

THE IMPROVEMENT OF THE KOSOVO'S LOCAL SYSTEM FINANCIAL PROBLEMS*Msc. Fidane Spahija*
*fidane.spahija@gmail.com***Abstract**

The Kosovo's municipalities are characterized by different development opportunities. Sustainable development local system plays an important role of financing them. For the improvement of local financial system it is necessary to make changes from the government and municipality. Mostly, the sources of financing of municipalities in Kosovo are: Revenue from government grants and own revenues. These grants and revenue generated by municipalities are considered insufficient for local sustainable development because it represents a decentralization of conditioned and incorrect equity in distribution, due to lack of data precisely the number of population and motives different policy aimed at the extreme centralization of financial resources. With the current funding law, municipalities would still remain the basic work, without a real possibility of other investments. According to some research fiscal decentralization to municipalities considered good chance of local development. While a state claims to be included in the EU and to have sustainable economic development should not depend on revenues of VAT and customs. Today, even in states with more centralized tradition as Russia and China, a quarter of the value of VAT was left to regional or local governments. German professor Gunther Hendkamp, local government expert at the Council of Europe, decentralization of treats more as economic as political imperative, since according to him in the spotlight, is the economic efficiency of public expenditure. Optimal solution must be sought in the optimal combination of these differences depending on the specific conditions of each state. However, for public sector the rebalance ion and consistent transfer of powers and public finance from central to local level also includes the EU rules. Decentralization of fiscal really realized just by providing their own local resources, increased accountability and budget transparency. Drafting of the law and public borrowing strategies with significant interest rate and Treasury bill issuance (bonds) to municipalities, will help municipal financing system and would increase the number of different investment capital. Simultaneously, to increase the efficiency of local financial management and improving its system needed: reform of human resources and professional software, design strategies for increasing the revenue collection Own, The rationality of public expenditure, adoption of standards unique to the evidence accounting, reporting and accountability, which strengthen and transparency in public.

Key words: system, finance, municipalities, decentralization, loan, management, public.

JEL Qualification: R0, R1, R11.

Introduction

The scientific work is divided into two main parts. In the first effort to clarify some of the problems we encountered in our nation's municipalities, while the second part deals with concrete proposals for overcoming these problems. Problems that are dealt below are related to each other and may cause delay and in the future, therefore, their removal is immediate and would affect the improvement of local financing system, also in a sustainable economic development. Recommendations are focused on creating a synergy of all stakeholders to local economic development in the regulation of process budget aspects, the legislation, transfer of more powers in local administration, improving public services, developing capacities of local governments, reducing costs and building partnerships, which leads to development of a sustainable local economic development.

In drafting the paper is used literature to local and foreign, as research on the Internet, electronic and print media. The methods used to achieve the goal of the paper mainly include: analytical, comparative, abstraction, and interviews of officials and mayors of several municipalities of the country.

I. Some of the problems of local financing system in Kosovo

Kosovo is divided into 38 municipalities. Municipalities are financed by government grants, personal income and donations. The new law on local finances determines total grant municipalities in 10% of the proceeds of Kosovo. The years 2009-2012 represent a period when the responsibilities of the municipalities will increase continuously. This should stabilize and improve the power of municipal budget. Mainly there are two sources for the

formation of municipal budgets: grant that comes from the budget and the incomes. Own revenues; mainly from municipalities realize the following sources: property tax, administrative fees from the award of licenses and other payments that sets municipalities, revenues from municipal assets and the percentage of fines or the collection of fines. Some municipalities have managed to pass their forecasts of own revenues, but there are those municipalities that has been little to create their own revenue, according to municipal officials is difficult to recreate the entries because we have a low economic development, number of high unemployment and numerous social problems.

From research and interviews with some of the officials and the mayors of Kosovo have been identified these problems:

- Decentralization is still not in line with what European Charter provides for local government. The budget continues to be centralized on the most part, because local revenues should be deposited in the central budget and then return to the municipality on a project basis. There is also uncertainty of competence and corporate governance dysfunction local public companies and the central, the scope of which the Local Government Act is the responsibility of municipalities, such as water and cleanliness. Some segments of the central bureaucracy fail to understand their new role in a decentralized fiscal system and therefore are not willing to spend more power and some decision-making powers to lower levels of government.

- Cooperation between central and local level is still unsatisfactory. That's because the rights and obligations that the municipality has by regulation can not properly materialize due to the fusion of powers between the two

powers. As a result, there is confusion over the concrete responsibilities of different levels of government. To have good governance should be separated clearly the roles and responsibilities of central and local authorities, but in this respect even the citizens but also municipal officials need to understand better those. Only in this way, may also be required responsibility of institutions. According to municipal officials is the lack of autonomy and delegation of competences from the central level government. This confusion of power can turn an excuse for unfunded mandates, inadequate incentives for local governments that can quickly turn into soft budget constraints. As long as no specific powers specified properly, there will be more and more problems in service delivery system, which will always become less efficient, thus further complicating the implementation of decentralization of government;

- An issue of concern to municipalities so far is that of the census, because the determination of the value of the grant. Well you know that the government shares the municipal government grants each year and one of the grant allocation criteria is the number of population of the municipality. So far this number was not correct and there was times when the municipality is damaged because existing data is incorrect. Regarding the allocation of grants, we encountered numbers dissatisfaction by various municipal officials, as a consequence that is shared with indicators grant policy, which means that the government shares much with those municipalities which leads her party and these grants allocated not suffice for sustainable economic development.
- The government or the municipality should take steps on human resources management training and retraining of administrative staff, especially in the field of information technology, because there have been cases that a municipal official did not know to work with the computer, where it is known that in today can not imagine such a thing. Regarding this there is also another problem that the municipality has mainly old staff and it would be appropriate in each municipality that dominates the problem, become gradually update staff with new staff and to rationalize the country work. Efforts to reorganize the municipal staff should not be based on political affiliation and party, but also trends intentioned for doing this in order to increase the efficiency of municipal administration should not be misinterpreted by various political factors in the municipalities. Number of employees in some communities is not so high but lacks people with more specific occupations such as surveyors, architects, engineers, etc., for which the level of wages in the municipality is not attractive. This affects the lack of capacity to meet the requirements in these areas and property issues. There are those municipalities that have exceeded the number of employees and will create higher costs which would be appropriate to reduced and best material they used for anything else that has priority for the municipality.
- Another problem identified by the citizens is that they are very poorly informed regarding the formation of the budget and public expenditure. It is therefore not good management of public money by the municipalities or lack

of knowledge of their appearance and preparation. Local governments in the case of spending public money, yet not apply the principles of transparency and accountability as the basis of their work. The process of drafting particularly its expenditure of public money is the most important but also most sensitive of any public institution funded by taxpayer money. As such this process thus requires high transparency and effective management by officials elected by the citizens. Draft Municipal Budget represents a very important process in the functionality of the municipality and as such requires more commitment on the part of municipal officials. Procedures for drafting the budget are clearly defined by the Law on Public Financial Management and Accountability. Experience shows that during the budget process, procedures and their calendar have not always been respected by municipal officials.

- Investments are not in line with current needs, but they depend on the capacity of local budgets and the Kosovo Consolidated Budget. Donations are in decline, especially in municipalities. Absent a policy that would help investors in municipalities where it is known that each municipality is characterized with its own benefits and investment opportunities. It cannot be imagined in the future the role of the municipality in local economic development without the possibility of capital investment, whether through borrowing or by issuing treasury bonds. For this reason, local sustainable development requires that the various strategies developed for municipal public loans, which must be initiated by the central level.
- Disturbing problem for the country in general and migratory movements, mainly from small rural communities to larger centers. This demographic factor has further irritated the imbalances structures territorial administration that one side consists of fragmented administrative units that operate with high fixed costs and in turn less rural centers that will affect the economic development aspect of agriculture, which recently dropped this interest.
- Revenues are recorded in an orderly and correct, except for some deficiencies related to: timely reconciliations between the budget and Treasury organizations; not recording the transaction in the codes of appropriate economic, and lack of activities in terms of collection revenue, and in some municipalities there are accounting problems in general.
- We have noticed that the recording of income is done properly and correctly with the exception of some deficiencies related to: timely reconciliation between budget organizations (OB) and the Treasury; not recording transactions in appropriate economic codes, and lack of activities for revenue collection;
- Payroll system managed by the Ministry of Public Administration. This is a centralized system used by almost all institutions to carry out all matters related to payroll. Most municipalities do not have an internal system to pay for all their departments as the basic data bank. Reconciliations to the central system are complicated and opportunities for errors and violations should not underestimate. The situation has an impact on the ability to produce true and fair financial. For this reason in the audit report of the municipalities, could not be given any

concrete opinion but the opinion is denied. Denial of audit opinion occur when the auditor is unable to give an opinion on the financial statements taken as a whole, because of insecurity or a restriction of purpose as essential as only a qualified opinion on certain aspects, would be inappropriate. The formulation of such refusal makes it clear that there can be given an opinion, clearly specifying and February issues of uncertainty.

All these problems are related to each other, and strongly influence the undermining of local financing system and unsustainable economic development. These problems arise as a result of both levels as by central and local level also.

II. The improvement of the local financial system in Kosovo

- Fiscal decentralization is seen as an important means to achieve democratic participation in decision-making and thereby to increase the responsibility and budget transparency. Decentralization should be developed in harmony with economic potential and preferences of the country, so as not to burden taxpayers with new taxes. Local governments also need to be controlled in terms of construction and execution of policies and revenue budget consumption. According to some research the Riinvest said that 62% of citizens blame the government for the development of the local poor, because their role in the function of this development is quite limited and that their biggest concern is the lack of competence. The advantages of decentralization, however, that are more pronounced than weakness, because first of decentralization achieved more easily through the adaptation of local taste and close to needs of citizens; smaller community of citizens with easy was provided goods and services desired material in amount, structure and quality, more efficient monitoring citizens on local preferences that over central; ensure innovation, efficiency and effectiveness in the supply of public goods and the selection of citizens' preferences. The weakness of decentralization is usually required in the limited possibilities of economy, efficiency and equity in society. Despite these views, today there is a trend of decentralization intensive centralized states. The data indicate that mainly to countries with high values and democratic civil-where local self represents the center of democratic processes, participation of local budgets in comparison to overall costs of public higher percentage of gold, even over 30%, as:

Table no. 1. Participation of local budgets at the expense of overall public

Countries with high development		Countries in transition	
Switzerland	27,9%	Hungary	14,1%
Denmark	31,28%	Bulgaria	20,0%
Finland	29,5%	Poland	21,6%
U.S.	32,0%	Romania	16,9%
Great Britain	25,0%	Albania	17,8%

Optimal solution must be sought in the optimal combination of these differences depending on the specific conditions of each state. However, for public sector rebalance ion and consistent transfer of powers and public finance from central to local level also includes the EU rules. The fiscal system should be decentralized. Municipalities should directly manage their finances and report on central and local level.

The level of property tax collection has increased especially in municipalities where in the meantime take steps to reduce this tax rate, as is the case with the municipality of Pristina. How effective way of pressure citizens to pay property tax has been shown in several municipalities conditionality documents providing citizens with property tax payment. But it can be concluded that in general still feels the lack of mechanisms for collection, so collection of this tax remains to be modest. It is known that the experiences in other transition countries are not very encouraging that this revenue source can meet the expectations for a short time. Performances should increase the property tax management and fees from the use of public spaces. Increased efficiency in the management of municipal budgets by raising the level of tax collection, especially the property, and rationality of public spending will impact positively on local financing system itself;

It should also enable the sale of local assets and use these funds for public investment to benefit the community.

Adoption of uniform standards, accounting records, reporting and accountability, enable the management of municipal budgets to be more efficient and transparent.

Although the specific policies to promote domestic investment, but also foreign ones, belonging to the central level (fees, taxes, customs), municipalities are trying to develop simpler processed in order somehow to support businesses. According to the municipal official, such as incentive policies are being used to provide free business facilities, the allocation of plots for free to those manufacturing and even direct participation of municipalities in the investment of private enterprises, favoring manufacturing businesses in the policy of fiscal burdens and the creation of industrial and commercial areas. Despite these favors that municipal governments are providing businesses, presents its own problem in today's fiscal policy at the central level. This fiscal policy is focused on promoting investment and economic development. Regarding foreign investment, the drawback in itself also presents political problems, where foreign investors feel insecure to invest in Kosovo.

- Meanwhile, according to respondents, as measures to increase fiscal efficiency evaluated: reduction of tax rates, the coverage of border crossings, strengthening tax administration.
- Creating one for the project design team, the search of donators and investors or specialized center for the development of local self-government was helper for OSR creating, financing of projects and after all it would directly influence in stable local development. The supervision and control over the municipalities should be permanent and

firm from the government, so that the above mentioned problems on revenues, expenditures and reports are clear and within time limits. To restore transparency and accountability in the country need to strengthen local government institutions and central. It should be understood that improvements in governance will be achieved in practice only to the functioning of institutions with the best. In this context, the official opening of negotiations for a Stabilization and Association Agreement (SAA) with the EU is an important achievement and bodes well for future improvement of institutions

- Other factors that provide good opportunities and stable local development related to some of the above mentioned problems are: the timely transfer of municipal property; development of appropriate forms of municipal revenue, and capital market operation, the system of credit and municipal borrowing;

Best practices have shown that the way to have good governance representatives and administrators is providing an adequate level of local fiscal autonomy and the latter giving authority to carry out their duties, making these at the same time fully responsible before the law and local voters, as well as through a subordinate system of fiscal reporting, monitoring and evaluation. Strengthening budget systems and institutions is one of the first steps extremely

important for institutional reforms, which must include a review of the current budget law by making explicit the local budgets in order to comply with the standard system the national budget (including concepts accounting methodology and process design, implementation, audit and evaluation).

Conclusion

As a result of this scientific paper, I have arrived at the conclusion that a better organization must be applied at the two levels of the government. The fiscal system should be decentralized. Municipalities should directly manage their finances and report on central and local level. The performance should increase the property tax management and fees from the use of public spaces. It should also enable the sale of local assets and use these funds for public investment to benefit the community and efforts on attracting investors and various donors. With these recommendations the local financing system will improve, while improving the system of local funding will improve many other factors that are associated with finances.

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