

LAW NO. 03/ L- 049

ON LOCAL GOVERNMENT FINANCE

Based on chapter IV article 65 item 1 and also Chapter X article 124 item 5 of the Constitution of Republic of Kosovo, recognizing the need to specify the financial resources available to municipalities in Kosovo, including municipal own source revenues, grants, and other sources of finance needed for the discharge of municipal competencies,

The Assembly of the Republic of Kosovo,

Hereby approves:

LAW ON LOCAL GOVERNMENT FINANCE

CONTENTS

PART I General Provisions

Article 1	Definitions
Article 2	Municipal Financial Autonomy
Article 3	Limitations on Municipal Financial Autonomy
Article 4	Own Competencies
Article 5	Delegated Competencies
Article 6	Enhanced Competencies

PART II Municipal Financial Resources

CHAPTER I General

Article 7	Municipal Financial Resources
Article 8	Categories of Own Source Revenues

CHAPTER II Municipal Taxes and Fees

Article 9	Immovable Property Tax
Article 10	Business License Fee
Article 11	Professional Business License Fee
Article 12	Motor Vehicle Fee
Article 13	Municipal Administrative Fees
Article 14	Permit Fees for the Construction and Demolition of Buildings and Other Structures
Article 15	Other Municipal Fees
Article 16	Fees for Issuing Certificates and Official Documents

CHAPTER III Charges, Rents, Fines and Co-Payments and Other Own Source Revenue

Article 17	Regulatory Charges for Infrastructure Development and Preservation
Article 18	Traffic Fines
Article 19	Fines for Offences against Municipal Regulations
Article 20	Rental Income
Article 21	Education and Health Co-Payments
Article 22	Other Own Source Revenues

PART III Operating and Equalization Grants

Article 23 Operating Grants
Article 24 General Grant
Article 25 Specific Grants for Education and Health

PART IV Other Grants and Transfers

Article 26 Transfers for Delegated Competencies
Article 27 Grants for Enhanced Competencies
Article 28 Spending Authority and Monitoring
Article 29 Extraordinary Grants

PART V Municipal Borrowing and Commitments

Article 30 Municipal Borrowing and Long Term Commitments

PART VI Institutional Provisions and Grants Commission

Article 31 Provisions Concerning Operating Grants
Article 32 Grants Commission: Membership, Organization, Meetings
Article 33 Grants Commission: Responsibilities

PART VII Transitional and Final Provisions

Article 34 Minimum Grants for FY 2009
Article 35 Use of New Population Data
Article 36 Implementation, Sub-normative Acts
Article 37 Entry into Force

**PART I
General Provisions**

**Article 1
Definitions**

1.1 For the purposes of interpreting and applying the present law, the following defined terms shall, whenever used in the present law, have the indicated meaning unless the context within which such term appears clearly intends another meaning:

-“**Appropriation**”- means the identification in an Appropriations Law adopted by the Assembly of Kosovo of the maximum amount that may be made available during a fiscal year for expenditure by a budget organization for a specified program or other expenditure category or for transfer by a budget organization to a public authority or public undertaking as a grant;

-“**Assembly**”- means the Assembly of the Republic of Kosovo;

-“**European Charter**”- means the European Charter of Local Self-Government, as adopted by the Council of Europe on the 15th of October 1985;

-“**Chief Financial Officer**”- or “CFO” shall have the meaning assigned thereto by the LPFMA;

-“**Delegated competencies**”- shall mean the areas of municipal competence specified in Article 18 of the LLSG;

-“**Enhanced competencies**”- shall mean the areas of municipal competence specified in Article 19 of the LLSG;

- “**Fee**”- shall mean a fixed amount paid for the receipt of a privilege, permission, document or professional service. Fees are charged for such things as a license, permit, document, specific service or other items that do not require substantial variations in the amount of effort, time or materials needed to satisfy the request;

-“**Fine**”- shall mean a payment required for violation of a municipal law, rule, or regulation. Generally, fines are used for punishment, and should be charged in accordance with fixed schedules for minor violations of municipal legislation;

-“**Fiscal year**”- shall mean the period from January 1 of a year to December 31 of the same year;

-“**FMC Rules**”- means Financial Management and Control Rules and shall have the meaning assigned thereto by the LPFMA;

-“**General Grant**”- shall mean an amount appropriated to a municipality that may be used by the municipality for any purpose relating to its competencies;

-“**Government**”- shall mean the Government of the Republic Kosovo;

-“**Grants Commission**”- shall have the meaning and functions as specified in Articles 33 and 32 of this Law;

-“**Kosovo Business Registry**”- means the Kosovo Registry for Business Organizations and Trade Names;

-“**Kosovo Consolidated Budget**”- or “KCB” means the overall budget of Kosovo for all budget organizations.

-“**Kosovo Consolidated Fund**”- or “KCF” shall mean the fund that was first established pursuant to UNMIK Regulation 1999/16, as amended, or the account or the consolidated group of accounts defined in the Treasury Accounting Record for the purposes of receiving deposits and making payments of public money and any interest accrued thereon;

-“**LPFMA**”- means the Law on Public Financial Management and Accountability;

-“**LLSG**”- means the Law on Local Self-Government;

-“**Local Self-Government**”- shall have the meaning assigned thereto by the LLSG;

-“**Mayor**”- shall have the meaning assigned thereto by the LLSG;

-“**MTEF**”- or “Medium Term Expenditure Framework” shall have the meaning assigned thereto by the LPFMA;

-“**Municipal Assembly**”- shall have the meaning assigned thereto by the LLSG;

-“**Municipal competencies**”- shall mean the areas of municipal competence specified in Article 16 of the LLSG;

-“**Own competencies**”- shall mean the areas of municipal competence specified in Article 17 of the LLSG;

-“**Municipal regulation**”- shall have the meaning assigned thereto by the LLSG;

-**“Municipality”**- shall have the meaning assigned thereto by the LLSG;

-**“Municipal property”**- means property, including immovable property, lawfully owned by or lawfully under the administration of a municipality;

-**“Official bank account”**- shall have the meaning assigned thereto by the LPFMA;

-**“Operating Grants”**- is a general term that means and includes a General Grant, a Specific Grant for Education and a Specific Grant for Health;

-**“Own source revenues”**- shall mean and include any item of public money that has been lawfully assessed and collected by a municipality from a source specified in Article 8 of this Law;

-**“Person”**- means a natural person or an undertaking;

-**“Public undertaking”**- shall have the meaning assigned thereto by the LPFMA;

-**“Rule of procedure”**- shall have the meaning assigned thereto by the LLSG;

-**“Specific Grant for Education”**- shall mean an amount appropriated to a municipality that may be used by the municipality only for education;

-**“Specific Grant for Health”**- shall mean an amount appropriated to a municipality that may be used by the municipality only for health;

-**“TSA” or “Treasury Single Account”**- shall have the meaning assigned thereto by the LPFMA;

-**“Undertaking”**- means any body, establishment, institution, association, enterprise, business organization, legal entity, or other organization; and

-**“UNMIK”**- means the United Nations Mission in Kosovo.

1.2 References in the present law to any other law or regulation shall be interpreted as including any amendments or successor legislation thereto.

Article 2 Municipal Financial Autonomy

2.1 Kosovo municipalities shall be entitled, within national economic policy and having due regard for the municipalities and the central government fiscal sustainability, to adequate financial resources of their own that they may dispose of freely in the discharge of their municipal competencies in accordance with the applicable laws of Kosovo.

2.2 Municipal financial resources shall be commensurate with municipal competencies provided for by the Constitution and the LLSG.

2.3 The concerned municipal assembly, and its executive officers, shall have the right and authority to autonomously regulate and manage, in the interest of the municipality's population, financial resources derived from the municipality's own source revenues or provided to the municipality under a General Grant.

Article 3 Limitations of Municipal Financial autonomy

With exception of a tax on immovable property within its borders, a municipality shall have no authority to, and shall not assess, levy or collect any other duties or taxes. This prohibition applies to, but is not

limited to, customs and other duties, taxes on the revenues of persons, value-added taxes, excise taxes, taxes on capital, and any charge having an equivalent effect as the aforementioned duties and taxes; provided, however, that this prohibition shall not apply where the municipality is fulfilling a function or responsibility that has been formally and lawfully delegated to it by the Government.

Article 4 Own Competencies

The principle of municipal financial autonomy shall be applied with respect to the financing and implementation of a municipality's own competencies; provided, however, that such financing and implementation must be done in the interest of the municipality's population, and in accordance with the standards and requirements applicable to such competencies established by law.

Article 5 Delegated Competencies

Where the Government delegates a competency to one or more municipalities, the concerned municipalities may, insofar as possible, adapt the exercise of such competency to local conditions. A municipality shall be required to provide services under a delegated competency on an open and equal basis. The Minister of Economy and Finance, the Government and the Assembly shall ensure that the KCB provides to a municipality the funds needed for the performance of a delegated competency; and such funds shall be provided at a level that is sufficient to cover the municipality's reasonable costs incurred in connection with such performance.

Article 6 Enhanced Competencies

Where a law assigns to a certain group of municipalities additional own competencies ("enhanced" own competencies), such additional competencies shall be treated in the same manner as other own competencies. The Minister of Economy and Finance, the Government and the Assembly shall ensure that the KCB provides to the concerned municipalities the funds needed for the performance of such competencies. If the enhanced competency involves the provision of a public service, the funding shall be sufficient to permit the municipality to provide it in accordance with minimum quality and quantity standards, as expressed by the standard rules of the central public authority having principal responsibility in Kosovo for the delivery of such service; and, such funds shall be provided at a level that is sufficient to cover the municipality's reasonable costs incurred with such performance.

PART II Municipal Financial Resources

CHAPTER I General

Article 7 Municipal Financial Resources

7.1 The financial resources of a municipality consist of its (i) own source revenues as specified in Article 8 of the present law, (ii) operating grants, (iii) grants for enhanced competencies, (iv) transfers for delegated competencies, (v) extraordinary grants, (vi) financial assistance from the Republic of Serbia, and (vii) proceeds from municipal borrowing.

7.2 Municipalities shall comply with the applicable provisions of the LPFMA when handling any such financial resources.

Article 8
Categories of Own Source Revenues

Any revenues collected or received by a municipality under the authority of a law from the following sources shall be such municipality's own source revenues:

- a) municipal taxes, fees, user charges, other payments for public services provided by the municipality, and regulatory charges and fines authorized by the present law;
- b) rents on immovable property situated in the municipality and under the administration or ownership of the municipality;
- c) revenues from the sale of municipal assets;
- d) revenues from undertakings wholly or partly owned by the municipality;
- e) co-payments from consumers of education and health services provided by the municipality;
- f) revenues collected by any agency, department or organization of the municipality as a result of the provision of any good or service;
- g) interest on municipal deposits, if any;
- h) grants and/or donations from foreign governments (except for financial assistance from the Republic of Serbia) or from foreign organizations, including governmental and non-governmental organizations and international and supranational institutions, and
- i) any other category of revenue that is designated as municipal own source revenue in a law of the Republic of Kosovo.

CHAPTER II
Municipal Taxes and Fees

Article 9
Immovable Property Tax

A municipality shall have the authority to collect a tax on immovable property located within its boundaries in accordance with and to the extent provided for in UNMIK Regulation 2003/29.

Article 10
Business License Fee

10.1 A municipality may, by municipal regulation, require business organizations that are currently registered with the Kosovo Business Registry to obtain a license to conduct business activity from premises located within the municipality (the "business license"). Licenses for business organizations providing professional services from premises located in the municipality shall be governed by Article 11 of this law, and not according to this Article.

10.2 A municipality may, by municipal regulation, also establish an annual fee that must be paid by registered business organizations to obtain or maintain such a business license. Such regulation may also establish a fee schedule that imposes different fees on different categories of business activities. Any such business license fee shall be assessed only on the basis of rules established by municipal regulation. The schedule and the rules shall not impose different fees on business organizations conducting the same or similar business activities.

10.3 The concerned municipal regulation may impose different business license fees on the basis of:

- a) the category of business activity, such as retail sales, food processing, handicraft, hotel and restaurant services, banking activities and financial services, insurance, and other business activities.
- b) the type of premises where the business activity is conducted, such as a shop, market stand, or kiosk.
- c) the sale of drinks containing alcohol.

10.4 The concerned municipal regulation may not impose different business license fees on the basis of any of the following:

- a) the number of employees in the concerned business organization;
- b) the volume of the business organization's business activity, whether determined by turnover, production, or any other similar indicator;
- c) the amount of space used by the business organization;
- d) the location of the business activities being conducted; and
- e) the income, profit or cash flow of the business organization.

10.5 A business license fee shall be assessed on each location where a business activity is conducted within the boundaries of the municipality. If a business organization conducts business activity in more than one location in the same municipality, a business license may be required for each location.

10.6 Municipalities shall require documentary evidence of the current registration of the business organization with the Kosovo Business Registry prior to granting such business organization a business license to conduct business activity within the municipality.

10.7 Municipal regulations shall require business licenses to be publicly displayed in the business location for which each such license has been issued.

10.8 A municipality shall not permit any person or undertaking that is not registered with the Kosovo Business Registry to conduct any business activities within the municipality, unless such person or undertaking can demonstrate that the Law on Business Organizations exempts them from such registration.

Article 11 Professional Business License Fee

11.1 A municipality may, by municipal regulation, require business organizations that are currently registered with the Kosovo Business Registry and that are providing professional services from premises located in the municipality to obtain a professional business license (the "professional business license").

11.2 A municipality may, by municipal regulation, also establish an annual fee that must be paid to obtain or maintain such a professional business license. Such regulation may also establish a fee schedule that imposes different fees on different categories of professional services. Any such professional business license fees shall be assessed only on the basis of rules established by municipal regulation.

11.3 A professional business license for professional work of accountants, lawyers, doctors, dentists and other professions shall be issued only after the applicant provides documentary evidence of licensure and/or official certification to practice in accordance with the applicable legal requirements established by or pursuant to the laws of the Republic of Kosovo.

11.4 The issuance of a professional business license by a municipality shall not be construed as indicating that the municipality has judged the fitness of the holder to practice that profession.

Article 12 Motor Vehicle Fee

12.1 A municipality shall have the right to require natural persons who are residents of such municipality and business organizations and other undertakings that have their Kosovo headquarters in such municipality to pay an annual motor vehicle fee (the motor vehicle fee) for each vehicle owned by such a resident, business organization or undertaking.

12.2 A municipality shall not assess the motor vehicle fee on vehicles owned by natural persons who are not residents of that municipality or on business organizations and undertakings that have their Kosovo headquarters in another municipality.

12.3 If a municipality decides to assess such a motor vehicle fee, the municipal assembly shall issue a regulation thereon. The motor vehicle fee shall be assessed based on the engine size of the motor vehicle and/or the general type of vehicle (motorcycle, passenger automobile, truck, or bus).

12.4 The municipal assembly may, by regulation, exempt or establish a reduced motor vehicle fee for vehicles used (i) for emergency services, (ii) for the transport of disabled persons, and (iii) for other significant social or public purposes.

Article 13 Municipal Administrative Fees

13.1 A municipality may, by regulation, establish a schedule of fees to be assessed for specific administrative services provided to persons by the municipality.

13.2 No such municipal administrative service fee shall be established at a level that exceeds the cost of providing the concerned service, including costs for labor, materials and equipment usage.

13.3 Municipal administrative fees shall be in addition to the other fees required for the issuance of licenses, permits, documents.

Article 14 Permit Fees for the Construction and Demolition of Buildings and Other Structures

14.1 A municipality may, by regulation, (i) require a person who desires to construct or demolish a building or other structure within the municipality to obtain a permit for such activity, and (ii) establish a fee schedule for such permits that imposes different fees on the basis of the surface area occupied or to be occupied by such building or structure.

14.2 The cost of any inspection or supervisory activities that the municipality is required by law or regulation to conduct with respect to construction or demolition activities may be charged as a fee for municipal administrative services under Article 13.

Article 15 Other Municipal Fees

Municipalities may regulate and levy charges on other activities, including the following:

- a) vehicle parking on municipal property, including pavements, sidewalks and streets;
- b) the use of municipal property for recreation, including camping;
- c) for hunting or fishing within the municipal boundaries and on municipal property;
- d) for marketing or exhibitions on municipal property;
- e) for ceremonies or functions performed by municipal officers, for example performing weddings;
- f) such other municipal fees shall be defined by municipal regulation.

Article 16 Fees for Issuing Certificates and Official Documents

16.1 A municipality may, by regulation, establish a schedule of fees to be assessed for the issuance of (i) certificates or other official documents such as wedding certificates, birth certificates, divorce certificates, certificates on the economic and social situation, and other similar certificates, and (ii) copies

of such certificates and other original documents, including copies of official documents that are required to be made publicly available under the laws of the Republic of Kosovo.

16.2 No such fee shall be established at a level that exceeds the cost of providing the concerned certificate or copy.

CHAPTER III Charges, Rents, Fines and Co-Payments and Other Own Source Revenue

Article 17 Regulatory Charges for Infrastructure Development and Preservation

17.1 A municipality may, by regulation, establish charges that are to be assessed to reimburse the municipality for the cost of establishing, improving, expanding or repairing municipal infrastructure if such action is made necessary as a direct consequence of (i) the construction of new buildings or (ii) the expansion or substantial rehabilitation of existing buildings.

17.2 If such construction, expansion or rehabilitation increases the number of dwelling units in the municipality, a municipality may, by regulation, establish charges that are to be assessed for the impact of the estimated population increase on the educational, healthcare and other municipal services provided by the municipality

Article 18 Traffic Fines

18.1 A municipality shall, by regulation, establish its traffic rules and establish fines for violations thereof. All traffic rules of a municipality shall be consistent with those established by the laws of the Republic of Kosovo.

18.2 Fines paid for traffic violations within the territory of a municipality shall be the municipality's own source revenue. Transfers shall be made in accordance with the LPFMA and shall include payments that are made through the Kosovo Police Service and the courts as a result of court decisions.

Article 19 Fines for Offences Against Municipal Regulations

19.1 Municipalities may impose fines and other measures for offences against municipal regulations approved by the municipal assembly. The specific amounts of fines and/or severity of other enforcement measures shall be commensurate with the importance of the offence, and shall include the legal, juridical and administrative expenditures necessary for collecting the fine and/or enforcing the measure.

19.2 A municipality shall, by regulation, also establish fines on private persons who obstruct or limit, or attempt to obstruct or limit, public access to municipal property through the unauthorized construction or placement of temporary or permanent barriers, obstacles or signs.

Article 20 Rental Income

20.1 Municipalities have the right to charge and collect rent for the use of municipal property by undertakings or natural persons.

20.2 The basis for the rental charge for using municipal property shall be the market rental value except as provided in paragraph 6 of this Article.

20.3 Rental charges for the use of municipal immovable property shall be the market rental price based on (i) the size of the building or land as measured in square meters or another measure of area, (ii) the location and type of the building or land, and (iii) the type of usage, whether it is for business, trade, residence, agriculture, or professional work.

20.4 Municipalities may charge and collect rent from business organizations that use municipal property to conduct their activities, including – but not limited to - kiosks, sales desks, and restaurants that are located on or that use sidewalks, pavements, roads, public easements, municipal land or other municipal property.

20.5 The rental charges shall not be determined on the basis of the revenues or turnover of the business organization using the municipal property.

20.6 Municipalities may charge and collect rent that is lower than the market rental value if the concerned use of the municipal property clearly serves a significant social or public purpose that has been identified as such in a regulation adopted by the municipality assembly.

Article 21 Education and Health Co-Payments

21.1 All co-payments, charges and fees for municipal health care services shall be treated as the municipality's own source revenues; provided, however, that these amounts shall also be the dedicated revenue of the concerned health care facility. The foregoing sentence shall apply notwithstanding any other provision of the present law governing the use of own source revenues. The handling, accounting, reporting, monitoring and verifications of these co-payments, fees and charges shall be done in accordance with the LPFMA.

21.2 All co-payments, charges, fees and tuition for municipal education services shall be treated as the municipality's own source revenues; provided, however, that these amounts shall also be the dedicated revenue of the concerned education facility. The foregoing sentence shall apply notwithstanding any other provision of the present law governing the use of own source revenues. The handling, accounting, reporting, monitoring and verifications of these co-payments, fees and charges shall be done in accordance with the LPFMA.

Article 22 Other Own Source Revenues

Own Source Revenues authorized by the present law shall not be comprehensive. Municipalities may levy and collect other revenue sources allowed within their responsibilities established by law or agreement with central authorities.

PART III Operating and Equalization Grants

Article 23 Operating Grants

Municipalities shall receive Operating Grants under the KCB. The Operating Grants shall be: (i) a General Grant, (ii) a Specific Grant for Education and (iii) a Specific Grant for Health. Grants shall be based on fair, transparent and objective criteria ensuring greater municipal autonomy in the allocation and expenditure of such grants.

Article 24 General Grant

24.1 Municipalities shall be entitled to receive a General Grant that they may use in the discharge of any of their municipal competencies in accordance with the applicable laws of Kosovo. The General Grant shall (i) provide for a reasonable degree of stability in municipal income, (ii) provide for an appropriate measure of equalization between municipalities, (iii) take into account the respective ability of the inhabitants of each municipality to access public services, and (iv) provide an adequate allocation of resources for the non-majority communities in the respective municipalities.

24.2 The amount of the General Grant shall be ten percent (10%) of budgeted central government total revenues, excluding (i) revenue from the sale of assets, (ii) other extraordinary revenue, (iii) dedicated revenue and (iv) proceeds from borrowing.

24.3 To equalize for the low own-source revenue capacity of the smaller municipalities, from the total of the General Grant, each municipality shall receive a lump-sum amount of €140,000 per year less €1 for each member of the population, or €0 for municipalities with populations equal to or greater than 140,000.

24.4 The remainder of the General Grant shall be allocated among municipalities in proportion to: (i) the size of their total population, (ii) the size of their minority population, (iii) whether a majority of their population is composed of national minorities; and (iv) the size of their physical area.

24.5 Population shall be weighted at eighty-nine percent (89%); the size of their minority population at three percent (3%); municipalities with a majority of their population composed of national minorities at two percent (2%); and the size of their physical area at six percent (6%).

24.6 The population, area size, and minority data used to calculate weights are included in Annex 1 to this Law.

Article 25 Specific Grants for Education and Health

25.1 Municipalities shall receive a Specific Grant for Education and a Specific Grant for Health. The determination of the amount of such grants shall be based on an open-ended funding approach.

25.2 The Specific Grant for education shall finance the cost of providing a minimum standard level of pre-primary, primary and secondary education.

25.3 The Specific Grant for health shall finance the cost of providing a minimum standard level of public primary healthcare.

25.4 The Specific Grant for education shall be defined and allocated to municipalities according to the allocation formula established by the Grants Commission; and such formula shall be based on student enrollment and standards supplied by the Ministry of Education, Science, and Technology. The formula shall principally be based on the normalized number of teachers and effective enrollment. It shall also take into account the national curriculum, special needs education, non-wage operating expenses, class size norms and location. Minority students shall be given higher weights.

25.5 The Specific Grant for health shall be defined and allocated to municipalities according to the allocation formula established by the Grants Commission; and such formula shall be based on the normalized population and standards established by the Ministry of Health. Normalization shall consider the age and gender distribution of the population registered with primary health care providers, and the number of elderly persons and of persons needing special health care.

PART IV

Other Grants and Transfers

Article 26 Transfers for Delegated Competencies

Where Government competencies are delegated to municipalities, the concerned municipalities shall receive financing from the KCB for performing those functions through budget transfers from the relevant ministries. This financing shall be in addition to funds provided under Operating Grants and shall comply with the requirements of Article 5 of this Law.

Article 27 Grants for Enhanced Competencies

Where municipalities own competencies are enhanced according to law, the concerned municipalities shall receive grants from the KCB to finance the performance of such enhanced competencies. These grants shall be in addition to the Operating Grants and shall comply with the requirements of Article 6 of this Law. The municipality shall be required to spend such a grant only on matters that are clearly and directly connected to the enhanced competencies.

Article 28 Spending Authority and Monitoring

28.1 The spending authority for transfers for delegated competencies, and for grants for enhanced competencies, shall be with the receiving municipality, which shall be required to comply with the applicable provisions of the LPFMA when exercising that authority.

28.2 Ministries responsible for the subject matter of delegated and enhanced competencies shall monitor and ensure that (i) such competencies have been executed in compliance with applicable laws, sub-normative acts and standards, and (ii) the measures taken by municipality in the implementation of such competencies are appropriate. Such ministries shall annually provide a monitoring report to the Ministry of Economy and Finance and the Ministry of Local Government Administration on these matters.

Article 29 Extraordinary Grants

In the event that a natural disaster or an act of civil insurrection, war or terrorism seriously affects a municipality, the Government may provide an extraordinary grant to such municipality to relieve the some or all burden of such event on its municipal budget.

PART V Municipal Borrowing and Commitments

Article 30 Municipal Borrowing and Long Term Commitments

30.1 Until legislation on national borrowing and debt is enacted, municipalities' borrowing will be regulated by this Article.

30.2 Municipalities shall have access to debt financing for capital investments under conditions specified in this Article.

30.3 The Minister of Economy and Finance may authorize municipal borrowing upon submission of by the mayor of a written request that has been approved by the municipal assembly. The request shall include provisions addressing the following conditions:

- a) that international debt is not contracted;
- b) borrowing shall only be allowed from the national capital market and without exposure to foreign exchange risk;
- c) the proceeds from borrowing shall be used for specific capital investment projects that are set out in the MTEF and authorized in the KCB;
- d) the proposed capital investment project shall have passed a successful review of the capital investment and financial plans by the Grants Commission;
- e) the proposed terms and conditions of the borrowing shall have been reviewed and approved as being in compliance with market conditions by the Ministry of Economy and Finance;
- f) so-called "grace periods" in loan arrangement, whereby debt service is suspended or alleviated for an initial period, shall be prohibited;
- g) any proposed borrowing shall be fully collateralized by immovable property owned by the municipality. The immovable property to be used as collateral shall be owned by the municipality free and clear of any other ownership claims or encumbrances;
- h) the assessed valuation of the immovable property to be pledged as collateral as described in item (g) above shall have been approved by the Ministry of Economy and Finance;
- i) the total annual debt service, consisting of all interest and principal payments, on the municipality's outstanding debt and which shall include the amount of the proposed new loan, shall not exceed fifteen percent (15%) of the total of the municipalities' own source revenues as of the past fiscal year;
- j) the total amount of the municipality's debt outstanding, inclusive of the proposed borrowing, shall not exceed fifty percent (50%) of the municipalities' own source revenue as of the past fiscal year; and
- k) after the municipality has entered into the borrowing, copies of all documents shall be submitted to the Minister of Economy and Finance.

30.4 The Government, upon the proposal of the Minister of Economy and Finance, shall be empowered to suspend the application of paragraph 1 of this Article in view of macroeconomic considerations for a period not to exceed four years.

30.5 Leasing contracts and all similar financial arrangements that provide for installment payments over a period of time shall require the prior authorization of the Minister of Economy and Finance. The annual costs of these financial arrangements shall be treated as debt and be specifically subject to the limitations contained in paragraph 1 of this Article and treated as debt service for the purposes of items (i) and (j) of that Article.

30.6 The restrictions on the making of grants, gifts, donations or subsidies to any person or undertaking in the LPFMA shall apply to municipalities.

PART VI

Institutional Provisions and Grants Commission

Article 31

Provisions Concerning Operating Grants

31.1 When preparing a proposed annual Appropriations Law for an upcoming fiscal year, the Minister of Economy and Finance shall include in the proposed appropriations for municipalities amounts that are recommended to be appropriated to municipalities as Operating Grants. In proposing the amount of such grants, the Minister shall utilize the formulae provided by this law.

31.2 A general grant may be used by the municipality for any purpose that is directly related to the exercise by the municipality of any of its own competencies. Notwithstanding the foregoing, the Minister may, with the approval of the Government, promulgate general guidelines for current and capital expenditures that municipalities shall be required to comply with.

31.3 If the Ministry of Economy and Finance's final reconciliation of a budget for a fiscal year shows that actual revenues exceeded budgeted revenues by more than five percent (5%), then the amount of

such excess revenues shall be apportioned to the municipalities in the same manner as provided in paragraph 2, Article 24 of this Law. The Minister of Economy and Finance shall then (i) adjust the then current year General Grant levels for each municipality in accordance with the formulae established in paragraph 5, Article 24 of this Law, and (ii) initiate the normal budgeting and appropriations process therefore in accordance with the LPFMA.

Article 32

Grants Commission: Membership, Organization, Meetings

32.1 There shall be established, under the authority of the present law, a Grants Commission composed of the following members: (i) the Prime Minister or his representative, (ii) the Minister of Finance and Economy, (iii) the Minister of Local Government, (iv) another Minister appointed by the Government, (v) the Chairman of the Budget Committee of the Assembly, and (vi) four mayors, one of whom shall be a mayor of a minority municipality. The mayors shall be selected by lottery as provided for in paragraph 2 of this Article.

32.2 The selection of the mayors shall be done by two separate lotteries, which shall be conducted annually by the Grants Commission at an open meeting. Except as provided in paragraph 3 of this Article, the Grants Commission shall conduct such lotteries at its last meeting in each calendar year. Only the names of majority municipalities shall be included in one lottery and only the names of minority municipalities shall be included in the other. The names of three municipalities shall be chosen in the first lottery and the name of one municipality shall be chosen in the second. The names of municipalities that are then represented on the Grants Commission shall not be included in any lottery for the selection of mayors who will serve on the Grants Commission during the next year. The mayors of the chosen municipalities shall serve on the Grants Commission during the next calendar year.

32.3 The mandate of the Grants Commission that is in place at the time this law is promulgated shall expire at midnight on the 30th calendar day after such promulgation. During such 30 day period, that Grants Commission shall conduct the lotteries required by paragraph 2 of this Article, at an open meeting, to choose the mayors who will sit on the new Grants Commission. If the current Grants Commission fails to conduct such lotteries within the 30 day period, the Government shall immediately conduct such lotteries. The mayors of the municipalities chosen in such lotteries shall serve on the Grants Commission only until the end of the calendar year in which they were chosen. Their successors shall then be chosen as provided in paragraph 2 of this Article.

32.4 The Grants Commission shall hold regular meetings, to be called by the Minister of Finance and Economy, at least once every calendar quarter. Any two members may jointly call other meetings, provided that any such non-regular meeting shall be called and noticed at least seven days before it is to be held. A meeting of the Grants Commission may only be validly convened or continued only if six or more members are present and the Minister of Economy and Finance or the Prime Minister is among the members present. The Prime Minister, if personally present, shall chair a meeting of the Grants Commission, if not, the Minister of Economy and Finance shall chair the meeting.

32.5 The Minister of Economy and Finance shall provide a permanent secretariat to support the Grants Commission. Funds necessary for the work of the Grants Commission shall be provided from the budget of the Ministry of Economy and Finance. The Ministry of Economy and Finance shall perform, or arrange for the performance of, any expert and/or administrative-technical operations or analyses reasonably needed by the Grants Commission.

32.6 A quorum of at least six members shall be required for any matter to be put to a vote. If the Grants Commission cannot reach a decision on a particular matter by a majority vote, the matter shall be decided by the Prime Minister or – if the Prime Minister is not personally present at the concerned meeting – the Minister of Economy and Finance.

32.7 All decisions and recommendations adopted by the Grants Commission shall be published on the Ministry of Economy and Finance's web-site. The Grants Commission may, however, agree, by majority vote, to conduct discussions about a specific matter in private.

Article 33
Grants Commission: Responsibilities

The Grants Commission established by the present law shall be responsible for:

- a) reviewing the grant allocation formulae in this law after 2 years following promulgation and at least every 3 years thereafter, and recommending proposed amendments to such formulae to the Government, who shall forward the Commission recommendations to the Assembly along with the Governments concurrence or why they recommend rejection;
- b) annually establishing allocation formulae for the Specific Grant for Education and the Specific Grant for Health in accordance with the principles laid down in Article 25 of this Law;
- c) preparing and submitting to the Government by March 31 of each calendar year a report for the previous calendar year assessing the adequacy of the financing system;
- d) reviewing appeals by municipalities regarding the application of such formulae, including financing for delegated and enhanced competencies, and recommending to the Government proposed actions with respect thereto;
- e) making recommendations for the allocation of additional amounts to those municipalities that have been assigned enhanced municipal competencies according to Articles 19 through 22 of the Law on Local Self-Government to ensure the ability of such municipalities to adequately perform such enhanced competencies;
- f) monitoring the implementation of the Article 34 of this law and make appropriate recommendations to achieve its goal;
- g) monitoring the adoption of post-census population data and the implementation of the hold harmless clause according to Article 35 of this law, and make appropriate recommendations to achieve its goal;
- h) reviewing proposed budgeted capital expenditures for municipalities by Government of Kosovo budget organizations, which shall be submitted to it by the Minister of Finance and Economy, and providing recommendations to the Government with respect thereto;
- i) reviewing requests by municipalities for additional funding to address exceptional needs, and recommending to the Government proposed actions with respect thereto, and
- j) supporting the Ministry of Finance and Economy and the Minister of Local Government Administration and other public authorities in securing the implementation of this law.

PART VII
Transitional and Final Provisions

Article 34
Minimum Grants for FY 2009

If in the first year of implementation of the grant system provided for in the present law, the overall amount of the Operating Grants for a municipality, as calculated in accordance with the present law, is less than the amount of the prior year's overall grants, the total amount of such Operating Grants shall, only for the concerned municipality and only for the first implementation year, be equal to the total amount of all grants received by that municipality in such prior fiscal year.

Article 35
Use of New Population Data

35.1 The Government, upon a recommendation from the Minister of Economy and Finance and the Minister of Local Government Administration, and with the consent of the ICR, may, during calendar year 2008, modify Annex 1 as needed to incorporate new or changed population information.

35.2 Thereafter, if data resulting from a new population census makes it necessary, the Government shall amend Annex 1 to incorporate the data resulting from such census. If a budget development cycle has commenced and thereafter new official census data is published, the Minister of Economy and Finance may, but shall not be required to, take into consideration such data during that budget development cycle.

35.3 If the use of new census data would cause the amount of an Operating Grant for a specific municipality to decrease from the prior year's amount for such grant, the amount of such grant shall, only for the concerned municipality and only for one fiscal year, be equal to that received in the prior fiscal year. The cost of compliance with this Article shall be paid out of additional funds from the KCB and not out of any amounts needed to fund the Operating Grants.

Article 36 Implementation, Sub-normative Acts

The Ministry of Economy and Finance, in consultation with the Ministry of Local Government Administration and other Ministries as needed, may issue sub-normative acts required to effectively implement this law.

Article 37 Entry into Force

37.1 This law shall enter into force after its adoption by the Assembly of Kosovo and upon publication in the Official Gazette of the Republic of Kosovo.

37.2 This Law shall enter into force fifteen (15) days after its publication in the Official Gazette of Republic of Kosova.

Adopted by the Assembly of the Republic of Kosova

Date: 13.03. 2008

Annex I: Data used for allocating the General Grant

	Population	Area size (sqkm)	Minority communities In Municipality	Minority Municipalities in Kosovo
1 Deçan	40,400	297	294	
2 Dragash	35,000	430	12,935	
3 Ferizaj	111,000	345	3,367	
4 Fushë Kosovë	33,682	83	3,730	
5 Gjakovë	115,000	587	6,013	
6 Gjilan	100,348	392	4,058	
7 Illogovc	60,000	276	0	
8 Hani I Elezi (Kacanik)	10,000	83	0	
9 Istog	44,000	454	2,646	
10 Junik (Decan)	9,600	74	0	
11 Kaçanik	33,000	211	4	
12 Kamenica	49,581	424	4,670	

13 Klinë	44,000	309	1,863	
14 Leposaviq	19,000	539	510	19,000
15 Lipjan	69,115	338	4,952	
16 Malishevë	52,000	306	28	
17 Mamusha (Prizren)	6,000	32	0	6,000
18 Mitrovicë (South)	90,000	331	0	
19 Novo Bërdë	9,899	204	2,785	9,899
20 Obiliq	26,000	105	3,360	
21 Pejë	115,000	603	12,650	
22 Podujevë	117,000	633	735	
23 Prishtinë	388,561	514	4,961	
24 Prizren	214,963	603	30,077	
25 Rahovec	63,000	278	1,953	
26 Shtërpcë	11,000	248	3,438	11,000
27 Shtime	28,000	134	560	
28 Skenderaj	56,000	374	366	
29 Suharekë	80,000	361	471	
30 Viti	46,458	270	293	
31 Vushtrri	75,000	345	2,615	
32 Zubin Potok	15,000	333	800	15,000
33 Zveçan	16,000	123	600	16,000
34 Gracanica	18,642	131	2,670	18,642
35 Klokot	4,542	23	1,205	4,542
36 North Mitrovica	20,000	5	1,990	20,000
37 Partesh	5,217	29	0	5,217
38 Ranilug	4,955	69	0	4,955
Total	2,236,000	10,901	116,599	130,255