential development projects, especially those in tourism. Thus, following are highlighted some of the key problems identified:

- Delay on approving the regulations on business activities for year 2011 by central authority, although the regulation on tariffs, taxes and charges of municipal fine, have been approved by the Municipal Assembly, yet these regulations have not been certified by the Ministry of Economy

and Finance, and as such it causes delay in implementing the decisions.

- The inability of meeting the necessary requirements of citizens, as drinking water and sanitation, fixing roads, public lighting etc., due to budgetary constraints.
- Not delegating certain competencies to the municipality regarding the public enterprises that offer public services such as: Water Supply, Bus Station, KEK, PTK etc.
 - The need for a greater improvement in quality of infrastructure construction.
- Delay in the educational system, which would enable the students to collaborate with various companies for internships.
 - No possibility in accessing to electronic services offered by the Municipality
 - Inefficiency of the municipal courts
- By the fiscal standpoint, appears in a stagnation of local finance reform based on efficiency and political stability.
 - Also, it must be developed a grant system, which defines a new role of the Grants Commission, which should be built on bases of quality statistics, and that encourages greater analytical capacity.
 - There is a need to have better visibility regarding the division of competencies between central and municipal level

6. Conclusions and Recommendations regarding the Dysfunction of Strategic Plans at the Local Level

This research concludes that the key problem in dysfunction of Local Governance is no clear definition of the municipal competences by state legislation. Also,

since the institutions of central authority has certain powers associated to the supervision of municipal activities, the current legislative framework of Kosovo does not provide clear instruction to when and under what circumstances the central authorities may exercise supervisory authority over the delegated competences. In addition, the issue of fiscal reforms is essential in achieving an overall economic development. Political stability and territorial cohesion are the key goals, and fiscal decentralization is likely to become one of the main tools in achieving such goals. However, within this framework it's also very important that the principle of economic efficiency guides the work of governments at both, central and local level. At this context, there should be presented a system of revenues sharing and also developing an even further autonomy of fiscal autonomy. Even more, existing system of distribution of grants between rural and urban areas should be reconsidered, since different municipalities have different opportunities in providing and financing services. Municipalities in Kosovo need to be more transparent to citizens in order to achieve a higher level of sensibility for paying the municipal taxes and tariffs. As we have seen in the case of functioning of government in the Peja City, the main problem was the cause that regulation as to tariffs, taxes and municipal fines, Although it has been approved by the Municipal Assembly, it has yet not been, And this has limited the implementation of such regulations which would enable the collection of additional funds, which being turned on investments would create much better infrastructure for development.

Based on the research done, there will be given some final recommendations, which have to be considered in order to implement efficient development strategies and achieve the final goal, which is improvement of citizen's life in all parts of Kosovo.

First, the Law on Self Governance should be guided by the Principles of European Charter of Local Self Government, as one of the criteria of Europe integration, emphasizing here the consistency to Subsidiary. Moreover the delegated and own competences within

7. References

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the framework of municipalities must be clearly defined in the new legislation.

Second, the process of reforming the Local-Governance should consider that the financing needs to convey the functioning. The municipal competencies need to be clearly defined in the primary legislation, as well as must be made relevant financial allocation. The division of competences at the local level must be accompanied by a decrease of the degree of dependency, considering that increasing the amount of its own income sources can ease fiscal policies and at the same time the autonomy of allocation the expenditure at the local level. A significant instrument such as fair division of funding requires adjournment and consultation with municipalities. Civil society should be encouraged to participate in municipal budgeting process. At the central level should exist an appropriate monitoring and evaluation system, related to the decentralization of activities, this in close cooperation with the local level. Such monitoring shall evaluate the legal framework, its implementation on local level, as well as the need for further training and capacity building.

Third, there is a need to ensuring that, basic services are effective, efficient and equitably provided. As well, maintaining infrastructure systems and developing and implementing a rational capital improvements plan based on identified residential and business needs. Municipalities should work toward and be able to providing transparent, effective financial management and predictability. The local level has to streamline permitting, registration and licensing processes, providing information and inculcating a customer-service orientation in local government staff. In addition the local level in harmonization with central level needs to have capacities on maintaining good relationships with regional and national levels of government and donors to leverage available financial and technical assistance programs. This in turn gives more secure investment environment, which is crucial on boosting economic development both in local as well as central parts of Kosovo.