

ANNEX 2

to the Commission Implementing Decision on the financing of the annual action plan in favour of Kosovo* for 2021

Action Document for “EU for Better Municipal Governance”**1. SYNOPSIS**

1.1. Action Summary Table

Title	Action 02. EU for Better Municipal Governance IPA III Annual Action Plan in favour of Kosovo* for 2021			
CRIS number	043-659/2			
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)			
Team Europe Initiative	Yes, the action will be implemented in cooperation with Swedish International Development Cooperation Agency, (SIDA), Sweden			
Zone benefiting from the action	The action shall be carried out in Kosovo			
Programming document	IPA III Programming Framework			
PRIORITY AREAS AND SECTOR INFORMATION				
Window and thematic priority	Window 2 – Good governance, <i>acquis</i> alignment, good neighbourly relations, and strategic communication Thematic Priority 1: Good governance Thematic Priority 2: Administrative capacity and <i>acquis</i> alignment			
Sustainable Development Goals (SDGs)	Main SDG (1 only): SDG Goal 16: Peace, Justice, and Strong Institutions			
DAC code(s)	151 - Government 15111 - Public finance management– 100%			
Main Delivery Channel	Main channel: 12000 – Recipient government			
Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence

	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, newborn and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal markers	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
Amounts concerned	<p>Budget line: 15.020101.01</p> <p>Total estimated cost: EUR 33 000 000</p> <p>Total amount of EU budget contribution: EUR 15 000 000</p> <p>This action is co-financed in parallel co-financing by:</p> <ul style="list-style-type: none"> - Swedish International Development Cooperation Agency (SIDA) for an amount of EUR 3 000 000 <p>This action is co-financed in parallel co-financing by:</p> <ul style="list-style-type: none"> - Government of Kosovo for an amount of EUR 15 000 000 			
MANAGEMENT AND IMPLEMENTATION				
Type of financing and method(s) of implementation	<p>Project Modality</p> <p>Indirect management with Swedish International Development Cooperation Agency (SIDA)</p>			
Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans	<p>Priorities: Governance, Rule of Law, PAR</p>			

[only for the Western Balkans]	
Final Date for conclusion of Financing Agreement	At the latest by 31 December N+1
Final date for concluding contribution / delegation agreements, procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation
Indicative operational implementation period	72 months following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	12 years following the conclusion of the Financing Agreement

1.2. Summary of the Action

This action will provide additional funding to municipalities through **the Municipal Performance Grant** with the aim to support reforms to local government and increase revenue mobilisation at the local level in order to improve service delivery. The Municipal Performance Grant is a scheme established and co-financed by the Ministry of Local Government Administration and the Swiss Agency for Development and Cooperation. Sweden and Norway co-finance the scheme since 2019.

The overall goal is to incentivise municipalities to further improve their performance in democratic governance, municipal management and municipal service delivery. All 38 municipalities of Kosovo are eligible to participate in the scheme, provided that they fulfil minimum conditions to get a grant. The size of the grant is determined by the score of a municipality on 30 performance indicators. Municipalities can use the grants for capital investments only. The action also aim at supporting local governance reforms, such as reform of municipal financing and better revenue mobilisation.

2. RATIONALE

2.1. Context Analysis

Local and regional governance are critical in the cohesion policy context (i.e. for chapter 22 negotiations), as regional and local governments are closest to the citizens and play a key role in providing public services as well as in building citizens' trust in their state institutions. Local governments also play a key role in the management of EU funds and the implementation of a large part of the *acquis* upon accession, including in areas such as: public procurement, internal control, competition, state aid, communal services, rural development, employment and social policy, energy efficiency and environment/water and waste management.

Kosovo governmental administration has two layers: the central government and 38 local governments. Compared to other IPA Beneficiaries the legal framework for local governments in Kosovo gives municipalities a considerable autonomy in decision-making and financial management. This decentralisation derives from the Ahtisaari Plan on which the Kosovo Constitution is based. The 38 local governments are subject to three systemic laws: the Law on local self-government, the Law on local government finance and the Law on administrative municipal boundaries. The Law on local self-government determines - among other things - the own, shared and enhanced competences of municipalities and the powers of the municipal executive and the legislative branch. The Law on local government finance determines the calculation of the general grant, the own source revenues, the

education and health grant and the framework procedures for municipal financial management. The Law on municipal administrative boundaries determines the borders of municipalities.

The central government cannot interfere in local government decision-making. Financially they are completely dependent on the central government, as they have very low levels of own source revenues. They receive earmarked grants to finance different services, have some own source revenues potential (although municipalities in Kosovo do not get a share of the value added taxes like in North Macedonia or personal income tax like in Serbia) and have freedom to decide on capital investments and recurrent costs. However, implementation of this framework faces serious challenges. Gender-responsive budgeting is required by the Law on Gender Equality, but remains weak. Roma Responsive Budgeting also remains weak, despite commitments reflected in the Poznan Declaration.

During the COVID-19 period the regular transfers from the government to municipalities have not changed. However, the municipal income has decreased, including the transfers from line ministries and own source revenues. The financing for municipal authorities is currently under review, although no major changes are foreseen in this regard.

The Municipal Performance Grant is currently implemented by the Ministry of Local Government Administration and Helvetas Swiss Intercooperation through the Swiss Agency for Development and Cooperation project *Decentralization and Municipal Support (DEMOS)*.

2.2. Problem analysis by areas of support

There are two areas of support for this action:

1. Municipal performance grant scheme
2. Property tax

Problem analysis for municipal performance grant scheme

Kosovo municipal governance faces a number of challenges related to a citizen- and results-oriented approach. Shortcomings include a lack of focus on citizen satisfaction and an inadequate provision of public services. The systemic limitations in financial autonomy of local governments (i.e. central government ceilings in budget planning and approval for staffing, etc.) contribute to limiting the options for the local executive to manage its resources in a more effective and efficient manner.

Local governance should be strengthened by: improving democratic governance, municipal management and public service delivery, while the management of municipal financial and human resources needs to be improved, i.a. through appropriate involvement of municipal structures in the planning and the execution of public investments.

The public sector, including municipalities, is the biggest employer in Kosovo. In the context of high unemployment, job opportunities in central and local government are often tied to the political leaders of the relevant institutions. Local politicians are not sufficiently accountable to inhabitants. Year 2021 will mark the end of the mandate of the current mayors and new local elections take place. The result of the last central and local elections confirmed a trend that started with the local elections in 2013: voters increasingly punish parties in government that are not able to improve the dire situation of its economy and important government services (like health and education). While this is positive in the democratic development of Kosovo, the downside is that it increases political instability and often changes the entire municipal management (mayor and directors).

Problem analysis for property tax

The principle of gratuity as part of the Law on General Administrative Procedures and the central government's initiative to reduce the administrative burdens for businesses and people will reduce municipal own source revenues in the coming years. Therefore, there is a need to also focus on increasing revenue mobilisation at the local level, for example by increasing the collection of property taxes, which is only collected to 40% at the moment.

Stakeholder analysis for both areas of support

The EU is the main supporter of public administration reform, including public finance management reforms, in Kosovo. A large part of the public services are provided by the municipalities and for these services to be improved increased focus on the local governance structures is required. The EU funds will significantly increase the leverage of the Municipal Performance Grant scheme to influence institutional behaviour at the local levels.

The Ministry of Local Government Administration is responsible for policy regulation and harmonisation related to local governance. In addition, it is the main supervising central authority for the local governance. As such, the Ministry is also mandated to promote performance improvements by municipalities, which is exercised through the *Municipal Performance Management System*.

The Ministry of Finance regulates the intergovernmental fiscal transfer system. The Ministry is also responsible for a number of property tax related issues such as property valuation, development and management of a unified Property Tax Electronic System, as well as for monitoring and guiding municipal property tax offices in implementation of the Law on Property Tax. The Ministry of Finance also chairs the Grants Commission for municipal grants, making it an important actor and partner in promoting and striving to add performance-based elements into the intergovernmental fiscal architecture. It is also part of the management structures of the Municipal Performance Grant.

Drivers of change at the municipal level will be mayors that are supported by a solid majority coalition in the municipal assemblies. Politically appointed directors and municipal administration are key in the implementation of legislation and enforcing good governance. Gender Equality Officers in the Ministry of Local Government Administration, the Ministry of Finance and municipalities are also important stakeholders.

The DEMOS project offers technical assistance to municipal staff that empowers them to deliver better results in addition to managing the Municipal Performance Grant. Phase II of DEMOS will end on 31 December 2021. A third phase is envisaged to start on 1 January 2022 and run until 31 December 2025.

2.3. Relevance and complementarity with strategies supported by key stakeholders

The overall objective of the action is to increase women's and men's satisfaction with municipal services delivered, based on their diverse needs and priorities. The specific objectives are to improve municipal governance, management and service delivery, by increasingly involving both women and men in decision-making, acting more transparently and inclusive of marginalised groups, including Roma, Ashkali applying sound human and financial management practices and finally to establish long term on-system incentives for all municipalities in Kosovo using clear, merit-based, equal, transparent and objective criteria, which will stimulate them to further improve their performance.

To address the identified challenges more effectively, the Municipal Performance Grant focuses on governance by rewarding good performance. The whole cycle, from data generation, assessment, allocation and management of funds to finally reporting and auditing, is integrated into the government systems while monitored by the experts of the DEMOS project. However, further efforts are required to ensure that the system is fully part of the Kosovo systems, as the donor and government funds are still disbursed from different accounts. Increased revenues at the local level, especially through property taxes, could provide a reliable revenue stream that could enable the municipalities to more independently plan investments and services for their citizens.

The data from the scheme of the recent years indicate that there is an improvement in governance and municipal services. The overall average performance of municipalities in the Municipal Performance Grant during 2018 was 59%¹, compared to 43% in 2016. It is expected that improvements on the indicators, mainly focusing on governance aspects, also translate into better average performance of municipalities in other key municipal services. The average performance of municipalities on these other services is 60% in 2019².

¹ This is the average performance of municipalities in 30 indicators of MPG in three themes: local democratic governance; municipal management and transparency and integrity.

² This is the average performance of municipalities in key municipal services (waste management, road infrastructure, administrative services, etc.) and the figures comes from the Municipal Performance System of MLG and not directly from the MPG.

Complementarity with government strategies

The action will implement **the National Development Strategy**, Road Map 2016-2021, in an overarching way, improving public service delivery at the local level with regard to all the four pillars of the strategy (Human Capital, Governance and Rule of Law, Businesses and Infrastructure). The action is also in line with **the Kosovo Programme for Gender Equality 2020-2024**, Specific Objective 3.2 “Increasing equal participation and representation in the decision-making process in line with the requirements of the Law on Gender Equality”. In particular this action will support the objectives in **the Strategy on Local Self-Government (2016-2026)**. Its five objectives are: 1) strengthening the role of municipalities as key actors in local economic development; 2) good governance and municipal efficiency; 3) institutional and professional capacity building; 4) increased partnerships between municipalities, businesses and civil society organisations and other stakeholders to ensure social cohesion and active citizenship, and 5) promotion of the use of natural, cultural and social heritage, as a tool for economic and social development. The **Strategy for Inclusion of Roma and Ashkali Communities in the Kosovo Society 2017-2021** is relevant in terms of public budgeting related to Roma integration.

2.4. Relevance and complementarity with EU policy and EU and other donors’ assistance

The action will address thematic priority 1: Good governance and thematic priority 2: Administrative capacity of the IPA III programming framework. Through increasing the budget leverage of the municipal performance grant, the action will further encourage municipalities to increase the level of performance in governance standards and improve services, which are key factors when it comes to implementing the *rule of law and public administration reform* agenda, which are fundamental for Kosovo’s European path. Administrative capacity will be built through the technical assistance part of the DEMOS project. This component is also in line with the European Economic Investment plan which emphasises that building high quality public administration is a foundation for a well-functioning state. It is essential for an efficient and effective civil service that delivers quality services to citizens and businesses. The municipalities also need a strong capacity to identify, prioritise, develop and manage future oriented infrastructure and other strategic investment projects, in close consultation with citizens and other stakeholders.

The action is in line with the Commission Kosovo report 2021, which praises the establishment of the municipal performance grant by the Ministry of Local Government Administration, but stresses the need to continue working on policies and actions for 4 non-politicised rules for grant disbursement to reduce the discretion on the part of line ministries when allocating capital investments to municipalities.

The action is also in line with the EU Gender Action Plan (GAP) III, under the areas “Promoting equal participation and leadership” and “Gender Mainstreaming of all actions and targeted actions”.

The action supports the Green Agenda in the Western Balkans as the Municipal Performance Grant includes indicators in the area of “Spatial planning, public transport and the environment”. These indicators give scores for the coverage of public transport and the implementation of the local environmental action plan to name a few, and therefore incentivize such environmental actions.

In terms of other donors’ assistance, this action will add funds into a scheme that already receives contributions from the Switzerland, Sweden and Norway. Sweden has supported Kosovo’s property tax system and new legislation in this area since 2014. The World Bank finances a project in partnership with the Ministry of Local Government Administration on youth, which uses the Municipal Performance Grant scoring as a base to distribute funds to municipalities for youth. The United States supported the Ministry in the establishment of the Municipal Performance Management System back in 2009, which pre-dates the grant scheme. The EU and Germany co-finance a similar grant scheme in the field of waste management called “Municipal Performance Grant Clean Environment”. This scheme uses the principles of the Municipal Performance Grant and similar minimum conditions to reward municipalities with grants based on the performance in the field of waste management, but also including good governance minimum conditions and a few performance indicators from the scheme.

The action is in line with the 2030 Agenda for Sustainable Development and supporting specifically its goal 16: Peace, Justice, and Strong Institutions.

The Regional programme on Local democracy in the Western Balkans 2 - Kosovo is complementary to the Municipal Performance Grant. Both projects will work on the promotion of Civil Society Organisations in the

democratisation processes, including consultation in decision making, contribution in policy making and regulatory changing and promoting the public accountability.

2.5. Lessons learned and links with previous financial assistance

Despite the rather low financial leverage so far, the Municipal Performance Grant results has revealed that the incentives generally work, albeit with some variations. The financial incentive works mostly for smaller municipalities and those run by parties that are in opposition from the central government coalition parties. The reason is that those municipalities have less access to other government funding. However, overall, competition and public image are of an added value for all municipalities, irrespective of their size or position. The donor support and expert monitoring provides reassurances that the assessment is fair and worth showing off.

Elections are very important for municipalities. The performance grant serves as a tool for municipal political representatives to communicate with their constituencies. It offers information, which is used also during the electoral campaign for re-election of the incumbent or for change of leadership.

The Ministry of Local Government Administration and the other partners are aware that the Municipal Performance Grant is only one incentive out of many others that influence the behaviour of municipalities. Currently, the DEMOS project is researching the other incentives. The results of the study will give information on how to further develop the scheme.

SIDA has provided support to the property tax department for a number of years through their PROTAX project, which is implemented through the Swedish Tax Agency. Modern legislation on immovable property tax is in place since 2014, but there is still room for improvement with regard to the collection efforts and the consolidation of the property tax registry.

The Regional Cooperation Council has trained municipal offices for communities in monitoring and evaluation under a regional EU project.

3. DESCRIPTION OF THE ACTION

3.1. Planned results and intervention logic

This action will contribute to better municipal governance by supporting the Municipal Performance Grant scheme and by aiming at supporting reforms with regard to local governance, such as for example better revenue mobilisation. The impact of the scheme is to incentivise municipalities to further improve their performance in democratic governance, municipal management and municipal service delivery. All 38 municipalities of Kosovo are eligible to participate in the scheme to get grants for capital investments, provided that they fulfil minimum conditions to get a grant. With outcome 1, municipalities will improve their democratic governance by increasingly involving citizens in decision-making, acting more transparently and inclusive of marginalised groups, and applying sound human and financial management practices. In order to achieve that, municipalities will be empowered to hold their municipal executives accountable; municipalities will provide better access to public information by including citizens in the decision-making; municipalities are stimulated to provide opportunities for inclusion of marginalised groups; municipalities are supported in addressing audit recommendations; municipalities are encouraged to comply with human resource management requirements. With outcome 2, the policy framework is more conducive for decentralised local governance and better implemented at the central and local level. In order to achieve that the project in cooperation with the implementing party provides the government with policy advice for decentralised local governance; modalities are developed for a long term performance incentive within the governmental system; the government is supported in the successful implementation of a performance-based grant scheme.

The improved governance processes and service delivery are expected to contribute to increasing satisfaction of inhabitants. The objectives will be pursued through the following three outcomes: the scheme is successfully implemented, the municipalities' performance is assessed based on the rules and modalities are developed for a long-term performance incentive *within* the governmental system.

Assumptions

The leverage that the Municipal Performance Grant funding can exert on decision-makers at the local level should increase with more funding, if improvements in municipal services, as a consequence of the grants investments,

are visible and/or widely ‘broadcasted’. If the scheme’s structure is functional and strictly applies the agreed rules, and the commitment by the Ministry of Local Government Administration is not diminished, the performance award system should continue to enjoy a high level of trust by the inhabitants, as a measurement of how their decision-makers are performing. The system can function if the necessary data is available for the calculation of the indicators. For continued development of the system, if the government is open to explore options for the scheme on-system, there should be room for expanding the use of such performance schemes with regard to other municipal funding and capital investments, further increasing the pressure on municipalities to perform. Better revenue collection at the local level will further increase service provision to the citizens and improve their satisfaction with their municipalities.

3.2. Indicative type of activities

These activities include the improvement of managerial competences, the delivery of public services and the dialogue with citizens at local level, all in line with European standards.

The activities to be performed include:

Output 1 related to outcome 1 Municipal assemblies are empowered to hold their municipal executives accountable

- Improving municipal performance and accountability to deliver cost effective public services;
- Enhancing municipal inspection services;

Output 2 related to outcome 1 Municipalities are enabled to provide better access to public information and to include citizens in decision-making processes

- Designing municipal development plans;
- Supporting the preparation of projects for the Municipal Infrastructure programme;

Output 3 related to outcome 1 Municipalities are stimulated to provide opportunities for inclusion of marginalised groups and Output 4 related to outcome 1 Municipalities are supported in addressing audit recommendations

- Improving municipal service delivery;

Output 5 related to outcome 1 Municipalities are encouraged to comply with Human Resource Management requirements and Output 1 related to outcome 2 The project in cooperation with implementing party provides the Government of Kosovo with policy advice for decentralised local governance

- Reviewing existing legislation for local government and drafting secondary legislation to complete existing legislative vacuum;
- Reviewing and improving procedures of municipal inspectorates in line with the EU standards;

Output 2 related to outcome 2 Modalities are developed for a long term performance incentive within the governmental system

- Promoting result-oriented and transparent municipal budgeting;
- Supporting revenue mobilisation;
- Setting up a pilot benchmarking system with clear performance indicators;

Output 3 related to outcome 2 Government is supported in successful implementation of Performance-Based Grant Scheme

- Assisting in establishment of inter-municipal cooperation agreements;
- Supporting inter-municipal cooperation;
- Full project management and backstopping

3.3. Risks and assumptions

Risks	Risk level (H/M/L)	Mitigating measures
Risk 1. Uneven distribution of public funds by line ministries to municipalities	H	The Ministry of Local Government Administration and donors will coordinate closely with the Ministry of Finance about inclusion of an article in the Law on Local Government Finance, which requires all line ministries to develop clear,

		<p>transparent and fair criteria for line ministry funding into municipal competencies.</p> <p>The existing annual budget law includes a provision about clear, transparent and fair criteria for line ministry investments into municipal competencies. This requirement is currently audited by Kosovo National Audit Office and is expected to continue.</p>
Risk 2. Status quo of existing government systems outbalances the incentive to change	M	<p>Increase the leverage of the scheme by:</p> <ul style="list-style-type: none"> • Joining funds of different donors and the government • Including the scheme in the legislation • Using communication as a tool to increase leverage of the scheme <p>Special audits are foreseen to be conducted by the National Audit Office or by third parties. If findings reveal misuse of funds, measures can be taken and could include disqualification of the municipality from the grant.</p>
Risk 3. Ad-hoc changes in the commitment of any of the partners of the Municipal Performance Grant	H	<p>Mitigation measures for this risk will be further defined jointly with all donors and should include the following categories of improvements:</p> <ul style="list-style-type: none"> • Legal (scheme addressed in primary legislation) • Financial (multi-year financial commitments of all international donors and government of Kosovo by signing a joint agreement) • Quality assurance (of data and of the assessment)
Risk 4. The assessment under the scheme is not factual, transparent and fair	M	<p>Mixed assessment team (Ministry, DEMOS project and civil society) in the assessment process. Complaints committee to include members from the DEMOS project or donor representatives. Upon request by any of the partners, an independent audit of the assessment may be commissioned.</p>
Risk 5. Quality assurance mechanisms for data used as a source are i) not in place and ii) not implemented	H	<p>Quality assurance mechanisms for data verification for the 30 indicators are in place. In 2021 the international donors intend to agree with the Ministry on further quality assurance mechanisms for the Minimum Conditions and grant assessment.</p>
Risk 6. No political support for legislation related to the scheme for establishment of a Kosovo-owned mechanism to channel the funds to municipalities and for the increased collection of property taxes.	M	<p>Policy dialogue across government to discuss legislative measures related to the scheme. EU's role in this field is crucial in cooperation and coordination with the government. Policy dialogue within the Ministry of Finance, Labour and Transfers and with local authorities to gain support for improved collection efforts through different means. Communication with tax payers on the benefits of paying taxes.</p>
Risk 7. Traditional gender roles and relations undermine women's participation in decision-making at the local level.	M	<p>Efforts towards enhancing women's participation in decision-making will be planned through close consultations with Gender Equality Mechanisms (Agency for Gender Equality and others),</p>

		including Gender Equality Officers at the local level as well as civil society.
Risk 8. The weak legal framework on the Municipal Performance Management System and the Municipal Performance Grant expose the scheme to ad-hoc interference in decision-making, which may result in cancellation or suspension of processes started in line with planned procedures and criteria.	M	The current donors to the scheme are currently agreeing on a work plan for 2021 to improve legal framing, financial long term commitment and quality assurance mechanisms. All of these will reduce the discretionary space of the political elite of Kosovo to influence the scheme.
Assumptions (to be reflected in the Logical Framework Matrix above) – grouped by outputs and outcomes Outcome 1, 2: - Improvements in services are visible and/or widely ‘broadcasted’ to inhabitants Outputs 1, 2: - Municipalities will continue to receive increased funding for capital investments and municipal services - The Ministry of Local Government Administration and all other donors will continue funding the scheme beyond 2021 - The structures of the Municipal Performance Grant are functional and strictly apply the rules - The commitment to the scheme by the Ministry of Local Government Administration is not diminished - Data are timely available for calculation of the indicators - The government is open to explore options for the Municipal Performance Government on-system - Government actors willing and able to improve gender-responsive planning, budgeting, and services - Government actors willing and able to implement the Guidelines for Roma Responsive Budgeting		

3.4. Mainstreaming

How does this Action contribute to Gender Equality and Women’s and Girls’ Empowerment (in line with the EU gender equality strategy 2020-2025)?

Women remain underrepresented in local governments and public consultations, including on budgetary processes and policy making. Several obstacles exist to women’s participation in politics, including gender stereotypes that suggest that women are unqualified or incapable of being political leaders, women’s unpaid, domestic care activities, limited access to childcare, an inability to participate in political networking and fundraising, insufficient access to financing for political campaigning, as well as poor availability of public transportation including at night, which would enable them to attend meetings.

The lack of women skews the outcome of decision making and result in a rather low satisfaction of inhabitants, lack of trust in public institutions, and institutional shortcomings in meeting the needs and priorities of diverse women and men. The Municipal Performance Grant uses a significant number of gender and non-majority community related indicators in its performance assessment system. 15% (2 of 13) of the indicators in the sub-theme ‘Democratic governance’ address transversal themes, such as the respect of official languages and gender disaggregation of inhabitant participation in public meetings. 25% (2 of 8) of the indicators in the sub-theme ‘Municipal management’ address transversal themes, such as women in political positions in the municipality as well as women in leadership positions in education, health and cultural institutions. Other indicators are not gender or minority specific, but indirectly benefit these groups, such as coverage of public transport services (which are used mostly by women, elderly and youth), children attending kindergartens which would enable increase of mobility and employability of women, etc. They represent 22% (2 of 9) of indicators in the sub-theme ‘Service delivery’.

How does this Action address Environment and Climate change?

Improving inhabitants’ influence on decision-making in municipalities can through public advocacy shift funding toward more climate friendly investments that would reduce harmful pollutants that deteriorate the standard of living in the municipalities. The Municipal Performance Grant includes indicators in the area of “Spatial planning, public transport and the environment” that scores for example the coverage of public transport and the implementation of the local environmental action plan.

How does this Action address the Rights Based Approach?

The Municipal Performance Grant indicators draw municipal attention and address specific observed weaknesses in realising the overall vision of municipalities as ‘vibrant democratic local government institutions that deliver quality services in response to citizens’ needs and priorities’. As such, Municipal Performance Grant indicators seek to

empower inhabitants and to incentivise municipalities to adhere to legal standards of transparency, accountability, citizen participation, financial and human resource management as well as to provide qualitative services in response to inhabitants' priorities and needs treating all inhabitants in an equal manner.

How does this Action promote the systematic engagement with Civil Society?

Various indicators that are monitored and scored in the Municipal Performance system include: Citizen participation in public meetings, disaggregated by gender, municipal acts and local policy documents consulted with the public, public hearings for the main budgetary documents, municipal assembly meetings made public and broadcast live, municipal website is up to date as per legal (specific) requirements, publication of public procurement documents and contracts and publication of minutes for public consultation processes. All these promote the systematic engagement with civil society and inhabitants. Representatives of civil society organisations participate and contribute with comments in the Steering Committee meetings and Municipal Performance Grant Committees.

Others (such as Resilience and Conflict Sensitivity, Roma, people with disabilities and other vulnerable groups)

As indicated above, the Municipal Performance Grant uses a significant number of gender and non-majority community related indicators in its performance assessment system. 15% (2 of 13) of the indicators in the sub-theme 'Democratic governance' address transversal themes, such as the respect of official languages and gender disaggregation of citizen participation in public meetings. The Kosovo National Audit Office is doing an annual performance audit looking also into consultations with citizens during investment planning, participation of marginalised groups, accessibility for people with disabilities and others.

Data on the situation of Roma are crucial for formulating, budgeting, implementing and monitoring the Roma integration policies, including in regards to the achievement of the targets set in the Poznan Declaration.

3.5. Conditions for implementation

For the action supporting the Municipal Performance Grant the condition for implementation is an annual, preferably multi-annual (if such commitments are enabled) financial commitment in the annual appropriations law to the Municipal performance grant by the government/Kosovo Assembly.

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

3.6 Logical Framework

Results	Results chain: Main expected results (maximum 10)	Indicators (at least one indicator per expected result)	Baselines (year)	Targets (year)	Sources of data (1 per indicator)	Assumptions
Impact	To improve the overall performance/governance of municipalities and to increase women and men's satisfaction with municipal services delivered, based on their diverse needs and priorities	Inhabitants' satisfaction with municipal services - Women - Men Satisfaction of inhabitants with the responsiveness of local governments - Women - Men	0 (2020) T:27.1% (2019) W:25.8% (2019) M:28.4% (2019)	50% for all (2024) T: 35% (2024) W: 33% (2024) M: 35% (2024)	External Survey Public Pulse Report ⁴	
Outcome 1	<i>Improved municipal governance, management and service delivery, by increasingly involving both women and men and civil society in general, in decision-making, acting more transparently and inclusive of marginalised groups like Roma and Ashkali, and applying sound human and financial management practices</i>	Average % scores of selected municipal services in the Municipal Performance Management System of the Ministry Average % performance scores of indicators % of municipal population participating in consultative meetings - Women - Non-majority communities	0 (2020) 45.6% (2018) 2.83% (2018) 1.94% (2018) TBD	60% (2023) 60% 3.2% (2023) 2.3% (2023) TBD	Internal calculation from the Performance Management System report Municipal Performance Grant Internal calculation TBD	Improvements in services are visible and/or widely 'broadcasted' to inhabitants
Outcome 2	The policy framework is more conducive for decentralised local governance and better implemented at the central and local level	Number of persons benefitting from capital investments financed through the scheme - Number of women benefitting - Number of non-majority communities benefitting The amount of funds of donors and of the Kosovo government accessible to municipalities based on set criteria	0 (2021) 0 (2021) 0 (2021) 4.9 million euro annually (2020)	700,000 (cum. end 2024) 350,000 (cum. 2024) 56,000 (cum. 2024) At least 8 million euro annually	Municipal Performance Grant and internal calculation Municipal Performance Grant and internal calculation	

⁴ This indicator will be revised if Public Pulse Report will not be conducted during implementation of the Project

		A Kosovo owned mechanism is established to administer the funds	No (2020)	Yes (2024)	Rules of the scheme	
Output 1 related to outcome 1	Municipal assemblies are empowered to hold their municipal executives accountable	The Municipal Performance Grant Rules are developed/revised The scheme structures are established as per the new Performance Management System Regulation Data on performance scores are verified to reflect the performance of municipalities	Yes (2020) No (2020) No (2020)	Yes (annually, if necessary) Yes (2022) Yes (annually)	Rules of the scheme Decision(s) on establishment of the scheme structure Performance Management System data verification report	Municipalities will continue to receive increased funding for capital investments and municipal services - Other donors will continue funding of the scheme beyond 2021 - The structure of the scheme is functional and strictly applies the agreed rules -The commitment to scheme by Ministry of Local Government Administration is not diminished - Data are available for calculation of scheme's indicators - The government is open to explore options for the Municipal Performance Grant on system - Government actors willing and able to implement the Guidelines for Roma Responsive Budgeting
Output 2 related to outcome 1	Municipalities are enabled to provide better access to public information and to include citizens and minorities in decision-making processes	Performance of municipalities is assessed based on Municipal performance grant rules Number of successful complaints made for provisional results due to: - procedures set by scheme's rules were not followed - material mistakes were made	No (2020) 0 (2020)	Yes (annually) 0 (2024)	External assessment on scheme's grant allocation Decision(s) of the complaint review body on complaints submitted by municipalities	
Output 3 related to outcome 1	Municipalities have increased own source tax revenues at their disposal for better service delivery	<i>Indicators to be developed at a later stage</i>	n/a			
Output 4 related to outcome 1	Municipalities are supported in addressing audit recommendations	<i>Indicators to be developed at a later stage</i>	n/a			
Output 5 related to outcome 1	Municipalities are encouraged to comply with Human Resource Management requirements	<i>Indicators to be developed at a later stage</i>	n/a			
Output 1 related to outcome 2	The project in cooperation with implementing party provides the Government of Kosovo with policy advice for better decentralised local governance	<i>Indicators to be developed at a later stage</i>	n/a			
Output 2 related to outcome 2	Modalities are developed for a long term performance incentive within the governmental system	<i>Modalities developed</i>	No (2020)	Yes (2022)	Policy document	
Output 3 related to outcome 2	Government is supported in successful implementation of Performance-Based Grant Scheme	<i>Indicators to be developed at a later stage</i>	n/a			

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with Kosovo.

4.2. Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures⁵.

4.2.1. Direct Management (Procurement)

The property tax part of the support may be implemented via procurement.

This delivery method will contribute to the following output:

Output 3 of outcome 1: Municipalities have increased own source tax revenues at their disposal for better service delivery.

	Indicative type (works, supplies, services)	Indicative trimester of launch of the procedure
Output 3 of outcome 1: Municipalities have increased own source tax revenues at their disposal for better service delivery.	Services	Q2 2023

4.2.2. Indirect management with an entrusted entity

This action related to the other outputs (outputs 1 and 2) may be implemented in indirect management with the Swedish International Development Cooperation Agency, (SIDA).

This implementation entails funding of the Municipal Performance Grant support scheme and engaging in other activities as described above such as technical assistance to improve the sustainability of the scheme and to improve the collection rate of the property taxes. The envisaged entity has been selected as:

- it is a member state entity;
- it is ready to provide substantial co-financing;
- a current donor to the municipal performance scheme so therefore has substantial prior experience from the scheme
- the member state entity is since 2014 engaged in supporting the property tax department in the Ministry of Finance, Labour and Transfers and on issues related to immovable property taxation.
- the member state entity could build on its current knowledge of the property tax area and expand on it to reach local government's service delivery as well.

In case the envisaged entity mentioned above would need to be replaced, the Commission's services may select a replacement entity using the same criteria given above.

4.2.3. Changes from indirect to direct management mode (and viceversa) due to exceptional circumstances (one alternative second option)

In exceptional circumstances and upon authorisation of the European Commission, changes from indirect to direct management mode (and vice versa) are possible, as well as other changes in the management and procurement modes.

⁵ www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

In addition, in some unpredicted and emergency situations, with prior approval of the European Commission, support to unforeseen and ad hoc actions may also be possible.

4.3. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

4.4. Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution (EUR)
Output 1 and 2 related to Outcome 1, all outputs related to Outcome 2: Improved municipal governance, management and service delivery, by increasingly involving both women and men and civil society in general, in decision-making, acting more transparently and inclusive of marginalized groups like Roma and Ashkali, and applying sound human and financial management, <i>and</i> , The policy framework is more conducive for decentralised local governance and better implemented at the central and local level	13 000 000	15 000 000
<i>Indirect management with SIDA cf. section 4.2.2</i>	<i>N.A.</i>	<i>3 000 000</i>
Output 3 related to Outcome 1: Municipalities have increased own source tax revenues at their disposal for better service delivery.	2 000 000	
<i>Direct management (Procurement) – cf. section 4.2.1</i>	<i>N.A.</i>	
Evaluation (cf. section 5.3)	will be covered by another decision	N.A.
Audit/Expenditure verification (cf. section 6)	will be covered by another decision	N.A.
Communication and visibility (cf. section 7)	N.A.	N.A.
Contingencies	N.A.	N.A.
Total	15 000 000	18 000 000

4.5. Organisational set-up and responsibilities

SIDA as the implementing partner for the majority of the action, will oversee the activities related to the Municipal Performance Grant.

The following structures are currently responsible for the management of the Municipal Performance Grant:

- The Municipal Performance Grant Commission is the highest decision making body for the grant that assumes final responsibility. The main function of the commission is to guarantee integrity of the assessment. The commission cannot alter the results of the assessment, nor the allocations, but its task is to oversee and ensure that the technical group has followed the criteria and procedures defined under the Municipal Performance Grant Rules.
- The technical group is a professional level body composed of public officials of the responsible unit for municipal performance and representatives of contributing entities. The technical group is responsible for the Municipal Performance Grant assessment.
- The appeals commission reviews and decides over the appeal filed by municipalities regarding their performance assessment for the Municipal Performance Grant.

The DEMOS project steering committee will provide strategic support to the project and will consist of representatives from the Ministry of Local Government Administration, Switzerland, Sweden, Norway, the EU, the Ministry of Finance and the Kosovo National Audit Office; all with voting rights and one seat each. The steering committee meets 6 monthly – following the project reporting rhythm – to: i) assess progress of project activities (technical assistance and the Municipal Performance Grant) and project results; ii) provide suggestions, advice and guidance for a successful implementation of project activities and achievement of expected results; iii) approve 6 monthly/annual project reports; and iv) approve the yearly plan of operations.

The Project Implementation Unit will provide secretarial services to the steering committee. The Unit will be responsible for the overall coordination of the project, including operational planning, supervision, administrative and financial management. It will be placed in the HELVETAS offices in Pristina.

The indicative activities foreseen in the property tax area may be implemented through direct management (procurement).

5. PERFORMANCE/RESULTS MONITORING AND REPORTING

5.1. Internal monitoring

Describe how the Action will be monitored detailing the specific arrangements and the key stakeholders involved (e.g. operating structure, implementing partner).

The overall project monitoring will be carried out by the DEMOS project for the Municipal Performance Grant, and SIDA, in its function as the implementing partner, in line with the action log frame. The Municipal Performance Management System data collection and reporting will be carried out by the Ministry of Local Government Administration according to its Regulation. The data collection and reporting will be done by the Ministry/DEMOS/donors according to the established regulations and the rules.

The property tax component will be monitored through a special steering committee set up under the suggested service contract.

5.2. Roles & responsibilities for data collection, analysis & reporting

Performance and results will be monitored using data from a number of sources, which are part of the Kosovo administration, in particular the Municipal Performance Management System of the Ministry of Local Government Administration and the Kosovo National Audit Office's reports. At the overall goal level, external survey data will be used to monitor satisfaction of inhabitants with the work of local governments.

Progress in achievement of the outputs and outcomes will regularly be monitored. Monitoring data will be available per municipality, but the reporting will be based on averages and trends. The monitoring takes place at the levels of:

i) outputs, ii) outcomes and iii) overall goal. There will be one monitoring, one reporting and one accounting system for all donors financing the Municipal Performance Grant.

For the property tax component, reporting will be done by the suggested service contract.

5.3. Evaluation

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or its components contracted by the Commission.

It will be carried out for problem solving, learning purposes, in particular with respect to corrective actions, if necessary, and to prepare an assessment for the development of a further stage of support to the local governments, aimed at further improving the governance system of Kosovo municipalities.

The Commission shall inform the implementing partner at least one month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner beneficiary and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner beneficiary, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services shall be covered by another support measure constituting a financing Decision.

As per the EU Gender Action Plan, monitoring and evaluation will include gender analysis.

6. AUDIT

Audit activities will be carried out by the implementing partner SIDA, following their internal control standards, as needed. The Kosovo National Audit Office audits the municipalities on an annual basis through a financial and compliance audit. In addition, it has also carried out a performance audit of the Municipal Performance Grant in 2018.

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

The financing of the audit shall be covered by another measure constituting a financing Decision.

7. COMMUNICATION AND VISIBILITY

Visibility of EU funding and communication about objectives and impact of Actions are a legal obligation for all Actions funded by the EU, as set out in the EU communication and visibility requirements in force.

In particular, the recipients of EU funding shall acknowledge the origin of the EU funding and ensure its proper visibility by:

- providing a statement highlighting the support received from the EU in a visible manner on all documents and communication material relating to the implementation of the funds, including on an official website and social media accounts, where these exist; and
- promoting the actions and their results by providing coherent, effective and proportionate targeted information to multiple audiences, including the media.

Visibility and communication measures shall be implemented, as relevant, by the Kosovo administration (for instance, concerning the reforms linked to EU budget support), entrusted entities, contractors and grant beneficiaries. Appropriate contractual obligations shall be included, respectively, in financing agreements, delegation agreements, and procurement and grant contracts.

The measures shall be based on a specific Communication and Visibility Plan, established and implemented in line with the EU communication and visibility requirements in force. The plan shall include, inter alia, a communication narrative and master messages for the Action, customised for the various target audiences (stakeholders, civil society, general public, etc.)

Visibility and communication measures specific to this Action shall be complementary to the broader communication activities implemented directly by the European Commission services and/or the EU Delegations and Offices. The European Commission and the EU Delegations and Offices should be fully informed of the planning and implementation of the specific visibility and communication activities, notably with respect to the communication narrative and master messages.

The ongoing Municipal Performance Grant scheme has already developed and implemented a strong visibility campaign. The scheme has a Communication Strategy and own branding. Several campaigns have been developed to communicate with external audiences. The action will involve efforts to reach diverse women and men with information, considering gender differences. No financing is envisaged as part of this action for communication. EU will be added in the scheme's branding as a donor.

8. SUSTAINABILITY

The Municipal Performance Grant has grown stronger from its start in 2014 and will over the coming years be better institutionalised in the government systems through revision of related legislation. The scheme continues to have a good reputation for objectivity and integrity. For the future, this needs to be engrained in the Kosovo system, if the scheme is

to be fully taken over by the Ministry of Local Government Administration with donor funds potentially going directly to the Kosovo treasury account.

There are also some improvements to be made in the scheme in three categories: legal, financial and quality assurance.

Firstly, within the legal category, a concept document will be developed by the Ministry, necessary in order to provide legal solutions to i) increase the importance of performance, and to ii) establish standard rules for the management of public and donor funds thus ensuring greater sustainability of these two systems.

Secondly, within the financial category, an international agreement is envisaged to ensure funding both from the government and donors in the next 4-5 years.

Thirdly, within the quality assurance category, several improvements are currently being discussed. The main improvements have to do with the quality of one of the minimum conditions used in the Municipal Performance Grant, which requires municipalities to review all municipal assembly acts assessed as unlawful by supervising authorities.