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LIMITED SCOPE ASSESSMENT OF LOCAL GOVERNANCE IN KOSOVO

FINAL REPORT

JUNE 13, 2006

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DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ACRONYMS AND ABBREVIATIONS

AKM	Association of Kosovo Municipalities
CDF	Community Development Fund
CSC	Citizen Service Centers
DFID	Department for International Development (UK)
EAR	European Agency for Reconstruction
EU	European Union
IG	Inspector General
KCB	Kosovo Consolidated Budget
KIPA	Kosovo Institute for Public Administration
KTA	Kosovo Trust Agency
LGI	Local Government Initiative Program
LPFMA	Law on Public Financial Management and Accountability
MFE	Ministry of Finance and Economy
MISI	Municipal Integration Support Initiative
MLGA	Ministry of Local Government Administration
NGO	Nongovernmental Organization
OLA	Office of Legal Affairs
OSCE	Organization for Security and Cooperation in Europe
PIP	Public Investment Program
PISG	Provisional Institutions of Self-Government
SRSG	Special Representative of the Secretary General
UNDP	United Nations Development Program
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

To assess the changing context for local government strengthening in Kosovo, USAID/Kosovo conducted a limited scope local governance assessment. The assignment began with a literature review in mid-March; fieldwork was conducted in Kosovo from March 20 to 31. The Assessment Team analyzed and presented findings on several issues: the policy and legal environment; municipal administration and institutional capacities in the areas of financial management, public administration and service delivery, and infrastructure planning and management; and citizen participation. Based on findings on all of these topics, the team developed a series of recommendations to help guide USAID's programming in support of local government.

Policy and Legal Framework: The three essential laws governing the municipalities (on local self-government, elections, and local finance), though in various stages of legislation, are considered to be progressive and supportive of a vibrant system of governance. They are expected to take effect within a reasonable time, assuming successful conclusion of the status discussions. The laws will clarify the division of roles and responsibilities among the municipalities and central authorities, and will favor empowered local government. Discussions with municipal officials indicate, however, that under current legislation, things are either not entirely clear or (in their opinions) incorrectly favor the center. There are certainly countervailing views to these held by the municipal officials, but at the very least these differences in opinion indicate a need for better, sustainably institutionalized communications and transfer of knowledge between central and local authorities. The division of roles and responsibilities should become clearer once the key laws are passed but, in the meantime, a lack of clarity leads to a certain amount of finger-pointing at the municipal level. The rules, regulations, administrative instructions, and guidance that help municipalities to implement their authorities need to be clarified. Specific procedural guidance will provide the direction required to clarify confusion over roles and responsibilities. In order to determine just what the best sets of rules are (those that promote efficiency, responsiveness, cost effectiveness, accountability, and transparency), it will be necessary to develop capacities at the local level as well as central institutional capacities to support the local governments.

Financial Management: Local governments in Kosovo have two main sources of funding: transfers (grants) from the Kosovo Consolidated Budget, and own-source revenues (primarily property tax, as well as charges, fees, and fines). In principle, the levels of the grants for each municipality are determined by the Grants Commission on the basis of objective formulae developed from World Bank and population data. Even though the overall responsibilities and powers seem to be clearly defined in Regulation 2000/45, the Association of Kosovo Municipalities (AKM) claims that some later regulations, adopted without municipal consultation, have changed particular competencies of municipalities (for example, regarding municipal property). Municipal officials state that they are adversely impacted by policy decisions by individual ministries that are unpredictable and can damage planning efforts. For the years 2006-2008, municipal own-source revenues are expected to remain at the level of 20 to 22 percent of total municipal budget. Transfers from the center will continue to be the primary source of municipal funding. The key then is that the mechanisms of intergovernmental fiscal relations are transparent, well understood, and create a conducive fiscal environment for local governments to effectively discharge their functions.

Public Administration and Service Delivery Capacity: Municipalities in Kosovo that do not have the skills and capacity to efficiently deliver public services will negate the promise of the enabling environment that is being created. Research and interviews are consistent in their appraisal that administrative capacities locally, especially in regard to service delivery, are thin at best. By all accounts, there is significant variety among the municipalities in every respect—administrative and management

skills, the influence of corruption, the influence of party politics, and minority concerns. Development of capacities of all of these units will require consistent and broad assistance across Kosovo. The best way to achieve the broadest dissemination while at the same time developing sustainable internal capacities will be to work with and through Kosovo institutions that operate in and with all municipalities.

Infrastructure Planning and Management: Kosovo municipalities consistently list infrastructure as one of their highest municipal development priorities. There is significant experience with infrastructure development in Kosovo because it was such a focus of attention immediately after the conflict. That experience continues today and much of it is very positive. Donors across Kosovo emphasize planning in general, and its linkage to local economic development and economic development strategies. Thus far, however, as was stated in one interview, the plans tend to be “wish lists.” The planning process followed often does not address issues of local ownership, incentives and penalties, and enforcement provisions, all embodied in the law and backed by the required institutional support. The concern that most closely connects infrastructure and economic development, at least as far as the municipalities are concerned, is the Kosovo Trust Agency (KTA). Municipal officials cited KTA as a major impediment to local development. The concerns ranged from confusion over what KTA was responsible for versus what the municipality was responsible for, to accusations of obstruction on the part of KTA because of their role blocking local initiatives. In its defense, KTA has conducted numerous informational sessions with municipal officials dating back to 2003, and recent changes allow municipalities to assert their legal authority over the disputed assets.

Citizen Participation: The process of decentralization in Kosovo was intended to provide near immediate benefits in regard to improved service delivery and participatory democracy. Thus far, that process has not proven to be as effective and speedy as expected. A significant part of the problem is that, in Kosovo, it is hard to identify institutionalized citizen participation mechanisms that properly and broadly function at both the central and local levels. The participatory mechanisms that do exist are ineffective and often ignored. To truly involve citizens in public decision making, citizen participation has to be focused on specific issues (e.g., preparation of the budget, spatial planning, capital investment planning, local economic development strategies, etc.) as opposed to general and unfocused public meetings. There are notable exceptions and examples of successful citizen action. These positive examples serve as demonstrations of the types of mechanisms that can be established and must be built into all aspects of local decision making.

RECOMMENDATIONS

The main question posed to the Assessment Team was whether or not USAID should continue to stay involved in local government strengthening in Kosovo. The Assessment Team’s response to this question is an unequivocal “yes”—USAID should continue to provide support for local government strengthening and reform in Kosovo, for several reasons: this is a crucial time in Kosovo’s history and decentralization and local government reform are important aspects of the current negotiations; it will be important that an international body with experience promoting local government strengthening and reform be available to articulate and demonstrate the governance (as opposed to the political) benefits of strengthened local government; and USAID has demonstrated qualifications and credibility because of its contributions to the policy environment, and because of the technical assistance provided at the municipal level which has provided unique credibility and knowledge as to how to make things work. While answering this major question, the Assessment Team also reflected on several other issues.

Impact of the European Accession Process on the Decentralization Process: The accession process has a significant impact on the process of decentralization. Generally speaking, as is true throughout Europe, the prospect of Europeanization is of great importance across Kosovo as the status negotiations

proceed. This big-picture concern has repercussions at the local level where the concern with standards creates incentives for awareness raising and capacity building.

Capacity and Political Will of the Provisional Institutions of Self-Government (PISG) and Municipal Governments to Absorb a Technical Assistance Program: There are no indications that either the PISG or the municipal governments lack the political will to work with USAID on future local government assistance programs. Absorption is perhaps a separate issue; therefore, it will be important that training and technical assistance evolve to reflect the future status of Kosovo's institutions.

Issues that Could Impede Development of Good Municipal Governance: Three main issues could impede further local governance reform: the current local elections law is not representative; prolonged status discussions could continue to delay passage of the key local government laws; and the lack of solid data impedes local public decision making.

Scope of Assistance that Should be Provided: It is the team's recommendation (as described in Section 6) that USAID should implement its local government assistance program Kosovo-wide, rather than focusing only on pilot municipalities.

Programmatic Recommendations: The Assessment Team's intentions regarding programmatic recommendations is to provide a "menu" of program options that USAID can choose from depending on how circumstances evolve and final status discussions are concluded. The team's overall program recommendation is that future USAID assistance focus on institutional development. The methods of achieving institutional development support for the ultimate goal of sustainable local government strengthening could include, for example, the following activities:

- Support for Implementation of Policy and Legislation;
- Special Districting;
- Administration and Financial Management;
- Citizen Participation for Effective and Accountable Local Decision Making;
- Research and Analysis;
- Donor Coordination; and
- Linkages.

1.0 INTRODUCTION AND BACKGROUND

Seven years from the end of conflict and establishment of the United Nations Mission in Kosovo (UNMIK), Kosovars and the myriad international organizations that have both directed and assisted the process of transition find themselves on the cusp of historic change. Final status discussions, managed by the U.N. and involving representatives from both Belgrade and Pristina, began in Vienna in February of this year. While impossible to predict, analysts seem to agree final status will be resolved sometime within the next 12 months.

Within the context of the final status discussions, no topic is more important than resolution of issues associated with Kosovo's Serbian Kosovar minority, and assurance that their rights and safety will be preserved. According to the Statistical Office of Kosovo's Web site, Serbian Kosovars represent seven percent of the total population of 1.9 million. Concerns about minority rights have driven the adoption of a definition of "decentralization" for the status discussions that is quite different than how the term is typically used in development circles. Generally "decentralization," "local government strengthening," and "local government reform" are used within the context of an overall governance reform program. Decentralization, with its positive implications for enhanced participation and responsiveness, and improved public service delivery, is seen as an important component of a political and administrative government reform program. In the case of Kosovo, these meanings and benefits are not denied, but the more important use of the term is political. In Kosovo, decentralization has come to mean the process by which local autonomy will be preserved in order for minority rights to be ensured. That is, decentralization is seen as a political decision to assure the autonomy of municipalities where the majority of citizens are members of minority communities so that those communities will have greater security and greater self-control over their own public decision making and service delivery.

Directly associated with the discussion of local self autonomy and preservation of minority rights within the existing political/administrative structure of 30 municipalities is the discussion of creation of new municipalities. Creation of entirely new municipalities has been proposed for several places where Serbian Kosovars are a localized majority, but are not the majority population in the municipality as a whole. Thus new municipalities would be created from others, requiring creation of new political and administrative infrastructure. The final number of these new municipalities has not been decided, though several figures have been suggested. A list of five was proposed as a start, but of those five, to date, pilot activities are underway only in three—Hani i Elezit, Junik, and Mamushe. Pilot activities have not begun in either Gračanica or Pataš. The issues remaining to be negotiated (in respect to creation of new municipalities) will revolve around the specific number, and the difficult consultations that will have to take place with the Albanian Kosovars who will be affected. Along with the issue of numbers of municipalities, the important concerns to be discussed in regard to minority rights include degrees of autonomy for the municipal police, courts, and budgets. In addition, local government reform is important to Kosovo achieving the standards that UNMIK requires before status talks can be finalized.

The politicization of "decentralization" creates challenges for the technicians and administrators who have to make the system work. There is the chance that the political purpose of decentralization will conflict with the administrative objectives. The challenges created are further complicated by the current government system that pertains in Kosovo—international administrators working through UNMIK alongside of the

emerging Kosovo government structure, the Provisional Institutions of Self-Government (PISG)—all of whom are working against the background of unresolved status discussions, and within a context of achievement of the standards. Furthermore, in the case of local government at least, even though drafting of legislation continues, status talks have put passage of laws on hold. As a result, Kosovo is run to a degree on the basis of administrative instructions, circulars, and memos versus a solid legislative foundation.

Within this operational environment, USAID has attempted to promote municipal government reform and strengthening. Several USAID projects interact with municipalities as they work towards their project objectives. For example, both the Kosovo Business Cluster Support Project and the Municipal Integration Support Initiative (MISI) cooperate with municipal governments in an effort to meet project objectives and serve their particular program targets. The primary USAID vehicle that is focused specifically on local government strengthening, however, is the Local Government Initiative (LGI) Program. LGI is implemented by Research Triangle Institute. It is a \$10.9 million, three-year project that started in May 2004 and is due to close in May of 2007. At the central level, LGI focuses on assisting with development and improvement of the legal environment for effective local governance. The project also provides organizational support to the Ministry of Local Government Administration (MLGA). Outside of Pristina, the project works in six municipalities through municipal advisory teams, working with administrative and elected officials on budget management and planning, management and leadership, human resources development, efficiency and effectiveness of government operations, citizen participation and civil society consultation with municipal government, and economic development.

With the context for local government strengthening changing, and with the LGI Project approaching completion, USAID/Kosovo decided in February 2006 to conduct a limited scope assessment of local governance. The objective of the assessment, as described in the scope of work, was to:

“determine whether USAID/Kosovo should undertake another discrete program to strengthen municipal (local) governance, and if it is recommended that it should, to provide specific guidance and recommendations to USAID/Kosovo for its development. The guidance and recommendations will be based on the team’s assessment of three aspects of local governance development in Kosovo: the policy and legal framework, municipal administration and their institutional capacity, and mechanisms of transparency and citizen participation. The team will also explore what other donors and the PISG are doing in the area of Local Government strengthening and if the PISG and municipal governments have a political will and capacity to absorb a technical assistance program.”

USAID/Kosovo contracted ARD, Inc. to conduct the assessment. Team members were David Green (ARD Senior Associate and Assessment Team Leader), Daniel Serban (consultant to ARD), Kiril Kiryakov (USAID/Bulgaria), and Tina Grazhdani (USAID/Kosovo). The assignment began with a literature review in mid-March; fieldwork was conducted in Kosovo from March 20 to 31. Interviews were conducted with 17 organizations, and in addition to meeting with the President of the Pristina Assembly, meetings were also held with elected and administrative officials from Zvecan, Vushtri, Gjakova, and Peje. The report that follows briefly summarizes the current status of local government per each of the three main topics of the assessment—the policy and legal environment (Section 2.0), municipal administration (Section 3.0), citizen participation (Section 4.0)—and provides the team’s findings for each of those topics. Section 5.0 presents the team’s overall strategic recommendations and conclusions, and answers several questions posed by the SOW. Section 6.0 draws on the findings and conclusions in order to present a series of program recommendations. Appendices 1, 2, 3, and 4 contain the literature review bibliography, the list of organizations and individuals the team met, the team’s work plan/calendar, and the assessment scope of work.

2.0 POLICY AND LEGAL FRAMEWORK

Development of an enabling legal and policy environment is crucial not only for establishment of municipal governments, but also to clearly delineate the divisions of responsibilities among central and local authorities (both administrative and elected). The following reviews the current status of the legal environment, discusses issues associated with the divisions of duties, and provides the team's findings and analysis.

2.1 POLICIES, LAWS, AND REGULATIONS

Development of the legal framework for municipal government in Kosovo has been the subject of significant attention from both the international community and the PISG. The MLGA and the Ministry of Finance and Economy (MFE) have driven that process, with support from UNMIK. USAID has contributed significantly to the process not only through the LGI Program, but also through the USAID-funded advisors (managed by BearingPoint) that work with the MFE and the Office of the Prime Minister.

For the purposes of this discussion, there are three key laws: the Law on Local Self-Government (the local government enabling law, currently being drafted by the MLGA), the Law on Elections (including municipal elections, also currently being drafted by the MLGA), and the Law on Local Finance (which currently is in the form of a policy document). The MFE has drafted a Law on Public Financial Management and Accountability which may incorporate elements of the local finance policy. Whether or not there will eventually be a separate law on local finance is still to be determined. These are all draft laws at this time. All will be promulgated through a process which includes input from the Prime Minister's Office, other relevant ministries, participation from assembly committees, a vote from the assembly, and approval from the UNMIK Office of Legal Affairs (OLA) and eventually the Special Representative of the Secretary General (SRSG).

The Law on Local Self-Government has been developed based on the principles of the European Charter of Local Self-Government and thus establishes, to European standards, local government units (municipalities) with significant autonomy and competencies. The law is drafted and prepared for passage, but is currently delayed due to the status talks and the impact that those talks will eventually have on local government in Kosovo.

Like the Law on Local Self-Government, the law on local finance, as currently drafted, is also prepared to European standards and fully empowers local autonomy (see Section 3.1 for further discussion on local public finance arrangements). The local finance law, at this point, is in the form of a draft concept paper which has been thoroughly reviewed and discussed. An ongoing review, comment, and revision process is underway as the paper is prepared for final drafting and the legislative process. Though the process is ongoing, there are no indications that there are substantive disagreements regarding the content of the law.

The rules governing elections have proven to be more problematic. Currently, UNMIK regulations (as supported by the Organization for Security and Cooperation in Europe [OSCE]) allow for elections via a closed-party list, no residency requirement, and election of the assembly president by the assembly instead of directly by the electorate. Section 4.0 presents a more complete discussion of the issues this has created regarding local representation but, in sum, these rules have helped to support the party structure at the

municipal level at the expense of participation and representation. The Third Draft of the Law on Elections in Kosovo reforms the electoral process. It calls for direct election of a Mayor and an open list system for the assembly. By all accounts there is great support for these changes, even from municipal elected officials, but passage is subject to decisions regarding reserved powers and which office within the PISG will have authority—the MLGA or the Prime Minister’s Office.

The three essential laws governing the municipalities, though in various stages of legislation, are considered to be progressive and supportive of a vibrant system of governance. They are expected to take effect within a reasonable time, assuming successful conclusion of the status discussions.

2.2 ROLES AND RESPONSIBILITIES

The laws that are currently in process will clarify the division of roles and responsibilities among the municipalities and central authorities, and will favor empowered local government. Discussions with municipal officials indicate, however, that under current legislation, things are either not entirely clear or they incorrectly favor the center.

The confusion that currently exists is not unexpected and has been recognized previously. For example, the UNDP April 2005 report “Assessment of Administrative Capacity in Kosovo” noted that regulation 2000/45 (which regulates municipal self-government) has led to overlap in central and local responsibilities, and thus confusion and lack of clarity, making accountability difficult if not impossible. From the citizen’s perspective, the UNDP Kosovo Mosaic report (*The Kosovo Mosaic: Perception of Local Government and Public Services in Kosovo*, March 2003) indicates that citizens are confused as to which officials (local, central, UNMIK) are responsible for provision of which services.

The MLGA recognizes the need to clarify the issues associated with roles and responsibilities, and in an interview with the Assessment Team (March 23, 2006), the Minister clearly articulated a mission for the Ministry that focused on monitoring, supervision, and provision of technical assistance—not direction and control. According to the European charter, which is driving the establishment of municipal government in Kosovo, the central government’s role should be limited to exercising legal supervision. The Ministry’s current focus in regard to its interaction with the municipalities is to ensure that they are reaching the municipal-level standards (in regard to, for example, rights of return) that are required in order to further status discussions. The UNMIK advisors who work with the MLGA describe the Ministry’s role as developing a culture of rule of law and effective governance at the municipal level. Thus, at least from the point of view of the MLGA, the primary ministry assigned to work with the municipalities, the local governments themselves should exercise their responsibilities without undue control from the center.

Thus far, however, at the local level the perceptions on the ground in regard to central interference and control are different than what might be intended. All political officials interviewed complained about relations between their municipalities and Pristina, and voiced the opinion that the center controlled too much. Several examples were cited:

- The center, not the municipality, determines which specific projects should receive capital funds;
- Capital funds are distributed late in the fiscal year, and when they are finally transferred, it is with the requirement that they must be spent by the end of December or turned back;
- Political connections to the ministries are essential for getting access to funds and if those connections do not exist, then the municipality goes without capital improvement;
- All staff paychecks are signed by the central authorities;

- Authorities at the municipal level in Pristina noted that it took the central authorities (the Kosovo Trust Agency - KTA¹) two years to process a municipal request to close and relocate a market area; and
- Pristina municipal officials stated that the central authorities did not consult municipal officials before instituting a licensing requirement for trash collectors. This licensing requirement was precipitously instituted and resulted in two of the three collectors losing the right to work for the city, which left the city with insufficient capacity to keep the city clean.

There are certainly countervailing views to these held by the municipal officials. In regard to capital investments, capital projects proposed by the municipalities at times have focused on items such as purchase of vehicles instead of the employment generation and economic development activities that are supposed to be the purpose of the capital budget. The municipalities, under the new public investment program (PIP) process, and through some segments of the budget, do get to propose projects, although the center determines which ones are funded. Additionally, the capital funds given to central ministries for municipalities (for example, 10 million Euros in the Ministry of Education, Science and Technology budget for 2006) are apparently allocated by the ministries as a result of several factors, including political factors. However, any municipality that does have its own capital money in its own budget is allowed to spend it as it wishes with the exception of education and health, where the ministries have acquired the right to disapprove any construction of which they do not approve in their foundation laws, no matter what the funding source.

In reference to distribution of capital funds, late allocation could be true when it comes to funds from non-MFE central ministries. Late allocation of MFE funds did tend to happen in 2001, 2002, and 2003 when mid-year review funds were distributed late. Since moving to a cash budget in 2005, there was no mid-year review so all funds were allocated in the budget and distributed per the cash management regime that each municipality provides to Treasury. Also, the incentive grant for property tax is distributed in February and March to ensure that there is sufficient time to spend the funds.

Regarding payment of staff, all checks are paid by the central authorities, who must sign them. There is a centrally managed payroll system. As long as the municipality is within its budgeted limits (based on an agreement between the PISG and the International Monetary Fund), all checks are processed. Many municipalities, however, are not within their limits. They are sometimes overstaffed and, in the past, have appealed to the center late in the year for more money or to transfer funds from capital budgets. Furthermore, a centralized payroll system is considered by some to be more efficient and can serve as a check on unauthorized and illegal expenditures. The municipalities do turn in the time reports, thus certifying the numbers of hours worked, and allowances to be paid, thus making payroll a simple accounting function on their authorization.

Concerning KTA, the agency has conducted several meetings with concerned local officials over the past several years, particularly in 2003 and 2004, to talk with those officials about how they could secure use of specific assets, usually land, under KTA authority. KTA has also explained the process for land exchanges to municipal officials whose municipalities also own land (much more than that which is under KTA's authority) in order to negotiate a swap. The more tangible physical assets, like warehouses and factories, have had to be retained by KTA in order that it can legally carry out its privatization duties.

¹ The KTA is the state property fund that administers all state and socially owned property in Kosovo. KTA manages the sale (or liquidation) of socially owned enterprises – SOEs. Proceeds from the sale are held in a trust managed by the KTA and these funds are then used to settle claims from creditors and workers from the original SOE. The KTA was established in 2002 and is currently on its 15th “wave” of privatizations.

Still, as the UNDP Assessment Report notes, municipalities in Kosovo do not have the degree of financial autonomy described by the European Charter. Also, the Association of Kosovo Municipalities (AKM) claims that, according to its members, central versus local control of public infrastructure is the biggest issue constraining the municipalities' abilities to exercise their responsibilities. Though many of these complaints may be directly focused on the KTA and the way it exercises its authorities, from the perspective of the municipalities, KTA is a central authority. Its actions therefore contribute to what is at the very least a confused situation regarding roles and responsibilities, and the impression from the municipal perspective that they are controlled by the center.

These differences in viewpoint indicate a need for better, sustainably institutionalized communications and transfer of knowledge between central and local authorities. The division of roles and responsibilities should become clearer once the key laws are passed but, in the meantime, a lack of clarity leads to a certain amount of finger-pointing at the municipal level. A key challenge therefore is to develop a culture of dialogue and discussion between municipalities and the center to clarify what can be clarified, and to reach agreement as to specifically what decentralization in Kosovo is going to mean. That is, regular opportunities for discussion have to be institutionalized—meetings between municipalities and MLGA officials at a local and regional level, use of various media, regional-level workshops where local and central officials discuss and develop action plans, etc. (see Section 6.0 for further recommendations).

2.3 ANALYSIS AND FINDINGS

None of the sources cited for this assessment blamed the legal environment for any issues associated with municipal development and local government reform. Status talks are causing passage of legislation to be delayed. Assuming passage of the relevant laws, however, the legislative environment is not the problem. It is the implementation of those laws that is and will continue to be the issue. The rules, regulations, administrative instructions, and guidance that help municipalities to implement their authorities need to be clarified. Specific procedural guidance will provide the direction required to clarify confusion over roles and responsibilities. At the same time, engaging in the practice of implementing laws will encourage municipalities and the central authorities alike to determine in a practical sense just how the system should work.

It is not, however, just the “center” and the “municipalities” that will have problems of clarification. The separate entities that in sum create the municipal government structure will also face challenges. For example, if the assemblies become more popularly elected, expectations as to their representative, authoritative, and oversight roles will increase, and they will likely need assistance learning how to meet those roles. Also, the Chief Executive Officer, as the municipality's chief administration official, currently plays a key and powerful role. How will the responsibilities of this position, given the popular election of the Mayor, get resolved?

A related concern is that of the MLGA itself. It is the main actor driving the local government reform agenda but concerns have been raised by all parties, including the ministry itself, as to whether it can meet these challenges in regard to its internal organizational qualifications, its policy-making abilities, and its ability to provide monitoring, oversight, and assistance to the municipalities. Its relationship to other ministries is also unclear and requires specification.

Added to these more typical operational challenges is the unique challenge posed in Kosovo as a result of how the term decentralization has been used to date. The term “decentralization” has been subjected to a political definition that has been widely publicized and currently defines the discussion. The technical and governance reform meanings of the word have been tied up with the political usage to the point that it can be anticipated that there will be a need for public education to explain that the benefit of an improved local government system accrue to everyone, not just to minorities. The practical implications of this for municipalities are that though the legislation ensures municipalities significant legal authority and

autonomy, that authority may very well be confused by an ethnic overlay and the possible tensions with which municipal officials will have to deal.

In conclusion, though the legal environment is very favorable for local government strengthening, there are significant concerns to be addressed and questions to be answered. Most importantly perhaps are (1) the lack of clarity over the roles and responsibilities of the various agents involved at the local government and central government levels, and (2) the issues that are bound to be created as local governments are left to deal with minority group tensions. The first step to resolving both these issues will be for the municipalities and the central authorities to work together to create the rules, guidance, and procedures that are needed so that elected and administrative officials will know just how to make the system work in favor of responsive local government.

There are many unanswered questions. For example, how much latitude do the municipalities have for determining staffing levels and salary scales? How, specifically, will it be decided “who does what” in regard to service delivery? How will the questions associated with municipal property, infrastructure, and utilities be determined? How will the notions of accountability and responsibility—which are essential in a system that features local autonomy—get established?

These questions are daunting and call for precise drafting of legislation and enabling laws to try to the extent possible to cover the possibilities and eliminate incongruities and lack of clarity. This in turn demands carefully worded policy prior to legal drafting so that the eventual laws are complementary. Kosovo, like the rest of continental Europe, uses code law which results in both the approach and the legal reality, that what is not specifically allowed is prohibited. Therefore, it is essential to get the rules right.

At the same time, it is important that municipalities are involved in this process of determining what those rules should be and how requirements should be met. Also, given that it is impossible to anticipate all possibilities, it will be important and useful to work with municipalities to figure ways to make things work. The draft local government law seems to create some opportunities for “figuring things out” with, for example, provisions that encourage cross-municipality cooperation, and the approval to “carry out any other public tasks of a local nature not assigned by law to other public bodies”(Article 17 item XXV). In order to determine just what the best sets of rules are (those that promote efficiency, responsiveness, cost effectiveness, accountability, and transparency) it will be necessary to develop capacities at the local level, and to develop central institutional capacities so that, for example, the MLGA can provide technical assistance and monitoring, and the AKM can facilitate information sharing and dissemination. Local governments and others who support them must specifically operationalize the environment, and get creative within the enabling environment to make things work. Taking advantage of the enabling legal environment will help to create progressive local governments that ensure opportunities for all citizens.

3.0 MUNICIPAL ADMINISTRATIONS AND THEIR INSTITUTIONAL CAPACITIES

The Assessment Team reviewed three aspects of municipal administration: financial management, public service delivery, and infrastructure development and planning. The following summarizes the current status of each of those topics, and provides analysis and findings for each of the three topics.

3.1 FINANCIAL MANAGEMENT

UNMIK's Regulation No. 2000/45 (Chapter 7) in conjunction with the Law on Public Financial Management and Accountability (LPFMA) are the primary legal acts regulating municipal financial administration. According to Section 38 of Regulation 2000/45, financial transfers are made to the municipalities by the central government based on objective criteria, including an assessment of the financial needs and resources of each municipality and the spending priorities established by the central authority. The transfer of financial responsibility to the municipalities was completed in July 2003 after the municipalities were certified by independent auditors that they have adequate budgetary financial management systems in place.²

Local governments in Kosovo have two main sources of funding: transfers (grants) from the Kosovo Consolidated Budget (KCB) and own-source revenues (primarily property tax, as well as charges, fees, and fines). Central budget transfers are in the form of General Grant (primarily used for municipal administration and specific municipal services such as local environmental issues, local roads, and the provision of municipal utility services); a Health Grant for providing primary healthcare services; and an Education Grant for the provision of pre-school, primary, and secondary education. Small grants are extended for local firefighting services and for the local community office to support building trust between different ethnic groups at a local level. A matching grant for capital projects is also available. The total level of financing available to municipalities in 2006 is estimated to be EUR 174 million,³ of which central government transfer accounts for approximately 80 percent.

In principle, the levels of the grants for each municipality are determined by the Grants Commission on the basis of objective formulae developed from World Bank and population data. The health and education formulae take into account the cost of provision of health and education services for the population with due

² Executive Decision Nos. 2003/7 of 4 July 2003 and 2002/17 of 18 December 2002.

³ Medium Term Budget Framework: Budget Strategy 2006-2008, July 2005.

weight given to rural localities and the provision of services to minority ethnic communities. According to Regulation 2003/17 (Section 58.1), the members of the Grants Commission shall be the Prime Minister, the Minister of Finance and Economy (MFE), another Minister appointed by the Government, the Chairman of the Budget Committee of the Assembly, and three representatives of the municipalities nominated by the Association of Kosovo Municipalities and approved by the government. The regulation was formulated in 2003, prior to the establishment of the current MLGA, and therefore does not refer to the MLGA.

Though the grant transfer system is based on established criteria, in practice (as recently noted by the World Bank) there are implementation issues. For example, municipalities claim to have larger populations (with fewer minorities) than the figures on which the transfers are based. The Vice President of Peje stated that because of inaccurate statistics on population, the municipality does not get its proper education grant according to the formula and needs to compensate with own-source revenues to fully fund the education services. Though grants are to be objectively calculated and allocated according to the formulae, municipalities engage in negotiations with the MFE through the Grants Commission on the resources to be allocated to health, education, and other services. While the allocation formula and processes have been distributed, municipal officials do not seem sufficiently conversant with the way formulae work, and therefore express dissatisfaction with the system. Some municipal presidents shared their perception that capital investment funds coming from the central level are (as in many places around the world), subject to politicization and local patronage.

The local governments' own-source revenues are primarily derived from property tax, as well as from fees, charges, and fines. The sum total of municipal own-source revenues accounts for approximately 20 percent of their total budget. This percentage varies significantly among municipalities, with some of them like Dragash and Shterpce registering less than 5 percent. The most significant municipal own-source revenue is the property tax. Pursuant to Regulation No.2003/29 of 5 September 2003, the municipality sets the property tax rates on an annual basis at rates between 0.05 percent and one percent of the market value of the property. The tax rates may vary among different categories of property: residential, commercial, industrial, etc. Each municipality is responsible for property tax information management, property valuation, preparing and issuing tax bills, collection and enforced collection of property taxes, and administrative appeals. The current property tax system allows a possibility for revaluation, re-registration, or re-verification of properties.

Property tax rates are typically very low with municipalities generally charging between 10 and 30 Euros annually per residential unit. Pristina, which averages 91 Euros per residential unit, is an exception. There are roughly 333,000 billed properties across Kosovo, approximately 250,000 of which are residential. A total of approximately 12 million Euros annually is billed for all properties, making for an average bill of 36 Euros. Most municipalities do not seem to treat property tax collection as a high priority. In 2003, for example, Peje billed more than 21,000 properties at approximately 862,000 Euros, while in 2005, it billed roughly that same number of properties for 542,000 Euros, despite knowing that it would see a reduction in its KCB funding for that year. This pattern, lowering the billed amount, has been characteristic across Kosovo, but it has not resulted in an increase in collection rates. Thus there is a continued reliance on the KCB for 85 to 95 percent of the municipal budgets.⁴

In 2005, MFE instituted a new Property Tax Incentive Grant Program, aimed at stimulating municipalities to meet specified targets for annual growth in property tax revenues. If a municipality achieves its target for property tax revenue, it receives the full amount of its grant allocation. Municipalities are then free to spend the funds received under the incentive grant according to their own spending priorities. The total

⁴ Municipalities tend to prepare budget projections using estimates for own-source revenues (particularly property tax collections) that are much higher than they in reality generate. Thus the budget projections provide an overly optimistic picture of the percentage that own-source revenues actually play in municipal budgets. The municipalities are perhaps even more reliant on the KCB than their budget estimates would indicate.

amount of Property Tax Incentive Grant disbursed to municipalities in 2005 was EUR 6 million. According to Minister Haki Shatri “The new incentive grant scheme had a significant impact on property tax revenue. Property revenue tax collections for 2005 totaled EUR 6,683,554, a 19 percent increase over 2004 and 92 percent over 2003”.⁵ Thus, at least from the ministerial perspective, there is a positive trend which demonstrates that municipalities can take increased responsibility for their own fiscal affairs and can help meet the growing expenditure needs of their constituents. Nonetheless, though the overall trend in regard to collections may be positive, success is not uniform across the municipalities, and a thorough evaluation of the incentive system and the system as a whole may be in order.

The MFE has sought to improve flexibility and enhance the autonomy of municipalities by ensuring that any growth in the transfers from the central government is included in the general grant. Municipalities observe, however, that the scope for expenditure prioritization is very limited after the requirements of the various sector ministries have been met. As with the central-level budget, the municipalities in reality have very little discretionary funding—perhaps only 6 to 7 percent after meeting the core education, health, rubbish collection, etc., requirements. Furthermore, competencies are devolved without additional funding provided (which is why the USAID/LGI Concept Paper on Municipal Finance proposes an arbitration mechanism to deal with just these circumstances). These additional competencies can further constrain a municipality’s ability to prioritize. In addition, ministerial control over education and health functions, capital, expenditures, and even employees appears to be increasing. (At the same time, it should be noted that municipalities do not always make the difficult financial decisions they can in regard to, for example, out-sourcing services, or reducing the numbers of supernumerary employees.)

Even though the overall financial management responsibilities and powers seem to be clearly defined in Regulation 2000/45, the AKM claims that some later regulations, adopted without municipal consultation, have changed particular competencies of municipalities (e.g., regarding municipal property). Municipal officials state that they are adversely impacted by policy decisions by individual ministries that are unpredictable and can damage planning efforts. Changes in administrative procedures can also have unexpected results for the municipalities. For example, municipalities have previously relied on traffic fines to support their local expenditure. The joint action of regionalization of traffic policing and redesign of the administrative system, however, has led to municipalities not receiving the income in a regular or predictable manner, or not receiving it at all. Though the actual amount of fines in this case may or may not be substantial (the specific figure was not available in the documentation), this incident serves as an example of the need for better coordination and consultation to ensure that regulations such as this one are thoroughly vetted and considered to prevent a clash of objectives. Clearly defined consultation processes must be defined and used prior to issuance of administrative instruments or regulations or other statutory tools. Both the MLGA and the AKM expressed concern that individual ministries make policy decisions that have an impact on local governments without first exploring what the impacts might be, or without first consulting with the municipalities.

3.2 PUBLIC ADMINISTRATION AND SERVICE DELIVERY CAPACITY

Municipalities in Kosovo that do not have the skills and capacity to efficiently deliver public services will negate the promise of the enabling environment that is being created. Not only will opportunities for local empowerment and economic development be missed, but minority tensions will be exacerbated if minorities do not feel their municipalities provide an adequate quality of life.

⁵ Statement by the Ministry of Finance and Economy on the New Property Incentive Grant Program during 2005, Pristina, 28 February 2006.

Research and interviews are consistent in their appraisal that administrative capacities locally, especially in regard to service delivery, are thin at best. There are likely several explanations. The obvious of course is the fact that the cadre of local administrators is basically new to their positions, having only started during the past seven years. Additionally, there are the complicating factors associated with the lack of clarity regarding which authorities are in charge of which services—UNMIK, the PISG, KTA, or the municipalities themselves. Regardless of who is actually responsible, municipal officials are typically blamed when services are not delivered. These complications are sometimes further exacerbated when minorities choose not to participate in civic affairs, thus making improved service delivery even more difficult.

The Kosovo Institute for Public Administration (KIPA) is responsible for providing civil service training in Kosovo, including to municipal employees. Its recent training needs assessment has resulted in development of a municipal training program that includes the following courses. This list illustrates the levels of need that exist:

- Knowing the Law of Civil Service
- Decentralization and municipal development
- Public policies development in municipalities
- Problem solving and decision making in municipalities
- Consumer care in public service delivery
- Time management
- Competencies and responsibilities of municipal administrators
- Archive management
- Project management
- Communication and letter writing in public administration
- Defining and collection of taxes
- Financial management in local government
- Strategic planning in local government
- Management
- Pilot projects management.

This substantial list of generalized needs does not even attempt to cover more technical areas of need in, for example, water service delivery, highway engineering, etc. Certainly the LGI project's experience working hand-in-hand at the municipal level indicates that skill levels are mixed, capacity is thin, and assistance is required.

Though the capacity needs at the municipal level are substantial, the situation is perhaps not as dire as it appears. The Assessment of Administrative Capacity in Kosovo Report (UNDP, April 2005) concludes that the foundations for a sound system of public administration in Kosovo are well established and that none of the weaknesses that exist should impede the transfer of competencies. Furthermore, and as is noted in the UNDP report, it will actually take transfer of those competencies to not only get the required systems and processes working, but also to develop the skills of those who will manage and administer government at the municipal level. By all accounts, there is significant variety among the municipalities in every respect—administrative and management skills, the influence of corruption, the influence of party politics, minority concerns, etc. Developing the capacities of all of these units will require consistent and broad assistance across the country, and not just in selected pilot sites. Also, because of this variety, blanket training programs may be useful for establishing base levels of skills, but to approach the differing needs and requirements will require more specialized and hands-on training. Also, more specialized workshops and training events may need to be designed for senior managers and department heads. Donors, UNMIK, and the PISG will need to rethink the form of training that, to date, has been provided. The UNDP report, for example, mentions the possibility of teams of consultants that could work directly with municipalities, at the municipal facilities, on specific issues at specific times.

As municipalities take on increased competencies, it will become even more important that they have better access to data and the capacity to use it. By all accounts, basic information is lacking and municipal officials are left to make service design decisions, and have to monitor and judge the effectiveness of services, in an absence of data. Some information is available, for example the municipal profiles prepared by OSCE.⁶ Still, when data is available, whether it is proxy or primary information, compilation and the understanding of how to use it has proven to be a challenge for many municipal officials. Without basic information and the knowledge of how to use it, municipalities will not be able to take advantage of the local knowledge that is supposed to make local public service delivery better than that delivered from the center.

Further complicating all of the above is the potential increase in the number of municipalities, as well as the resulting increases in administrative costs (while at the same time there are pressures to decrease public spending).

3.3 INFRASTRUCTURE PLANNING AND MANAGEMENT

Kosovo municipalities consistently list infrastructure as among their highest municipal development priorities. This includes roads, power, schools, and water systems, and reflects the experience of not only this Assessment Team but also of others. The other highest priorities are job creation and economic development. Elected officials tend to link these items and believe that improved infrastructure will lead to economic development which in turn will lead to job creation.

There is significant experience with infrastructure development in Kosovo because it was such a focus of attention immediately after the conflict. That experience continues today, and much of it is very positive. Mercy Corps' USAID-funded MISI project has had a very positive experience constructing small infrastructure (\$35,000 maximum grants) based on joint planning and funding processes that involved the local government administrations and citizen groups. Community Development Fund (CDF) has had a similarly positive experience working with communities and municipal governments to plan, fund, and implement projects in an open and transparent manner.

On a much larger scale, the European Agency for Reconstruction (EAR) is currently working with all municipalities to develop and provide infrastructure projects. The selection criteria were developed in part based on the European standards and in part on Mercy Corps' MISI standards. The projects are capped at Euro 400,000 and focus on roads, schools, water, and wastewater. These projects will have broad impacts affecting several communities.

All of these programs (and there are undoubtedly more) have achieved success in addressing infrastructure needs at the municipal level. They also demonstrate the willingness of citizens to contribute funds, the ability of citizens and government officials to work together when there are incentives to do so, and that tangible benefits can result. Also, in all cases, by working with municipal officials and involving them in all aspects of the projects from bidding through supervision, they receive hands-on training and capacity development. Unfortunately, evaluations conducted by USAID and other donors have found that some municipalities that signed agreements detailing provision of maintenance, depreciation, and the proper operation of these investments have too often neglected their obligations. Because the infrastructure needs continue to be great, however, these experiences at least offer a platform from which solutions may be built.

Donors across Kosovo support planning and its linkage to infrastructure development, local economic development and economic development strategies. Thus far, however, as was stated in one interview, the plans tend to be "wish lists." Several interviewed noted that with the assistance of donors, municipalities

⁶ See the OSCE Web page for profiles of all municipalities (www.osce.org/kosovo/13982.html).

had proven to be adept at following a process that produces a plan. The planning process followed, however, often does not address issues of local ownership, incentives and penalties, and enforcement provisions, all embodied in the law and backed by the required institutional support.

In regard to spatial planning, zoning, and enforcement, the Assessment Team learned nothing that would lead us to believe circumstances have changed much if at all from that which was found by the previous assessment team (“Limited Scope Assessment of Local Governance in Kosovo - Recommendations for USAID/Kosovo’s 2004-2008 Strategic Plan,” February 2003):

“Local spatial plans are outmoded and land use regulations are not adequately enforced. Illegal construction was one of the top problems mentioned by local government officials and in citizen focus groups. Pristina alone has over 20,000 illegally constructed buildings. This uncontrolled construction boom started after the conflict in 1999, continues to flourish, and threatens the orderly growth of municipalities and the provision of utility services in Kosovo. Legislation and enforcement related to spatial planning and zoning are critically required.”

The concern that most closely connects infrastructure and economic development, at least as far as the municipalities are concerned, is the KTA. All municipal officials cited KTA as a major impediment to local development. The concerns ranged from confusion over what KTA was responsible for versus what the municipality was responsible for, to accusations of obstruction on the part of KTA because of their role blocking local initiatives. In sum, the municipalities feel that KTA’s control over local assets prevents the municipalities from exercising their best judgment to use those assets to either provide a public good, or to promote local economic development. An associated concern is the claim that KTA’s control over public utilities circumvents municipal involvement in delivery of these services in a consumer-friendly, citizen-responsive manner. KTA is accused of being unresponsive to both citizens and municipal governments.

In its defense, KTA has conducted numerous informational sessions with municipal officials, dating back to 2003, and there have been recent changes that allow municipalities to assert their legal authority over the disputed assets. In regard to management of utilities and provision of services, it is certainly not clear as of yet whether municipalities would have the capacity to do a better and more responsive job than the KTA. It is certainly possible that KTA has become a lightning rod and scapegoat for economic issues that might exist regardless of whether or not the Agency itself existed. Still, the same concerns about the KTA have been raised before in both the UNDP Assessment Report, and prior to that, the previous USAID Assessment. Thus, this aspect of infrastructure at the municipal level, at least from the perspective of the municipal officials, has not improved in the past several years.

3.4 ANALYSIS AND FINDINGS

Analysis and findings are presented here for each of the three administrative subtopics.

3.4.1 Financial Management

From a macroeconomic perspective, Kosovo’s Medium Term Budget Framework (2006-2008) envisages that 22 percent of total central budget revenue will be disbursed to municipalities in the form of grants and Property Tax/Capital Incentive Funds. The Framework assumes that total municipal own-source revenues will grow at a rate significantly exceeding economic growth. The average property tax collection rate is expected to increase by around 30 percent during the next years. Nonetheless, for the years 2006-2008, municipal own-source revenues are expected to remain at the level of 20 to 22 percent of total municipal budget. Transfers from the center will continue to be the primary source of municipal funding. The key

then is that the mechanisms of intergovernmental fiscal relations are transparent, well understood, and create a conducive fiscal environment for local governments to effectively discharge their functions.

There is, however, uncertainty regarding the extent to which the spending priorities of the central authorities will prevail over the financial needs and resources of the municipalities. Municipalities believe they are often the last to know of changes that will impact them. The following are some examples, from the municipal perspective, of dysfunctional intergovernmental fiscal relations:

- Local governments had to close pre-schools in 2005;
- Municipal assembly members in Zvecan did not receive salaries for six months;
- According to current legislation, 20 percent of revenues from forestry management is supposed to be transferred to municipalities, but this is not happening in practice; and
- Municipalities not located at regional centers are obliged to travel to the treasury offices in order to process payments—this is expensive in terms of costs and time, and arguably should not be necessary in a devolved system.

The AKM indicated that quite often they are not consulted at the legislation drafting stage and thus cannot provide a municipal viewpoint when decisions are made. Municipalities are seeking recognition that improvement in budgetary planning involves action by both the central and local levels, and that the government needs to take more seriously the impact on municipalities of central policy change. The MLGA will have an emerging role to play to ensure that the consequences of central government actions, for municipalities, are identified early and discussed before the action takes place.

The current budget process has hampered municipal autonomy, and adversely impacted effective and efficient local service delivery. There seems to be a persistent concern among central government authorities that municipalities lack the capacity to plan their own budgets and effectively deliver local services. Autonomy of local decision making cannot be separated from autonomy on budget and staffing issues. The issue is then a political one—whether the central authorities really believe in the capacity of municipalities to administer their own affairs.⁷

There is mixed, at best, experience implementing efficient and transparent budget formulation and execution processes, as well as poor financial management practices, at the municipal level. Municipal financial management is a serious concern. Procurement processes are not properly followed, budgets are exceeded, and project selection is subject to political pressure versus sound prioritization. There is little municipal assembly control of local finance and financial policy. The policy and finance committees of municipal assemblies seem to be dysfunctional. For example, a Gjakova-based watch-dog NGO, Alarm, reported that the municipal assembly's policy and finance committee was absolutely ignorant of a budget allocation line for financing of local NGO projects. There is a critical need to engage municipal assembly members in budget formulation and execution decisions. Even though public budget hearings are conducted, the Assessment Team did not see evidence of public meetings focused on budget execution. The ongoing auditing now taking place could have an important impact, but that will require a coordinated effort by the MFE and MLGA. A process for establishing accountability, backed by two bodies of law (administrative to place penalties and criminal to prosecute serious infractions) has yet to be drafted, though a policy discussion is now underway at MLGA.

The team's observations (based on conversations with key stakeholders, field visits, and feedback from the current USAID/LGI program) are that there is mixed compliance with public finance legislation. The

⁷ Kosovo Public Expenditure & Institutional Review, Draft Paper, World Bank, November 2005, p. 161.

LPFMA lacks a procedural chain to deal with problem issues and mismanagement of funds. There has not been administrative instruction in this area. Despite the fact that many municipalities conducted budget hearings last year, as prescribed by budget circulars, some concerns remain as to the effectiveness of these hearings as well as to what extent they address real budget execution.

The team observed that, quite often, local finance procedures are not implemented properly by either the municipal administration or by the municipal assembly (though there are examples of success). Experience from the ongoing USAID/LGI program reveals that some municipalities do not even document financial transactions. Illustrative examples include confusing reporting of arrears and fraudulent habits (Peje) or arrears due to unfunded commitments and mismanagement of funds (Gjakova).

There is a positive tendency to adopt program budgeting at both central and local levels, but local governments will need an enforcement process and encouragement for internal audits and political support. Once processes are established, the MFE and the Inspector General (IG)'s office need to send internal auditors to support these processes. The key point is to set up the enforcement system for enhancing municipal finance legislation. Initial enforcement should come from the center. If accountability is not required by the center, local governments will not necessarily adhere to enforcement standards. The team's overall observation is that compliance with budget circulars is relatively low and requires further training and technical assistance. OSCE representatives noted that MFE did not publish administrative instructions on how to streamline financial reporting. Indeed, local finance management is an area where USAID can cooperate with the resident OSCE municipal teams to ensure that municipal assemblies follow the budget processes and procedures prescribed by legislation.

Despite increased property tax revenue in 2005, there is underutilized potential for growth. All seem to agree that further work needs to be done to increase collection, first, and then to adjust the rates themselves and/or look for other options. The President of Vushtri municipality told the Assessment Team that the municipality operates under a considerably underestimated property tax base because of the many unregistered properties. Local governments seem to be very interested in cadastral reform because, in the future, it will set the basis for property tax collection. Other improvements through the medium term can be secured through execution of accumulated arrears, implementation of legal enforcement instruments, and settlement of payments due from properties subject to KTA privatization. The revenue from other fees and charges collected by local government is expected to grow in line with economic growth.⁸

Another weakness of the municipal finance system is that the budget-related planning processes are disconnected (economic development, procurement, capital investment, and strategic planning). Hence, the budget is not used as a policy-making instrument. There is very limited capacity for capital investment planning. A priority plan of capital investment for every fiscal year should be prepared and confirmed by central government in time and in cooperation between MFE and each municipality so that municipalities are able to participate with their own co-financing and coordination of inter-municipal projects.

Last, but not least, it was mentioned in a number of interviews that further decentralization at lower levels is unjustified economically given the low revenue base and potential increase of expenditures related to the establishment of new administrative structures which are expected to put additional burdens on the Kosovo Consolidated Budget. Status talks may result in a political rather than economic decision about decentralization. Hence an assessment of new local government services, and the constraints to implementing the political decisions, will be required.

⁸ Medium Term Budget Framework: Budget Strategy 2006-2008, p. 16.

3.4.2 ADMINISTRATION AND SERVICE DELIVERY

There is a great need for capacity building at the municipal level in all areas of management and governance. Local governments, including administration and elected officials, will need significant training to effectively discharge their duties under a newly empowered local government system. At the same time, however, there is definite training and assistance fatigue that needs to be factored into further assistance programs. Developing the capacities of all of the municipalities, which may in fact be increasing in number, will require consistent and broad assistance across the country, and not just in selected pilot sites. Also, municipalities are varied in regard to their ethnic diversity and to their development and skills. Blanket training programs therefore may be useful for establishing base levels of skills, but to approach the differing needs and requirements will require more specialized and hands-on training. Donors, UNMIK, and the PISG will need to rethink the form of training that, to date, has been provided. The best way to achieve the broadest dissemination while at the same time developing sustainable internal capacities will be to work with and through Kosovo institutions that operate in and with all municipalities.

Inadequate municipal-level service delivery is further diminished by a corrupt party system which acts as a drag on efficient and effective delivery of services. Incentives for elected officials currently focus on creating power and civil service jobs for the political party. Electoral reform is required to make elected officials more responsive. Citizens can then hold them responsible when services are not delivered efficiently, effectively, and transparently. The elected officials must in turn be able to hold the administrative staff accountable. (The law on civil service, which is being drafted, may begin to address some of these issues from the administrative side. At this time, however, it is too early to judge that law's potential impact.)

The delivery of public services is not sufficiently based on cost benefit analysis, and cost data associated with each of the services. At the same time, there have been no concerted efforts to determine which levels of government should deliver which services. Many will likely best be delivered from the local level, but others may be more suited to a regional or even central basis. These decisions have to be researched and negotiated based on cost effectiveness and responsiveness. European donors are currently discussing regionalizing certain services (primarily utilities) to make them financially viable and therefore attractive for investors, whether private or multi-national lenders. Regional landfills and water utilities have already been established. In these cases, economic efficiency pushes for fewer utilities versus one for each municipality. If so, then structures have to be built to ensure that these utilities are responsive to the constituent municipalities and, through them, to their citizens (the customers).

There are many opportunities now, while the entire topic of local government and decentralization is being discussed, to discuss and experiment with these issues. Kosovars and donors should take advantage of these opportunities to cooperate to create special districts for efficient service delivery and to solve common problems. A corollary benefit is that cooperation across boundaries to resolve common issues (watershed concerns, delivery of shared services, joint tourism plans, regional waste collection and treatment, etc.) can also foster cross-ethnic cooperation on other issues. These experiments to a degree might be resisted because of traditions of municipalization, but financial pressures will likely necessitate discussion and creativity.

Finally, a commonly voiced concern in regard to municipal administration is the question of what the proper staffing levels should be, and whether the municipalities have too many staff. This Assessment Team believes the answer is unclear. The numbers in the municipalities visited do not necessarily seem exorbitantly high, considering the size of the municipalities. For example, Zvecan has 58 staff in a municipality of 17,000, Vushtri has 220 staff for a city of 105,000, and Peje has 318 staff in a municipality of 115,000. A different way to approach the question would be to link it to the other findings presented here regarding service delivery. If municipalities are allowed to be creative in regard to service delivery and determine what they are best suited to provide, and what would be better delivered elsewhere, then their staffs would be expected to shift not only in numbers but also in regard to sectors. That being the case, the questions to ask will be What are the functions of the staff? Are they

appropriately trained for what they need to do? Are they placed in the positions where they are needed most? Do the town officials have the latitude to move them around and to adjust staff as required? The answers to these questions are unclear but the legislation would seem to favor the experimentation that will be needed to get the answers.

3.4.3 INFRASTRUCTURE AND PLANNING

Currently, local governments have limited capacity to take advantage of the opportunities they have to promote local economic development. From the perspective of the municipalities, much of the blame for this circumstance lies with the KTA. Municipal officials believe KTA controls too much property, is not responsive to municipal officials, and is not accountable to citizens for the services they deliver (electricity, water, and sewerage). Municipalities feel they receive the complaints from citizen customers but have no control over KTA and the way it delivers services. In fact, municipalities may have more authority over property than they realize but, at the very least, there is a lack of understanding and information exchange. UNMIK regulation 2006/5, which allocates social lands to the municipalities, was supposed to take care of this issue, but there are ongoing problems. At the same time, as was pointed out in the previous USAID assessment, it is widely believed that municipalities still have some general responsibility for providing KTA-managed services, but their exact role is unclear. Local governments are represented on utility regulatory boards, but the powers of those boards and the roles that municipal representatives should play are not well understood.

The problem with the current structure is that municipalities are not able to be responsive to the needs of their citizens. They are not able to influence decisions that directly impact them and their citizens and their local economic development. KTA's mandate to manage all socially owned enterprises, including public utilities, precludes the municipality from providing that service, and therefore makes the municipality not responsible for these local services. Municipalities need to have some influence or at least be able to engage in dialogue on the process. If these opportunities exist, they are not (from the municipalities' perspective) properly utilized.

Structural, procedural issues such as these are perhaps the greatest impediment to local development, as opposed to an absence of plans and planning processes. Several donors are working on economic development strategies. USAID could support those efforts by focusing on immediately practical instruments and solutions. These would include, for example, simple and fast community action planning techniques, or monitoring checklists to ensure transparency and achievement of milestones, or facilitated sessions among municipalities and KTA to develop customer service protocols. At the municipal level, there is ample evidence and experience of citizens and local government working together to identify priorities, plan solutions, and then create the resources required. These examples tend to be somewhat isolated, but they do demonstrate a willingness to participate and pay for local improvements. USAID could build on those positive examples, creating and supporting connections among the relevant institutions, working on immediate and obvious priorities, and at the same time developing processes that are replicable and can then be used and disseminated by these same institutions in other places. The dissemination activities of LGI could serve as an example, and roll-out could be enhanced through partnerships with, for example, the MLGA and AKM.

4.0 CITIZEN PARTICIPATION

The team reviewed the opportunities currently provided for citizens to participate in government processes, and provides an assessment as to the effectiveness of those mechanisms.

4.1 CITIZEN PARTICIPATION IN MUNICIPAL GOVERNANCE

The process of decentralization in Kosovo was intended to provide near immediate benefits in regard to improved service delivery and participatory democracy. Thus far, that process has not proven to be as effective and speedy as expected. There seems to be confusion about the process and, in many cases, citizens have negative perceptions. For example, while democratically elected Municipal Assemblies first took office in 2000 (the most recent elections were held in November, 2002), villages continue to seek influence through direct channels between village leaders and civil servants. Complaints about certain geographic parts of municipalities neglected in favor of others are common. Inhabitants of urban centers grumble that their interests are placed second to those of villages. On the other hand, villagers feel that they are being left behind the city dwellers. Yet everybody complains about the lack of accessibility of local political structures, claiming that local governance is still too far away.

The core of the problem is that both elected and appointed officials are accountable primarily to relatively undemocratic political party structures, rather than to those that elected and hired them. To satisfy party constituents, the ruling party (now LDK) is pushed towards giving priority to maintaining existing networks of influence and control. To engage now, before the end of status talks, in more fundamental yet critically needed reform would jeopardize the prerequisites of those who benefit from the current state of affairs. Internal pressures for change are mounting as a result of persistent economic hardships, frustration with the absence of material benefits of democratic governance, and lack of opportunity to participate in that democracy. Nonetheless, there are few channels for these populist pressures to bear influence.

The legitimacy of Kosovo's government will no doubt increasingly come under question if the government cannot deliver better guarantees about the standard of living and economic welfare of its citizens. These guarantees could well take the form of an enabling environment for vibrant citizen participation, starting of course with an electoral system that ultimately makes municipal assembly members and municipal staff fully accountable to all citizens and not the political party system. The problem now is that the political system itself is standing in the way of accountability and transparency mechanisms, and in the way of economic growth and the conditions that are needed to propel Kosovo forward.

A significant part of the problem is that in Kosovo it is hard to identify institutionalized citizen participation mechanisms that properly and broadly function at both the central and local levels. The Kosovo Democratic Institute's Scorecard (first edition, July-December 2005) is a clear demonstration that what should be Kosovo's primary mechanism of participation—a system of elected representation—is not working. The Scorecard reports on the disappointing performance of elected officials in six municipalities (Pristina, Prizren, Peje, Ferizay, Gjilan, and Obilic).

A provision in Regulation 2000/45 requires each municipal assembly to hold two public meetings per year. The USAID-funded Kosovo Civil Society Project (managed by IREX) surveyed municipalities and found most municipalities conducted only one meeting during 2005. The public meetings generally do not happen because of lack of interest on the part of both assembly members and citizens. Also there is typically a lack of knowledge on how to properly prepare for the meeting, including proper advertisement; absence of an agenda; and lack of specific meeting objectives. When the meetings are

held, minutes are often not kept and administrative staff is sometimes required to attend in order to increase the attendance numbers. Finally, participation is discouraged because of the lack of follow-through when issues are raised. Thus the participatory mechanism that does exist and is in fact required is ineffective and often ignored. Several informants stated that citizens typically sought support and assistance from administrative staff rather than from elected representatives.

The lack of representation comes in both Albanian Kosovar and Serbian Kosovar majority municipalities. For example, in Zvecan (a Serbian Kosovar majority municipality), the president of the assembly noted that the party list system discouraged participation from villages that felt unrepresented. Also, the same president mentioned that there was currently less participation in civil affairs because of the need to devote time and attention to individual and family concerns.

In some circumstances, citizen groups (NGOs) might have formed to replace or to act on behalf of active citizen participation. This has not, for the most part, occurred in Kosovo, at least not at the municipal level. NGOs largely tend to remain creations of foreign donors and are viewed with considerable suspicion by citizens and government. Business associations such as those created by USAID's Business Cluster Program, and other special interest groups, tend to be better received because they have a more natural constituency that is more likely to perceive the potential benefits of collective action.

Despite a public procurement law and the Public Procurement Regulatory Commission, use of open, transparent mechanisms for procurement is largely absent. The government is working on a new law on public procurement that complies with EU regulations. The LGI Project is working on transparent and timely public procurement processes to comply with current legislation. In addition, the EU launched the second phase of a project to support the reform of Kosovo's public procurement system, and an administrative instruction on transparency was issued by the MLGA in early 2005. Most local governments, however, lack capacity to engage with private contractors in open procurement procedures. Lack of process, absence of clarity and transparency, and absence of procurement strategies are, by all accounts, pervasive across municipalities.

There are notable exceptions and examples of successful citizen action.

- The LGI Project implemented a successful advocacy campaign in Suva Reka municipality aimed at collecting household and business property taxes. The campaign involved high school students who conducted door-to-door meetings with residents and public meetings in the villages and with public sector staff such as those from the Health Center. As a result, the municipality achieved a collection of approximately 70 percent for its 2005 property tax billings; 9,263 bills for 261,969 Euros were issued and with the bonus structure, the receipts were doubled.
- The transparency plan initially developed in Gjilan is seen by MLGA Minister Haziri as a very useful tool for transparency and participation, and he has decided that each municipality in Kosovo should develop and implement a similar tool.
- There are also very good examples (MISI and CDF) when citizens, being aware of the advantages of participation, contribute with money or in-kind when tangible small community projects are put in place. Citizen participation mechanisms such as stakeholder inclusiveness, community mobilization, participatory planning, citizen working groups, and citizen group monitoring have been successfully used by these projects at sites across Kosovo.
- In several locations, LGI has successfully implemented a Municipal Public Participation Strategy: a customer care approach with Citizen Service Centers (CSC). The CSC acts on the principle of a one-stop shop. It is also worthy to mention that three Kosovo mayors recently participated in a study tour to Bulgaria where they observed the operations of the Municipal Customer Service and Information Centers (one-stop shops) and want to implement the concept in Kosovo. These one-stop shops will provide not only administrative services to citizens, but will also serve as business registration points.

These positive examples serve as demonstrations of the types of mechanisms that can be established and must be built into all aspects of local decision making.

4.2 ANALYSIS AND FINDINGS

There are indications that participation is in decline as a result of disillusionment with the political parties and the general failure of civic advocacy to be genuinely representative of citizen concerns. Local participation tends to be somewhat higher than national participation, which reflects some dynamism at the local level. However, if citizens do not see a tangible result of their direct involvement, such as a road improvement, a school, a water supply, etc., they are reluctant to get engaged. The basic problem is that there are no genuine vehicles for representation or for accountability at both the national and local levels. The political parties answer primarily to their own hierarchies, and a lack of accountability means that most public institutions and bureaucrats are relatively impervious to public scrutiny or meaningful involvement in public affairs by citizens. In some cases (e.g., the manner in which the Freedom of Information Act has recently been handled), there seem to be deliberate efforts to subvert the public's right to know. Local politics is seen to have a more direct impact on daily life, even though the president of the assembly is not elected directly by citizens, so it is not surprising that there is slightly more activism at that level. Even at the local level, however, there is a legacy of nonparticipation that is difficult to overcome. The presidents and municipal assemblies are helping to reinforce the feeling that decision making tends to reflect top-down rather than bottom-up influences.

The current local election rules seem to be the exception to the positive enabling legal environment. Local representatives currently do not play any real local representative or authoritative role. When the elections law is changed, municipal assemblies will need as much if not more assistance than the municipal administration. If they become popularly elected, they will have to know how to exercise their authority as a representative body.

NGO experiences demonstrate that it is possible to generate community revenue through self-contribution for local infrastructure. These systems are not always open, transparent, and participatory, but they demonstrate a willingness to pay and show the availability of funds.

The existing channels through which municipal and local authorities elicit citizen views, opinions, and recommendations on public policy matters are used randomly and with little effectiveness. Where linkages are made among government and citizens with correct incentives and guidance, and the process focuses on developing linkages, communities (even those with ethnic diversity) will work together when there are tangible benefits to do so. As mentioned before, there are positive examples of citizen participation at the municipal level (e.g., stakeholder inclusiveness, participatory planning, citizen monitoring groups). However, consistent, well-regarded government institutionalized mechanisms for interaction with the public seems to be lacking. At a minimum, the requirements for a minimum of two public meetings by each municipal assembly should be more specific with additional rules that spell out why, what for, and when these meetings are to be called. To truly involve citizens in public decision making, citizen participation has to be focused on specific issues—for example, preparation of the budget, spatial planning, capital investment planning, local economic development strategies—as opposed to general and unfocused public meetings.

At this moment in time, there is a lack of awareness and knowledge about the new public procurement system among the contracting authorities, economic operators, public procurement institutions, and the general public. The procurement officers in charge of managing the awarding procedures need training and other types of assistance to establish a modern and transparent public procurement framework in line with the EU *acquis communautaire*. The procurement function forms an essential part of an administration's finance management system and, as such, it is imperative for the financial health and well-being of Kosovo to ensure that an efficient procurement system is put in place and, more importantly, implemented and enforced.

5.0 STRATEGIC RECOMMENDATIONS

The main question posed to the Assessment Team by the scope of work was whether or not USAID should continue to stay involved in local government strengthening in Kosovo, and should therefore formulate a new local government support project. The Assessment Team's response to this question is an unequivocal "yes"—USAID should continue to provide support for local government strengthening and reform in Kosovo, for several reasons:

- This is a crucial time in Kosovo's history and decentralization and local government reform are important aspects of the current negotiations;
- Thus far, the discussions regarding decentralization have been of an exclusively political nature;
- It will be important that an international body with experience promoting local government strengthening and reform be available to articulate and demonstrate the governance (as opposed to the political) benefits of strengthened local government in order to show that decentralization is not only about assurance of minority rights (though it has that benefit also);
- If the improved governance aspects of decentralization are not demonstrated, then decentralization as politically defined could actually contribute to, instead of alleviate, ethnic tensions because of misperceptions regarding preferential treatment, and could result in further Balkanization as opposed to furthering status discussions;
- USAID has a unique position in the donor community in Kosovo, in general, and specifically in regard to local government reform;
- USAID has demonstrated qualifications and credibility because of its contributions to the policy environment, and because of the technical assistance provided at the municipal level which has provided unique credibility and knowledge as to how to make things work;
- It will take USAID's practical hands-on assistance around Kosovo to correlate improved municipal level governance with local economic development and improved public service delivery, thereby enhancing citizen satisfaction and helping to create an atmosphere in which minorities will participate; thus,
- USAID should stay in the sector to help Kosovars understand that local government strengthening and decentralization is an important aspect of a progressive and reformed governance and government system.

While answering this major question, the Assessment Team also reflected on several other important questions.

5.1 IMPACT OF THE EUROPEAN ACCESSION PROCESS ON THE DECENTRALIZATION PROCESS

It is expected that Kosovo's aspirations towards EU accession will, in the long run, drive its political agenda after the resolution of status. Kosovo, like the rest of the Western Balkans, has an open and clear European perspective. For the time being, the European Union's position is directly linked with the implementation of the Standards for Kosovo which represent a critical consideration within the status talks. As Mr. Olli Rehn, EU Commissioner for Enlargement, stated⁹ recently: "I call on Kosovars to work on decentralization and the protection of minorities. Status can only come with standards." At the more practical level of project implementation, all projects funded by EAR in Kosovo include an EU integration component to nurture awareness of the future role Kosovo may play. EU, through EAR, strives to build a critical mass of understanding about EU integration. It also aims to ensure that Kosovo is on a path towards compliance with the European legislation (*Acquis communautaire*) in the future. Most local stakeholders, both from the government and non-government sectors, expressed their willingness to start the preparation for EU accession as soon as possible. They shared the view that they will need considerable capacity-building assistance in order to cope with the pace of EU's pre-accession requirements. The experience of other countries, such as Romania and Bulgaria, which are expected to join the EU in 2007, has demonstrated that the process of capacity building for the successful implementation of EU's cohesion and structural policies is indeed a quite challenging and lengthy process. In the context of Kosovo, where public administration both at the central and local level is relatively new and lacks bureaucratic tradition, the challenges will be even bigger. EAR has just initiated a new technical assistance project with the Ministry of Local Government Administration (in the amount of EUR 1 million) focused on the legislative and regulatory framework for local governance. Another new EAR project (also for EUR 1 million) will provide hands-on support to local governments to implement the regulations drafted by the MLGA. In this regard, it is very important that any potential assistance to the MLGA considered by USAID should complement the ongoing EAR activities to ensure cross-fertilization of assistance efforts.

In sum, the accession process has a significant impact on the process of decentralization. Generally speaking, as is true throughout Europe, the prospect of Europeanization is of overwhelming importance across Kosovo as the status negotiations proceed. This big-picture concern has repercussions at the local level where the concern with standards creates incentives for awareness raising and capacity building.

5.2 CAPACITY AND POLITICAL WILL OF THE PISG AND MUNICIPAL GOVERNMENTS TO ABSORB A TECHNICAL ASSISTANCE PROGRAM

There are no indications that either the PISG or the municipal governments lack the political will to work with USAID on future local government assistance programs. As described above, there are significant reasons for these bodies to want to work with USAID:

- USAID's status overall and specific reputation in the sector;
- The requirement to achieve standards as a prelude to final status resolution;
- The prospects for European accession and the requirements to achieve that accession; and
- The opportunities afforded by the enabling legislation to assert local autonomy and enjoy the economic and political benefits thereof.

⁹ Speech by Mr. Olli Rehn on EU Enlargement and the Western Balkans delivered at the Law Faculty of Ljubljana University, 10 February 2006

Absorption is perhaps a separate issue. There is a definite sense of “training fatigue.” It therefore will be important that training and technical assistance evolve to reflect the future status of Kosovo’s institutions. As described further in Section 6, future programs will need to work more with and through indigenous organizations.

5.3 ISSUES THAT COULD IMPEDE DEVELOPMENT OF GOOD MUNICIPAL GOVERNANCE

The Assessment Team highlights three main issues that could impede further local governance reform.

- The current local elections law is not representative. Instead of prompting elected officials to be responsive to the electorate, and ensure transparency and improved public service delivery, it creates incentives to develop powerful local political parties that engage in patronage. If the proposed election reform bill does not pass, the current local assembly system will continue to impede good municipal governance.
- If prolonged status discussions continue to delay passage of the key local government laws, valuable time will be lost for instituting reform, and non-reformist elements will become more entrenched.
- The lack of solid data impedes local public decision making. Basic data simply is not available (e.g., census data, taxpayers lists, etc.). Decisions are being made in the absence of this information which leads to making mistakes and to manipulation of information. Local public service delivery can be more efficient and effective when it is adapted to local circumstances on the basis of local knowledge, but that knowledge requires access to basic information.

5.4 SCOPE OF ASSISTANCE THAT SHOULD BE PROVIDED

The assessment scope of work asked the team to reflect on whether assistance should be provided for all municipalities, or some subset of municipalities based, for example, on geographic focus, or sites where USAID partnerships already exist. It is the team’s recommendation (as will be further described in Section 6) that USAID should implement its local government assistance program Kosovo-wide, rather than focusing only on pilot municipalities. There are several key rationale and principles that support this recommendation.

- Kosovo is relatively small and the number of municipalities is manageable from the point of view of delivery of well targeted training and technical assistance activities.
- Several indigenous Kosovar organizations have received assistance from USAID and others, and as resolution of final status progresses, these organizations are emerging as vital local government support institutions. Furthermore, they work throughout Kosovo. By working through these institutions (e.g., KIPA, AKM, the MLGA itself) to implement various training and technical assistance activities, USAID can ensure local ownership, wide dissemination, and sustainability of program results, as well as support these organizations’ long-term role in Kosovo’s local government system.
- By working across Kosovo at the local and central level, USAID’s assistance program can facilitate and mediate between central and local competing interests on a variety of public policy issues. Sustained policy reform will require the concerted efforts of a network of ministries, Parliament, the Association of Kosovo Municipalities, and other local government support organizations acting toward a common objective.
- Several realities argue for a broad and flexible approach to planning and delivery of training and technical assistance. For one, the municipalities are varied in their capacities and development. For

another, capacity requirements have evolved such that assistance needs will have to be more individualized and targeted.

- Finally, it will be important to make practical technical assistance available to all types of Kosovo municipalities, including those that might be newly created and those with predominantly minority populations.

6.0 PROGRAMMATIC RECOMMENDATIONS

The Assessment Team’s intentions regarding programmatic recommendations is to provide a “menu” of program options that USAID can choose from depending on how circumstances evolve and final status discussions are concluded. These options are formulated based on our limited scope assessment of the current status of decentralization and local government reform. Each option in its own way contributes to ongoing reform efforts. The selection of which of these option areas to pursue can be made by USAID depending on its interests, its efforts to coordinate with its other program strategic objective areas, efforts to coordinate with other donors, and of course depending on resource constraints.

The team’s overall program recommendation is that future USAID assistance focus on institutional development. USAID should employ a broad program strategy that focuses on building Kosovo institutional capacity, and through those organizations work throughout Kosovo to ensure effective local government reform that demonstrates the benefits that can accrue to everyone from a system based on autonomous municipalities. Broad local government reform is needed to ensure the benefits of autonomous decision making—improved efficiency and quality of public services, improved transparency, enhanced representation and citizen participation—are enjoyed by all communities. If this understanding is not transmitted throughout Kosovo, an opportunity for government reform will be lost, and “decentralization” may be seen only as a formula for preservation of minority rights.

The way to achieve this broad objective and dissemination is to work with and through the indigenous institutions that already work with the municipalities. This would certainly include the MLGA, the AKM, and KIPA, but there may be others. The foundations have been developed for Kosovo’s institutions to become self-sufficient. By working with these organizations, their capacities and capabilities will be enhanced and opportunities to achieve sustainability will be improved.

The methods of achieving institutional development support for the ultimate goal of sustainable local government strengthening could include, for example, the activities described in this section. It is important to note that, in most cases, the assistance efforts would involve working hand-in-hand to develop the institution’s capacities to perform their functions as institutions that provide assistance to local governments. At this stage, the Assessment Team believes the best way to improve the capacities of these institutions and positively influence their operational procedures is to engage and work with them on specific tasks and activities. This will involve, for example, one-on-one assistance, mentoring and coaching (building on and attempting to expand the current LGI project model); brief (one-day) interactive task and goal-focused workshops; and joint activities that not only achieve objectives but, at the same time, develop procedures and practices that become institutionalized. The methods would necessarily focus on working together in small groups as opposed to larger and more formal training activities (thus hoping to minimize further training fatigue). The emphasis would be on developing the practices and human resources within the local institutions so that those practices achieve sustainability.

The institutional support can be focused around one sectoral or topical area. For example, improvements to the manner in which the budget and finance system is implemented at the municipal level could be an overarching focus, with support provided to the municipalities through the relevant institutions on that particular topic. In that case, the institutional process improvements that were developed for budget and finance would serve as examples that could then be applied to other topics and sectors.

Within the broad area of support, institutional development, the team has identified specific program activity areas. The following summarizes those program areas, and briefly explains how they could be linked to an institutional development strategy.

6.1 SUPPORT FOR IMPLEMENTATION OF POLICY AND LEGISLATION

USAID can help design municipal management manuals and training curricula, and assist in drafting municipal regulations in, for example, the following technical areas: budget and finance management; public procurement; local economic development. The target audience will be both municipal administration staff and municipal assembly members. An important consideration is that this assistance should be provided through local support organizations (such as AKM, KIPA, KIPRED, etc.) to ensure local ownership and sustainability of project deliverables. For example, a USAID project could facilitate cooperation between the MLGA and AKM (through the active participation of members in the municipalities, through day-long facilitated workshops) to prepare the guidance. Then, at a central level, the project could support KIPA's development of basic training programs on the topic. Individualized assistance programs could be rolled out to municipalities through local NGOs, or the AKM, or private training providers. The role of the project would be to support and facilitate these connections, and to help institutionalize processes of cooperation and creative use of resources (e.g., using facilitated workshops at regional levels to tap municipal experts and get their input into the guidance documents that are needed).

At the same time, the project could support an ongoing policy reform process, both within and outside of the MLGA. The project could support the ability of the MLGA and others (AKM, private think-tanks, academic bodies, etc.) to analyze situations that affect municipal government, consult with municipal leadership, and design solutions. In those cases where the policy analysis was conducted outside of the ministry, the project could facilitate opportunities for policy forums, seminars, etc., in an effort to work with, inform, and get the support of the MLGA. Complex issues, such as those involving the municipalities and KTA, mix the technical with the political and therefore require rigorous analysis and development and examination of solutions in a collaborative and open manner.

A related requirement is development of monitoring tools for the MLGA to use with municipalities. It is important that the tools go both ways so that municipalities, assemblies, and citizens can engage in self-monitoring.

6.2 SPECIAL DISTRICTING

The current status of local government in Kosovo creates opportunities for experimentation and problem solving. By all accounts, the legal environment is conducive to local autonomy. At the same time, the operational processes and systems are not clear and often do not exist. Though this creates issues, it also creates opportunities. With USAID support, municipalities and the institutions that support them (e.g., the MLGA, KIPA, AKM, and others) can work with the municipalities to develop the rules and procedures required, and to operate within the legislative environment to determine what works and what does not. This is particularly important given the resource-constrained environment which is likely to prevail in Kosovo. Special districts that form for public service delivery purposes or to resolve specific issues and join the resources of several municipalities, may be one area for experimentation that USAID could support. In addition to exploring opportunities for efficiency in service delivery, and looking for resolution of common problems, a special district approach can also foster cross-ethnic cooperation (for example, joining two municipalities around resolution of a shared water resources or water treatment problem). The regional approach to water delivery that is being taken in Kosovo, joining several municipalities, is one kind of special district. Others might include, for example, joining several municipalities for joint economic development planning, or for tourism promotion. There may be several

options; a donor program can promote the experimentation to find out what may or may not work and what is or is not useful.

USAID could both promote and support these efforts. Project efforts could identify opportunities, support implementation, and then help disseminate results. A USAID-supported incentive fund for municipal innovations, for example, would work to support this type of creativity. As with all other activities described here, the Assessment Team would encourage an institutional development approach—for example, working with the MLGA’s legal department to explore the legal parameters for a particular issue, and working with the AKM to facilitate member workshops and dissemination for success stories. Creating these opportunities for cooperation can also facilitate hands-on technical assistance and training, pairing knowledgeable and skilled municipalities with those that require greater assistance.

6.3 ADMINISTRATION AND FINANCIAL MANAGEMENT

USAID can provide technical assistance (policy papers, analyses, draft secondary legislation) to both central government institutions (Ministry of Finance and Economy and Ministry of Local Government Administration) and local government (through the Association of Kosovo Municipalities) to further improve the mechanisms of intergovernmental fiscal relations. USAID can take an impartial role in this process, ensuring that both central government and municipal concerns are adequately reflected in legislation and enforced in practice.

Joint activities with the Ministry of Local Government Administration could include drafting secondary legislation, monitoring the implementation of local government reforms, developing a system for inter-ministerial coordination on local government policy issues; developing a full set of municipal management manuals related to the creation of pilot municipalities; facilitating the clarification and delineation of authorities, responsibilities, and resources between central and local government; promoting increased local autonomy in service delivery; supporting the development of clear, fair, and predictable intergovernmental fiscal relations; supporting efforts to increase own-source revenues, access to resources, and instituting local fiscal discipline; and exploring infrastructure finance policies.

Working with and through central institutions, assistance to municipalities could focus on municipal finance policies and practices, own-source revenue management, internal audits, capital investment planning tools, public procurement, local economic development, management and leadership, and analyzing and measuring service performance.

It will be a challenge to get officials to appreciate and value improved administrative and financial management, as opposed to viewing it as an irritant. Therefore, activities should demonstrate linkages with improved accountability, efficient use of funds, and increased citizen satisfaction. These examples and practices then can be disseminated through the partner institutions.

6.4 CITIZEN PARTICIPATION FOR EFFECTIVE AND ACCOUNTABLE LOCAL DECISION MAKING

In order to increase accountability and transparency, local governments need to build sustainable and institutionalized effective citizen participation mechanisms into all municipal systems and processes. USAID should look to promote participatory elements in all operations, such as budget and financial planning, capital investment planning, local economic development, and service delivery.

The focus should be on developing completely internalized mechanisms for active participation, as opposed to, for example, the current rules that require two mandatory public meetings per year, which may or may not be held, and even if they are, they are not connected to true decision making and are not institutionalized parts of the process. Working with local partners, USAID could promote, for example,

enhancement and dissemination of the municipal “one-stop shop” concept, institutionalization of municipal communication and media strategies, promotion of transparent procedures for municipal assemblies, improving effectiveness of municipal administration-municipal assembly relations, and mechanisms to enhance the accountability of municipal assemblies.

On a related point, the Assessment Team believes municipal assemblies will need as much if not more assistance than the municipal administration in the coming years. If they become popularly elected, they will have to know how to exercise their authority as a representative body, including, for example, review and monitoring of the budgeting process and oversight of procurement processes.

6.5 RESEARCH AND ANALYSIS

Several topics require research, analysis, and dissemination of results. The information is required to support improved and strengthened local government management. In all cases, USAID could provide grants, contracts, and support to promote these research topics, working with Kosovo government and non-government entities. Several of these topics and issues are already being supported, but USAID could look to broaden the approaches. For example:

- Support is needed for basic data collection, including, for example, surveys on public opinions of local assemblies, surveys on elected representatives (their backgrounds, voting records, etc.), and basic statistics on uses of public services and delivery thereof. Some data needs are being addressed. For example, the UNDP plans to update its 2003 Kosovo Mosaic Survey with a 2006 version, and plans are underway to conduct a new census. USAID could look for opportunities to complement efforts such as these and the OSCE municipal profiles especially by helping municipalities and supporting institutions to make good use of this information.
- USAID could look for opportunities to support improved transparency and information sharing via e-government. CDF has had some success in this area and there are good prospects for expanding these efforts because of Kosovo’s young population and good conductivity. One obvious task area would be to help all municipalities establish and use their Web sites.
- Though the concept of subsidiarity is respected by the European Charter and therefore by Kosovo’s enabling environment, there has not been a thorough exploration of what it means in practice in Kosovo. That is, when there are disputes, is it clear who decides which level of government is responsible for which service? Currently, several municipalities have expressed an interest in managing their own water services and other utilities, but several donors are supporting a more regional approach that would join several municipalities. In cases such as this, who makes the decision? Furthermore, are the decisions being made on the basis of cost-benefit, efficiency, and service delivery? Once analyzed, chances are that some services will best be completely decentralized down to the local level, and others will best be provided at a regional or central level. USAID could work with the MLGA, AKM, and private think tanks to support research, analysis, and results dissemination. The answers would have important budget, labor allocation, and capacity development implications.
- On a related note, USAID could serve as a facilitator between central (mainly KTA) and local (through AKM) authorities to address the issue of public utility and property management. Forms of assistance could include analytical papers, cost-benefit analyses of a particular public service, and discussion forums. Also USAID, primarily through the AKM, could support development of mechanisms whereby municipalities have a greater voice in KTA decision making for resource disposition, and utility service provision.
- USAID can support the ministry’s research and outreach efforts. MLGA will likely need to engage in public information campaigns devoted to the possibilities presented by the local government laws.

These campaigns would target citizens, administrators, and locally elected officials alike and would publicize the opportunities that municipalities and their citizens have for local decision making, and what citizens can expect and demand. The term “decentralization” has been subjected to a political definition that has been publicized and therefore currently defines the discussion. As status is clarified, there will be a need for public education to explain that the benefit of autonomous municipalities can accrue to everyone—not just to minorities.

6.6 DONOR COORDINATION

One area ripe for institutional support specifically for the MLGA is donor coordination. The field is manageable, but crowded. A non-exhaustive list of donors, in addition to USAID, active in the sector includes:

- OSCE municipal support teams;
- EAR municipal infrastructure support and support to the MLGA, AKM, and KIPA;
- UNMIK municipal advisors, and advisors to the MLGA;
- DFID assistance to KIPA;
- Swiss assistance to KIPA, and also village-level activities on citizen participation;
- GTZ water sector activities with the AKM;
- World Bank municipal business registration support and reconstruction of cadastral register; and
- UNDP local economic development strategies and municipal local economic development agencies.

One way to approach the issue might be to support the ministry’s efforts to coordinate its own support. This might include support for joint workshops bringing together donors, MLGA officials, and municipal officials.

6.7 LINKAGES

USAID’s successful local government programming throughout the region gives it a distinct comparative advantage. Many of the programs (e.g., Bulgaria and Romania) have taken just the institutional support approach that the Assessment Team recommends. For example, USAID played an integral part in developing local government associations. There is great opportunity to develop and utilize regional linkages in all program areas whether it is linking associations, bringing regional experts to Kosovo for conferences and consultations, or using participant training study tours. A linkage between a Kosovo local government program and the USAID program in Serbia would be especially critical for promoting the participation of Kosovo’s Serbian Kosovar majority municipalities.

APPENDICES

- Appendix 1 – Bibliography
- Appendix 2 – List of Meetings
- Appendix 3 – Team Work Plan/Calendar
- Appendix 4 – Scope of Work

APPENDIX 1 – BIBLIOGRAPHY

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APPENDIX 2 – LIST OF MEETINGS

USAID/Kosovo

David Leong	Deputy Mission Director
Michael Maturo	Democracy and Governance Office, Infrastructure Program Manager
Miles Toder	Director Democracy and Governance Office
S. Ken Yamashita	Mission Director

Kosova Democratic Institute

Kushtrim Kaloshi	Executive Director
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Local Government Initiative (USAID/K and RTI)

Lawrence Daum	Chief of Party
Roland Gjoni	Task One (Policy) Manager
Alan Packard	Decentralization Advisor (MLGA)

(Note: open meeting held with all regional staff on March 23)

Government of Kosovo Ministry of Local Government Administration

Lutfi Haziri	Minister
Besnik Osmani	Permanent Secretary

Kosovo Economic Development Initiative (USAID/K and Bearing Point)

Matthew Smith	Chief of Party
Douglas Todd	Economic Advisor (Prime Minister's Office)
Magda Tomczynska	Budget Advisor (Ministry of Finance)

Municipal Integration and Support Initiative (USAID/K and Mercy Corps)

Kristin Griffith Chief of Party and Mercy Corps Mission Director

Kosovo Civil Society Program (USAID/K and IREX)

Barbara Hall Chief of Party
Volton Karaxhiu Program Officer
Shqipe Pantina Senior Program Officer for Advocacy

Kosova Institute for Public Administration

Naim Rrustemi Chief Executive Officer

Community Development Fund

Linda Bunjaku Executive Director

Kosovo Cluster and Business Support (USAID/K and Chemonics)

Martin Wood Chief of Party

United Nations Mission in Kosovo

Andrea Lako Legal Advisor, MLGA
Narendra Mishra Municipal Advisor, MLGA
Kristin Wambold-Liebling Principal International Officer, MLGA

Kosovar Institute for Policy Research and Development

Iilir Dugolli Head of Special Research Projects
Leon Malazogu Research Director

Organization for Security and Cooperation in Europe

Eranda Aliu National Assistant Programme Officer, Democratisation Department
Edis Arifagic Program Officer, Local Governance Unit, Democratisation Department

Arian Dragacina National Assistant Programme Officer, Democratisation-Local Governance Reform and Municipal Assembly Unit

Wilma Theuws Deputy Director of Democratisation Department

European Agency for Reconstruction

Alan Brown Programme Manager/Infrastructure and Environment

Thilo Moeller Good Governance and Institution Building Unit

The World Bank

Shpend Ahmeti Operations Officer ECSPE

Neil Bush Strategy and Operations Officer

Vito Intini Project Officer Private Sector Development

Municipality of Zvecan

Dragisha Milovic President of the Municipal Assembly

Municipality of Vushtri

Muharem Shabani President of the Municipal Assembly

Municipality of Pristina

Ismet Beqiri President of the Municipal Assembly

Municipality of Gjakova

Robert Charmbury LGI Project Regional Municipal Advisor

Hajdar Grezda Chief Executive Officer

Zjia Rugova Vice President of the Municipal Assembly

Anton Shala Vice President of the Municipal Assembly

Aqif Shehu President of the Municipal Assembly

Municipality of Peje

Smaiyl Shala Vice President of the Municipal Assembly

Anthony Thomson UNMIK Municipal Representative, Peje

Association of Kosovo Municipalities

Ismet Beqiri President of the Association

Sazan Ibrahimimi Executive Director

ALARM (Civil Advocacy Organization in Gjakova)

Valon Rroci Executive Director

Erzen Vala Coordinator

APPENDIX 3 – TEAM WORK PLAN/CALENDAR

MARCH 20 Monday	MARCH 21 Tuesday	MARCH 22 Wednesday	MARCH 23 Thursday	MARCH 24 Friday	MARCH 24 & 25 Saturday & Sunday
USAID – Brief on local government activities	Kosovo Economic Development Initiative Project	Kosovo Institute for Public Administration	UNMIK (Ministry of Local Government Administration)	Kosovar Institute for Policy Research and Development	Research Assessment Team Meeting
USAID - Mission Director, Ken Yamashita	Municipal Infrastructure and Support Initiative	Community Development Fund	Local Government Initiative Project	OSCE Mission in Kosovo	
Kosovo Democratic Institute	Kosovo Civil Society Program	Kosovo Cluster and Business Support Project	Ministry of Local Government Administration		
MLGA Permanent Secretary, and Local Government Initiative Project					

MARCH 27 Monday	MARCH 28 Tuesday	MARCH 29 Wednesday	MARCH 30 Thursday	MARCH 31 Friday	APRIL 1 Saturday
European Agency for Reconstruction	Field Visit: Zvecan	Field Visit: Gjakova	Team Meeting (preparation for debriefing)	Debriefing with USAID	
The World Bank	Field Visit: Vushtri	Field Visit: Peje		departure	
Mid-Assessment Briefing with USAID	Association of Kosovo Municipalities, and Municipality of Pristina				

APPENDIX 4 – SCOPE OF WORK

Limited Scope Assessment of Local Governance in Kosovo

BACKGROUND

The USAID/Kosovo Mission has been providing assistance to Kosovo since 1999, with a specific program tailored to assist local government since 2004. The Mission is currently operating under a five-year strategy that will end in September 2008. Under this strategy the Mission has five strategic objectives:

- SO 1.2 Improved policy and institutional climate for productive investment
- SO 1.3 Accelerated Private Sector Growth
- SO 2.1 Civil Society and Government are More Effective Partners in Achieving Good Governance
- SO 2.2 More Open and Responsive Government Acting According to the Rule of Law
- SO 4.1 Social stabilization achieved through special initiatives (Special Objective)

During the summer of 2004, USAID began its Local Government Initiative (LGI). LGI had four specific tasks: Task 1—Improve the legislative framework for local governance and clarify roles and responsibilities; Task 2—Improve municipal management and leadership; Task 3—Improve transparency, accountability, and public participation; and Task 4—Foster local economic development (LED).

Progress made toward achievement of the four tasks, as well as the support of standards implementation and the dissemination of project activities to non-host municipalities, has been mixed. LGI has operated under the originally stated premises that each municipality should develop its own solutions to issues and that LGI operations should be demand driven, i.e., in response to municipal requests. In September 2005, USAID Kosovo Mission invited two governance advisors from USAID Washington to evaluate the progress of LGI. A copy of this report called Assessment and Recommendations for USAID/Kosovo's Local Government Reform Initiative will be available to the assessment team.

Kosovo is now entering the most dynamic phase of political developments. It is expected that during 2006, negotiations to resolve Kosovo's future status will be completed. Decentralization is expected to be one of the key negotiation issues with Serbia and international community. Unfortunately, from the very beginning of the discussion, the term "decentralization" was taken on by the various political groupings, each of them attributing a different political connotation to it. As to what extent the central level competencies will be devolved to the local level will depend on various political imperatives paired with capacities developed at the local level to date.

To date, the Ministry of Local Governance and Administration (MLGA) has established five working groups to work on issues of decentralization and to implement a pilot decentralization project in five municipalities based on an agreed policy paper between United Nation Mission in Kosovo (UNMIK) and Provisional Institutions of Self Governance. PISG and UNMIK have launched pilot decentralization in three municipalities, but the two remaining, with majority Serbian population refuse to participate declaring this project as unsatisfactory to Serbian minority needs. The purpose of this assessment is to provide specific guidance to USAID/Kosovo to help it determine whether it should continue its involvement in assisting local government in Kosovo, and if yes, to make recommendations as to the form that involvement should take in the future.

CURRENT MISSION INITIATIVES

The Mission currently supports the following activities that relate to development at the municipal level.

Activity Name: Local Government Initiative, LGI (Implementer: Research Triangle Institute - RTI)

Kosovo Local Governance Strengthening Program, which assists Kosovo in: 1) strengthening the legal and institutional framework of local governance; and 2) promoting good governance at the local level. It is a \$10.9 million, three year program which began in early 2004, to foster improved government and governance in municipalities. It is anticipated that the program will end in December 2006.

At the central level, USAID assists the recently established Ministry of Local Government and Administration in policy formulation and legislative drafting, in order to clarify and refine the roles and responsibilities of municipal governments throughout Kosovo to enable those governments to function effectively. These changes and reforms must then be conveyed in a clear manner to the municipal authorities themselves so that they are fully understood. On the local level, USAID has placed six international Resident Municipal Advisors (RMAs) in six different municipalities. RMAs live and work side-by-side with municipal authorities to develop capacity, establish systems, and provide on-the-job training while addressing real community problems on a demand-driven basis.

Activity Name: Kosovo Business Cluster Support (Implementer: Chemonics, Inc.)

The goal of KCBS is to stimulate economic growth and improve employment opportunities for Kosovar citizens. The project works in strengthening the competitiveness of private sector enterprises through training, technical assistance, and policy advocacy to mitigate detrimental legal and regulatory constraints to business growth.

KCBS will be implemented over four years and comprises two distinct but complementary components. The first component is directed toward developing and implementing a program to overcome factors known to be inhibiting economic growth and employment. USAID-financed advisors serve as facilitators in resolving government-placed constraints to business formation and development. Assistance is also provided to strengthen indigenous business associations, business service consultants, and business training providers so they can become established in the market, and therefore sustainable.

The second component is directed toward working with and providing assistance to specific economic groupings, or clusters, and the individual enterprises that make up clusters. Three clusters have been targeted: 1) Dairy, meat, poultry, and animal feed (the livestock cluster); 2) Fruits and vegetables; and 3) Construction materials. These clusters were chosen because there is a significant domestic demand for their products. USAID has worked successfully with farms and firms in these clusters and USAID has identified interest and potential leadership in the clusters.

Activity Name: Municipal Infrastructure Support Program (Implementer: Mercy Corps)

The goal of MISI is to enable municipalities to take a leading role in improving conditions for return and reintegration of internally displaced persons. MISI focuses on strengthening communication links between municipal officials and leaders of the minority and majority communities, as well as addressing priority municipal and community infrastructure and non-infrastructure barriers to returns and reintegration.

In order to ensure that the skills and knowledge gained by municipal officials through MISI are fully incorporated into the work of local governments and are therefore sustainable, Mercy Corps will focus on building solid relationships with a small group of municipalities. Throughout MISI these municipalities will work closely with the communities they represent in order to undertake initiatives to address infrastructure and non-infrastructure barriers. This will ensure that by the end of the program MISI's objectives are reached.

This program is being implemented in seven municipalities (Fushe Kosove/Kosovo Polje, Ferizaj/Uroševac, Kline/Klina, Obiliq/Obilić, Peje/Peć, Štrpce/Shtpce and Vushtri/Vučitrn). The strategy and implementation plan for the MISI Program will run until December 2007. Though an inclusive process, MISI brings together municipal authorities, Municipal Assembly and minority communities to strategically plan sustainable return.

Activity Name: Sustainable Economic Policy and Institutional Reform Support Program for Kosovo (Implementer: BearingPoint)

This Project promotes sound economic policies, legislation and systems that result in the enabling environment that is necessary for a market economy with the private sector as the engine of growth. While institutions, policies and a legal framework have largely been established, the next step in an on-going process is to strengthen Kosovar capacity to manage these institutions and enforce legislation.

The primary emphasis and key challenge of this project is capacity-building in institutions previously established and implementation of procedures and legislation to ensure that progress is sustainable. With a focus on providing Kosovars with the myriad of tools and training needed to manage their key economic and financial institutions, this Project I promotes a well-functioning, effective economic, institutional and legal framework that provides the incentive structure in which the private sector can expand and thrive. In respect to municipalities, the program contributes greatly to promoting the effective implementation of legislation regarding own source revenues and municipal finance in general.

Activity Name: Democratization through Legislative Politics (Implementer: NDI)

Building upon advances over the past six years, NDI pursues the following program components; political party development, legislative strengthening and legislative monitoring. The objectives of the activity are the following:

- Kosovo's Central Assembly develops mechanisms for internal management and reform.
- Kosovo's Central Assembly develops participatory methods of legislative review and monitors the government's implementation of laws.
- Key political parties develop platforms that are grounded in political ideologies, based on specific policy options and reflect the interests of their supporters, as determined by research and engagement with voters.
- Key political parties develop the capacity to train their headquarters and branch staff to develop and execute political campaigns that communicate their platforms and include effective direct contact with voters and constituents.

NDI program assists NGOs to use government monitoring and advocacy to ensure that governing bodies are more accountable to and representative of the electorate, especially at municipal level.

Activity Name: Kosovo Civil Society Program – KCSP (Implementer: IREX)

The KCSP aims to achieve the following results: 1) increase ownership among Kosovo’s NGOs over their own development and long-term sustainability, 2) increase civil society’s capacity to effectively advocate on behalf of Kosovo’s citizens; and 3) improve public perception of the NGO community and enhance legitimacy in the eyes of public.

To reach these aims, IREX partnered with the Foundation for Democratic Initiatives (FDI) and the Advocacy Training and Resource Center (ATRC) to strengthen the existing local capacity and support the further development of Kosovo’s civil society.

The KCSP follows the key concepts of: building partnerships; an integrated strategy for sustainability; ethical standards; and integration of conflict mitigation in all aspects of the program. IREX works with ATRC and FDI to strengthen their capacities to become a grant making organizations and NGO resource center, respectively, through the provision of technical assistance for capacity building and increasing financial sustainability and grant making.

ATRC will provide technical assistance NGOs and community activists and FDI will help to NGOs through grant fund mechanism.

Activity Name: Kosovo Independent Media (Implementer: IREX)

IREX provides technical assistance, training and sub-grants to develop the independent media in Kosovo. IREX also provides international media legal expertise to Kosovar institutions and a long-term team of print and broadcast specialists to help establish the following: (1) assure the business viability of targeted media outlets; (2) enhance the professionalism of media practitioners and improve the content of media broadcasts; (3) improve the legal, regulatory, and policy framework for media in Kosovo; and (4) improve the organizational capacity of media associations. The specialist teams consist of Kosovar and international experts, and an objective of the program is to transfer knowledge not only from international experts to Kosovars, but from Kosovars to Kosovars.

KMAP includes thirteen local TV and radio stations in their program primarily providing them with training to enhance professional skills and increase their business viability.

PURPOSE OF ASSESSMENT

The purpose of this assessment is to determine whether USAID/Kosovo should undertake another discrete program to strengthen municipal (local) governance, and if it recommended that it should, to provide specific guidance and recommendations to USAID/Kosovo for its development. The guidance and recommendations will be based on the team’s assessment of three aspects of local governance development in Kosovo: the policy and legal framework, municipal administration and their institutional capacity, and mechanisms of transparency and citizen participation. The team will also explore what other donors and the PISG are doing in the area of Local Government strengthening and if the PISG and municipal governments have a political will and capacity to absorb a technical assistance program.

There are several critical assumptions that the team needs to examine. First is the impact of a decisions being reached or not on the political decentralization in Kosovo on technical assistance needs by central and local government institutions. Second, that Kosovo would be entering its early or preliminary phase of the European integration process, preparing its legal and governmental framework for entering into stability and association agreements with Stability Pact sometime in the near future. And third, that

USAID can identify appropriate programmatic areas in which it has a comparative advantage as a donor, which are consistent with and advance the objectives and plans of Kosovar governing institutions, and which are complementary to other donor programs.

DETAILED STATEMENT OF WORK

- A. Review completed, ongoing and planned donor-financed programs implemented at the local and central levels dealing with local self-government.
- B. Review and assess Kosovo's overall progress and current status in the local governance context including, but not necessarily limited to, the following four areas.
 1. Policy and Legal Framework
 - Review policies, laws, and regulations in place, in process and those yet required related to decentralization of competencies and fiscal authorities. Specific attention should be focused on the decentralization policy papers and plans that are produced by different stakeholders.
 - Review respective roles/responsibilities of central authorities, and municipal authorities to determine appropriateness and to recommend any redistribution of responsibilities and an approximate timeframe.
 - Review and consider implementation of the above, progress that has been made, obstacles and current and future challenges.
 2. Municipal Administration and their Institutional Capacity
 - Review policies and procedures in place, in the process of development, and those yet required to assure responsible fiscal management, effective routine administration and service delivery, and an installed capacity for infrastructure planning and management
 - Examine and evaluate the effectiveness of any existing channels through which municipal and local authorities elicit citizen views, opinions and recommendations on public policy matters.
 - Review the roles and responsibilities of the following institutions to ascertain the current level of maturity, and to identify any additional institutional development measures required:
 - Municipal Councils and committees
 - Municipal CEO and Directorates
 - Local level political party organizations
 - Association of Kosovo Municipalities
 - Kosovo Institute for Public Administration (KIPA)
 - Sub-municipal structures
 - Review the draft decentralization plans and policy papers developed by PISG and shed light on the developments in this field. What are the goals and timeframe for these plans and how will they be implemented? Assess the local capacity to carry out the plan or plans.
 - Identify other local level institutions that are lacking in the Kosovo context (or that exist but require nurturing and assistance) and could make local governance more effective and efficient.
 3. Citizen Participation
 - Assess the level of transparency of local governments by looking at the practices of public procurement and citizen's participation in municipal decision.

- Assess the extent to which minority participation and benefits are being provided through governmental and non-governmental organizations.

C. During the conduct of the assessment:

1. Define any specific areas or issues that could pose a serious impediment to development of good governance at the municipal and local levels in Kosovo during the implementation of a new USAID funded local government program.
2. Highlight any particularly effective donor assistance that the team recommends USAID/Kosovo should encourage, complement, or expand upon.
3. To the extent that the team is able to make valid observations and recommendations, the team's review and recommendations should include cross-cutting themes of gender, youth, disenfranchised groups and poverty alleviation.
4. Consider whether assistance, or discrete components of assistance, might be provided for all municipalities or a subset of municipalities (e.g., geographic focus, concentrating on areas where good partnerships already exist). Suggest criteria that might be used.

DELIVERABLES

1. An outline of the assessment will be provided to USAID within three days of arrival in country.
2. A mid assessment briefing will be provided to USAID half way through the field work. This briefing will identify any issues the team has encountered in carrying out their work.
3. An exit briefing will be conducted by the team before their departure from Kosovo. A draft assessment report will be furnished to USAID two days prior to the exit briefing.
4. USAID will provide comments on the draft assessment not later than 10 working days after the exit conference.
5. A final report will be submitted to USAID not later than 10 working days after receiving USAID comments.
6. A final copy of the report will be submitted by the contractor to PPC/CDIE/DI.
7. Report should include an executive summary and not to exceed 30 pages: the complete report will be submitted in hard copy (three copies) as well as electronically in MS word format.

OTHER

A. Team Composition and Roles

The team will be composed of two senior experts with experience in local government development in transitioning countries. Experience in the Balkans would be especially valuable. The team leader has the ultimate responsibility for overall team coordination and development of the final report. The Team Leader is also responsible for ensuring that team members adequately understand their roles and responsibility and for assigning individual data/information collection and reporting responsibilities. Prior experience in conducting evaluations and assessments of development programs is essential for the assessment Team Leader.

USAID will add two additional people to the team: Kiril Kiryakov, Local Government Specialist from USAID Bulgaria and Tina Grazhdani, Media and Civil Society Specialist from USAID Kosovo.

B. Relationship to USAID/Kosovo Staff

- The Assessment Team Leader will report to Mike Maturo, Local Government Specialist, USAID/Kosovo.
- Sector assistance and participation (as requested) are available from Jeton Cana (Democracy), Peter Duffy (Economic Growth Office), and Urim Ahmeti (Program Office)

C. Logistical Support

USAID/Kosovo will provide in kind the following logistical support for the team:

- Office and meeting room space
- Vehicles for use in Pristina and in the municipalities
- Transport to and from the airport in Kosovo
- Translation services

D. Performance Period

It is anticipated that the team will spend 4 days of preparation work in the US, reviewing documents and becoming familiar with the sector, and 2 weeks of field work in Kosovo performing the assessment. Subsequent to the field work in Kosovo, it is anticipated that additional 5 days will be required to complete the final report. A six day workweek is authorized while performing the fieldwork in Kosovo.

The team members will initiate work in Kosovo on/about March 13, 2006. It is expected that the entire team will remain in Kosovo until on/about March 27, 2006. Additional work days are anticipated in order to complete the final report, which is due o/a April 3, 2006.

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