Workshop organised by DEMOS in cooperation with the National Audit Office on the presentation of collective agreement-related payments in municipal annual financial statements, January 2026.
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REPORT

COLLECTIVE AGREEMENTS: IMPLICATIONS FOR MUNICIPALITIES IN KOSOVO

Analysis of the impact of collective agreement-related liabilities on municipal finances, audit outcomes and rule-based financing

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1 FOREWORD

In recent years, collective agreement-related liabilities have become one of the most significant pressures affecting municipal finances in Kosovo. What initially emerged as an issue of labour rights and social dialogue has increasingly affected municipal budgets, capital investment planning, audit opinions and access to the Municipal Performance Grant. For a project such as DEMOS, which works to strengthen rule-based municipal financing and identify systemic bottlenecks in decentralisation, this issue represents an important factor affecting the effectiveness and sustainability of municipal finances and the broader functioning of the local governance system.

The report was prepared within the framework of the Decentralisation and Municipal Support (DEMOS) project, implemented by Helvetas and funded by the European Union, the Swiss Agency for Development and Cooperation (SDC), and the Swedish International Development Cooperation Agency (Sida). It analyses the implications of collective agreement-related liabilities on municipalities in Kosovo, with a focus on their fiscal, institutional, governance and performance-related effects.

Over the years, Helvetas and DEMOS have invested significant effort in introducing, strengthening and functionalising the Municipal Performance Grant as a rule-based financing instrument that rewards municipal performance, promotes accountability and supports better service delivery. However, even well-designed financing and performance systems cannot function effectively if the surrounding institutional and fiscal environment does not allow municipalities to plan, manage and use public resources in a predictable and accountable manner. Municipalities cannot reasonably be held accountable for performance if they do not have predictable budgets and sufficient control over the resources needed to deliver services.

The findings of this report show that collective agreement-related liabilities have consequences that go beyond the Municipal Performance Grant. They affect municipal budgets, capital investment planning, financial reporting, audit opinions, citizen trust and the credibility of local governance. They also raise important questions about the alignment between decision-making authority, financing responsibility and accountability within Kosovo’s decentralised governance system and the extent to which existing institutional arrangements support effective fiscal planning and service delivery.

For this reason, the issue of collective agreements is closely linked to DEMOS’ work on municipal finance, fiscal sustainability and rule-based financing mechanisms. Final court decisions must be respected and implemented. At the same time, the way these decisions are financed and executed should be predictable, transparent and consistent with sound public financial management principles.

We hope this report contributes to a shared understanding of the issue and supports constructive dialogue and coordinatedaction between central and local institutions. In the short term, practical measures are needed to reduce fiscal pressure, avoid unnecessary additional costs, implement court decisions in an orderly manner and improve budget planning and reporting. In the longer term, stronger rules and institutional arrangements are needed to ensure that future obligations are properly assessed, financed and implemented in a predictable and sustainable manner while maintaining an appropriate balance between legal obligations, fiscal sustainability and the effective delivery of public services.

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2 EXECUTIVE SUMMARY

Collective agreement-related liabilities have become a major fiscal and governance challenge for municipalities in Kosovo. Although they arise from labour-related rights, their enforcement through court decisions has had significant consequences for municipal finances, investment planning, financial reporting and access to performance-based funding.

A key limitation of this analysis is that collective agreement-related expenditures are not systematically recorded under dedicated accounting codes, making it difficult to account for the precise financial implication. The analysis therefore focuses on identified expenditures rather than estimating a consolidated national liability or the full fiscal cost of these obligations.

Municipal court and enforcement expenditures increased from approximately €36.5 million in 2022 to €126.6 million in 2025. Between 2022 and 2025, municipalities spent approximately €289.7 million through court decisions and enforcement procedures. Based on a conservative estimate, around 60% or €174 million are attributed to collective agreement obligations.

In 2024, approximately €56.2 million in collective agreement-related expenditures were identified across 32 municipalities based on available published and municipality-provided data. This should be considered a conservative estimate, as for some municipalities, only National Audit Office identified misclassified expenditures could be identified rather than total Collective Agreement -related expenditure.

For the 26 municipalities with total Collective Agreement related expenditure data in 2024, the identified expenditures represented approximately 7% of their total municipal budgets, 20% of their capital investment budgets, and 68% of their expenditures executed through court and enforcement procedures.

The impact varied significantly across municipalities, reducing fiscal space for local development priorities and public investments.

Collective agreement-related payments are often charged to any available budget category, including capital expenditures, goods and services, utilities or subsidies, rather than appropriate accounting codes. This results in expenditure misclassifications.

These issues have affected access to the Municipal Performance Grant. Of the 38 municipalities audited for 2024, 31 received modified audit opinions. Collective agreement-related expenditure misclassifications were a determining factor in the audit outcomes of 14 municipalities. 11 of these municipalities fulfilled all other Municipal Performance Grant minimum conditions and would otherwise have been eligible for grant funding.

The 2025 audit results confirm that the issue continued and deepened. Only four municipalities received unmodified audit opinions, while 34 municipalities received qualified opinions. Expenditure misclassification was identified in 31 of the 34 municipalities with qualified opinions. The total value of municipal expenditure misclassifications identified in the audit reports amounted to €55.8 million, of which €46.3 million, or approximately 83%, was related to collective agreement payments.

Municipalities also reported a potential indirect effect: funds used to meet court-enforced Collective Agreement obligations may reduce liquidity for other contractual payments, contributing to delayed payments, new claims and further enforcement costs. While this effect could not be quantified, it may help explain the broader upward trend in municipal court and enforcement expenditures.

The costs extend beyond the original employee entitlements. Litigation and enforcement procedures generate additional court fees, legal representation costs, expert assessment costs, interest and enforcement fees. In the case examined in this report, an original entitlement of €1,446 resulted in a total municipal payment of €2,297.89, representing an increase of approximately 59%. While municipalities face real constraints, they also have a responsibility to plan for predictable liabilities and avoid unnecessary enforcement costs where legally and financially possible.

The study also highlights important governance implications. Municipalities are required to finance obligations arising from collective agreements negotiated by the central government without their direct participation, while the resulting liabilities are enforced through judicial processes that are difficult to predict and manage through normal budgeting procedures. Consequently, collective agreement liabilities have evolved beyond a labour-relations issue and now affect municipal autonomy, budget predictability, investment planning, accountability mechanisms, and the broader functioning of Kosovo's decentralised governance system.

Employees who pursue legal action are able to secure payments through court and enforcement procedures, while others who do not pursue their rights through legal action may receive no benefits. This creates unequal treatment, encourages additional litigation and diverts significant public resources towards court proceedings and enforcement costs instead of public services and local development.

The findings demonstrate that collective agreement liabilities are not only a fiscal challenge but also an intergovernmental finance and governance issue requiring a coordinated institutional response. Immediate measures are needed to improve budget planning, reporting, transparency and monitoring, while reducing avoidable litigation and enforcement costs. A long-term solution is required to address outstanding liabilities, restore fiscal predictability, protect local investment and prevent similar challenges in the future.

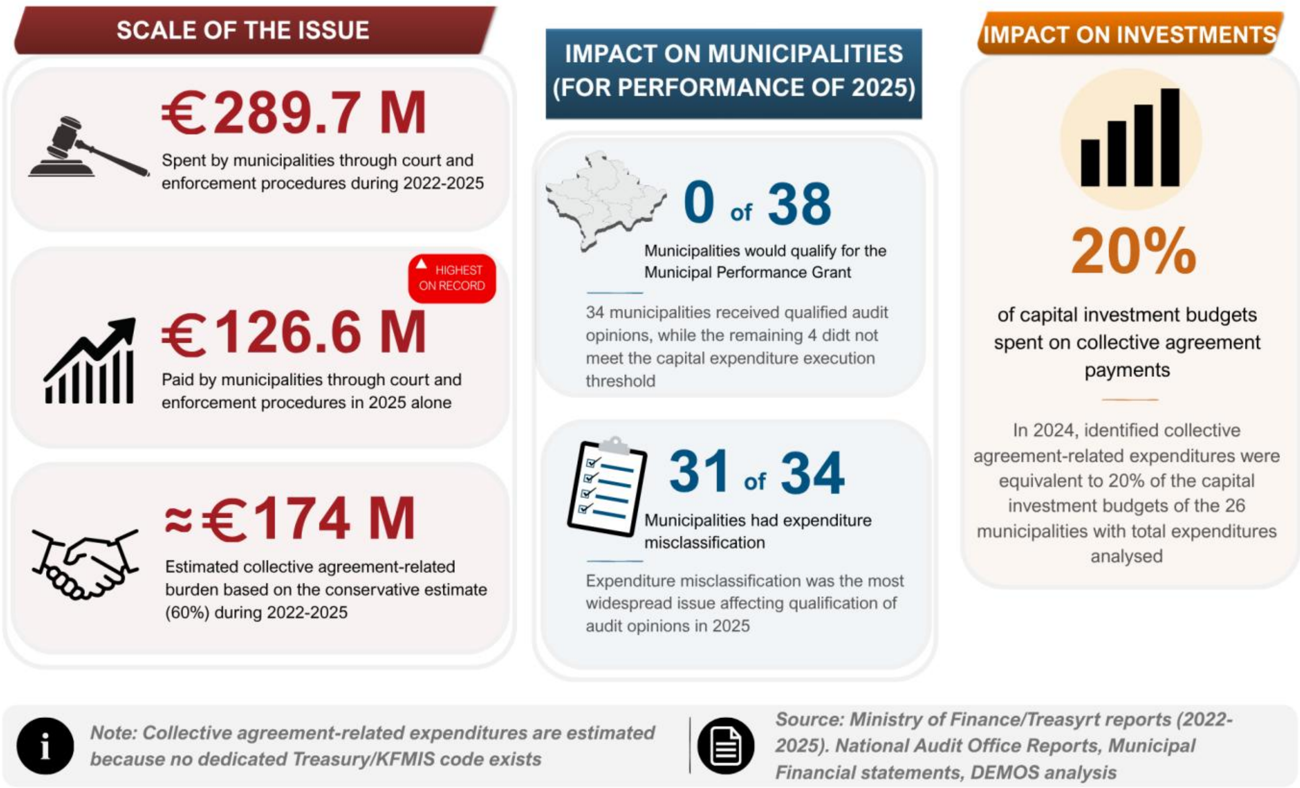

Figure 2.1 Collective Agreement Liabilities: Key Findings (2022-2025)

3 INTRODUCTION

3.1 Background and Context

Collective agreements play an important role in regulating employment relations in the public sector. Their purpose is to establish common standards regarding salaries, allowances, leave entitlements, jubilee benefits and other employment-related rights. As recognized by the International Labour Organization (ILO), in the Collective Agreements Recommendation, 1951 (No. 91)[1], collective agreements are an important mechanism for regulating conditions of work and employment, promoting social dialogue between employers and employees, and strengthening labour protection.

In Kosovo, collective bargaining in the public sector has evolved through a combination of general and sector-specific agreements. While the General Collective Agreement established the overarching framework for public sector employment relations, additional agreements in the education and health sectors introduced specific rights and benefits applicable to employees in these sectors.

While collective agreements are primarily intended to protect employee rights and improve working conditions, their implementation can also generate significant fiscal consequences for public institutions responsible for financing such obligations. Through their responsibilities for pre-university education and primary health care, municipalities employ a significant share of Kosovo's public workforce. In 2025, municipalities employed approximately 29,841[2] teachers, while primary health care institutions employ more than 5,400[3] additional health professionals and support staff. Consequently, any changes in employment conditions negotiated through collective agreements have direct implications for municipal finances.

The fiscal implications of collective agreement obligations are also relevant from the perspective of local self-government. The principles of the European Charter of Local Self-Government, which are reflected in Kosovo's constitutional and legal framework, establish the principle that local authorities should have adequate financial resources of their own and that responsibilities assigned to them should be accompanied by corresponding financial means[4]. Consequently, the extent to which municipalities are required to finance obligations arising from agreements negotiated outside their direct participation raises broader questions regarding local autonomy guaranteed by the Constitution of the Republic Kosovo, fiscal sustainability, and the alignment of responsibilities with available resources.

International experience suggests that public sector collective agreements are most sustainable when the responsibility for negotiating employment obligations is aligned with the responsibility for financing them. In North Macedonia[5], where education and several other functions have been decentralized, municipalities receive block grants and other transfers from the central government to finance delegated competencies, including a significant share of education expenditures. In Croatia[6], collective agreements covering public services are primarily negotiated at the national level, with employment-related obligations largely financed through state budget mechanisms[7]. Denmark[8] follows a different model, whereby municipalities participate directly in collective bargaining through their national employers' association (Local Government Denmark – KL), ensuring that negotiations on wages and employment conditions are closely linked to municipal financial capacities. While institutional arrangements differ, these examples demonstrate a common principle: public sector collective

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[1] https://normlex.ilo.org/dyn/nrmlx_en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R091

[2] Data from the Ministry of Education, Education Statistics in Kosovo for the year 2025

[3] Data from Kosovo Agency of Statistics for years 2016-2023. There is no data beyond 2023.

[4] European Charter of Local Self-Government; Article 9; Paragraph 2; https://edoc.coe.int/en/local-democracy/6856-charte-europenne-de-l-autonomie-locale.html

[5] World Observatory on Subnational Government Finance and Investment (SNG-WOFI). *Republic of North Macedonia Country Profile*; https://www.sng-wofi.org/country_profiles/republic_of_north_macedonia.html?

[6] https://natlex.ilo.org/dyn/natlex2/natlex2/files/download/115076/HRV-115076.pdf

[7] The Central Public Administration Sector in Croatia: Challenges of Organising and Collective Barganing https://www.isp.org.pl/uploads/drive/CEECAW/CPA_Croatia_-_wersja_3.pdf?utm_source

[8] https://ida.dk/en/career-and-legal-advice/collective-bargaining/ok26/new-collective-agreement-in-the-municipalities?utm_source

bargaining is generally accompanied by financing mechanisms that seek to align employment obligations with available financial resources and fiscal responsibilities.

In Kosovo, the current challenges stem primarily from obligations arising from sector collective agreements, particularly within education. Municipalities argue that although they became responsible for implementing many of the resulting obligations, they were not parties to the negotiation and signing of the agreements and were not provided with corresponding financial resources to finance them. As a result, when obligations remained unpaid, increasing numbers of employees sought redress through the courts.

Collective bargaining in Kosovo's education sector has evolved through successive agreements. The first sectoral collective agreement was signed in 2014 between the Ministry of Education, Science, Technology and Innovation (MESTI) and United Education, Science and Culture Union of Kosovo (UESCU/SBASHK). It was replaced by a new agreement in 2017, which in turn repealed the 2014 agreement. In January 2021, a new Education Sector Collective Agreement was signed, introducing or reaffirming several employee entitlements that later became the basis for a significant number of court claims. In November 2022, MESTI unilaterally terminated the agreement, arguing that it lacked a legal basis, conflicted with public order provisions, and had been signed without the necessary legitimacy. However, rights that had accrued while the agreement was in force continued to be litigated, contributing to the growing financial liabilities faced by municipalities. Thus, it is important to note that expenditures reported in 2024 and in 2025 mainly represent the payment of liabilities that had built up over several years after the signing of the collective agreements, rather than costs arising in 2024 and 2025 alone. According to representatives of the Kurti Government, the agreement was signed shortly before national elections and without a comprehensive fiscal impact assessment. While legal and institutional debates subsequently emerged regarding the validity and implementation of certain provisions, courts increasingly recognized employee claims related to benefits arising during the period in which the agreement was in force. This resulted in a rapid increase in litigation and enforcement procedures involving municipalities, which are executed by the Government Treasury.

The implementation of collective agreement obligations was further shaped by legal opinions issued by the Supreme Court of Kosovo in October 2023 concerning the education and health sector collective agreements. These opinions provided clarification on the interpretation and applicability of certain provisions related to employee entitlements, including inflation-related salary adjustments and the 13th salary in the health sector. While the opinions did not create new rights, they contributed to greater legal certainty regarding the implementation of collective agreements and influenced the adjudication of related claims. A summary of the relevant Supreme Court legal opinions is provided in Annex 1.

Figure 3.1. Evolution of Collective Agreement Liabilities into a Governance and Municipal Finance Issue

The following chapters analyse these impacts in greater detail and explore potential policy options for addressing both the immediate consequences and the underlying causes of the problem.

3.2 Objectives of the Study

The purpose of this study is to analyse the fiscal, institutional, governance, legal, and political economy implications of collective agreement-related liabilities for municipalities in Kosovo.

The study does not seek to reassess the legal validity of the collective agreements themselves. Rather, it focuses on the practical consequences of their implementation and enforcement within Kosovo's systems.

The analysis is intended to inform evidence-based policy discussion and contribute to identifying balanced and realistic approaches for addressing the remaining liabilities, restoring predictability to municipal finance systems, and strengthening the functioning of Kosovo's rule-based decentralised governance framework.

3.3 Methodology

The study uses the best available evidence and combines quantitative financial analysis, review of audit and legal documents as well as stakeholder consultations. The analysis was conducted within the DEMOS project in close coordination with development partners, and involved continuous engagement with municipalities, oversight institutions, central government and other stakeholders.

The quantitative analysis draws on published NAO municipal audit reports for fiscal years 2024 and 2025, municipal annual financial statements, Ministry of Finance data on court and enforcement payments, Treasury/KFMIS information where available, and data collected directly from municipalities[9].

The analysis was complemented by consultations and technical discussions with municipalities, the Association of Kosovo Municipalities, the NAO, the Ministry of Finance, MLGA, development partners and GAP Institute. These discussions helped clarify municipal budgeting practices, Treasury execution procedures, audit treatment, institutional positions, operational challenges and possible policy responses. More detailed information on stakeholder perspectives is presented in Annex 4.

The analysis has several limitations. First, there is no dedicated Treasury/KFMIS code or tagging mechanism for collective agreement-related payments. As a result, these expenditures cannot be systematically extracted from Treasury records or financial statements.

Second, the identified amounts should be interpreted as conservative estimates rather than a complete measure of collective agreement-related expenditure. In 2024, the available evidence varied across municipalities: in some cases, NAO audit reports identified the total CA-related expenditure, while in others they identified only the portion recorded as expenditure misclassification. Additional amounts were identified, where available, from municipal financial statements, analytical expenditure records and information provided by municipalities.

For 2025, however, the analysis relies primarily on CA-related expenditure identified by the NAO as misclassification. This may partly reflect the 2025 budget execution guidance, under which CA-related payments were to be executed from available budget categories other than salaries and allowances, potentially making the misclassified amounts the most consistently identifiable CA-related expenditures in the audit reports. Consequently, the 2025 figures should not be interpreted as the total amount of CA-related payments made by municipalities.

More generally, the analysis may not capture all CA-related payments, including payments recorded under the correct budget category, payments that were not material enough to be reported in audit findings, or payments that could not be separately identified in available financial records. Some CA-

[9] Five municipalities: Prizren, Junik, Kaçanik/Kačanik, Shtime/Štimlje and Skënderaj/Srbica, were selected purposively to capture different experiences and perspectives regarding collective agreement-related liabilities.

related obligations may also have been settled directly by municipalities without proceeding through court or enforcement procedures and may therefore not be captured in the identified amounts.

Therefore, the report does not provide a full estimate of all outstanding liabilities but focuses on identified expenditures and their implications for municipal finance, audit outcomes and MPG eligibility.

A further limitation relates to institutional coverage. The analysis draws mainly on DEMOS' engagement with municipalities, the Ministry of Finance, the National Audit Office and stakeholders involved in municipal finance, audit and performance-based financing. Direct consultations were not conducted with the Ministry of Education, Science, Technology and Innovation, the Ministry of Justice, courts, enforcement agents or the justice sector more broadly. Therefore, education-sector and justice-sector perspectives are reflected mainly through available documents, municipal consultations, audit reports and financial data.

4 IMPACT ANALYSIS

4.1 Overview of Court and Enforcement Expenditures

The financial impact of collective agreement-related liabilities is reflected in the growing volume of court and enforcement expenditures incurred by municipalities. Although municipalities have long incurred court-related expenditures, recent years have seen a sharp increase in both the number and value of payments executed through court decisions and enforcement procedures. Data from the annual financial reports published by the Ministry of Finance (MF) show that municipal expenditures related to court decisions and enforcement procedures increased substantially between 2022 and 2025. Total expenditures rose from approximately €36.5 million in 2022 to €40.2 million in 2023, before increasing sharply to €86.4 million in 2024 and €126.6 million in 2025. Between 2022 and 2025, municipalities spent approximately €289.7 million through court decisions and enforcement procedures. This trend suggests that liabilities accumulated over previous years are increasingly materialising through enforcement mechanisms, creating growing pressure on municipal finances. The sharp increase after 2023 indicates that the issue is not stabilising but continues to expand, raising concerns regarding the long-term sustainability of current arrangements and the growing fiscal burden on municipalities. The concern is further amplified by the absence of a comprehensive institutional initiative aimed at resolving the underlying causes of the problem. While the MF has introduced measures through annual budget circulars requiring municipalities to plan for contingent liabilities arising from court and enforcement decisions, they are primarily designed to improve budget management and compliance with financial reporting requirements. They do not address the accumulation of outstanding liabilities, the continued growth of litigation and enforcement costs, or the factors driving new claims. Thus, current measures may help manage the consequences of the issue but are unlikely, on their own, to provide a sustainable long-term solution.

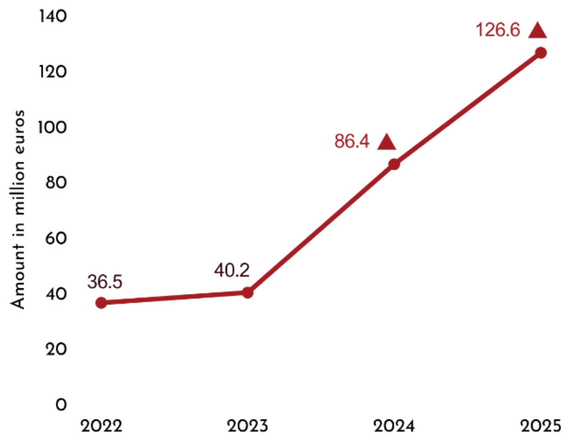

Figure 4.1. Municipal Court and Enforcement Payments, 2022–2025

4.2 Treasury Executions and Budgetary Implications

Under Kosovo's public finance system, municipalities are the employer and the contracting authority for municipal employees. Thus, when a final court decision awards compensation to an employee, the municipality is responsible for making the payment from its budget. If the municipality does not pay voluntarily after the judgment becomes final, the claim may proceed through enforcement procedures. Following the completion of enforcement procedures, payments are executed through the Treasury system from the municipality's budget.

According to information obtained from municipalities, Treasury execution practices have evolved over time. Under Kosovo's public financial management system, once an enforceable payment order is submitted, the Treasury is responsible for executing the payment from the relevant municipalities. According to municipalities, until 2024, they were generally consulted regarding the budget category from which court-enforced payments should be executed. Since 2025, municipalities report that the Treasury has executed such payments directly from available budget categories in accordance with its execution procedures, without first consulting the municipality on the choice of budget category. Municipalities indicated that this represented a change in administrative practice rather than in their legal obligation to satisfy the court award.

Municipalities further reported that, in 2026, Treasury executions were made from both committed and uncommitted funds. This represents a further change in practice, as in previous years municipalities indicated that, even where executions were carried out without prior consultation, committed funds were generally not affected. Municipalities therefore perceive the 2026 practice as having a potentially greater impact on their ability to implement already planned and contractually committed expenditures. These developments appear to reflect changes in administrative execution practice rather than any change in municipalities' underlying legal obligation to satisfy enforceable court awards.

4.3 The Contribution of Collective Agreement Liabilities

Although there is no clear data, available evidence suggests that collective agreement claims constitute the dominant component of municipal court and enforcement expenditures. According to municipal representatives approximately 60%-70% of court and enforcement payments are related to collective agreement obligations. Findings from NAO reports support this assessment. According to municipal audit reports for 2024, collective agreement-related expenditures accounted for about 60% to 70% of court and enforcement payments in many municipalities and represented the dominant source of expenditure misclassifications identified by auditors. Using the lower-bound estimate of 60% as an indicative benchmark would imply that approximately €174 million of the €289.7 million spent through court and enforcement procedures between 2022 and 2025 could be associated, directly or indirectly, with collective agreement obligations. This estimate should, however, be interpreted with caution. While collective agreement-related expenditures remained a major component of court-enforced payments, the overall value of court and enforcement cases increased substantially in 2025 without a corresponding increase in expenditures directly classified as arising from collective agreements. Part of this additional increase may reflect other types of claims, including claims by contractors resulting from municipalities' inability to meet payment obligations. To the extent that such liquidity constraints were themselves aggravated by large collective agreement-related executions, the financial impact of collective agreements may extend beyond expenditures formally recorded under that category.

Box 3.1. Why Precise Estimation of Collective Agreement Expenditures Remains Difficult

Municipal financial reporting systems allow the identification of expenditures executed through court and enforcement decisions. However, these expenditure categories include a wide range of liabilities, including collective agreement claims, contractual disputes with economic operators, property-related claims and other court-enforced obligations.

The Treasury system does not contain a dedicated expenditure code for collective agreement-related payments. Consequently, such expenditures cannot be systematically identified or extracted directly from Treasury records and financial statements. Estimating this share requires additional analysis of municipal records, audit reports and information obtained through consultations with municipalities.

A further challenge is that not all collective agreement-related expenditures are necessarily reflected in court and enforcement data. During consultations, municipalities reported that some obligations have been settled directly through negotiations with employees and paid from municipal budgets without proceeding through enforcement procedures. Such payments are generally not identifiable through Treasury execution records and may therefore remain outside aggregate estimates based on court and enforcement expenditures.

As a result, neither Treasury data nor financial statements allow for a precise identification of the total value of collective agreement-related expenditures. The figures presented in this report should therefore be understood as the best available estimates based on currently available data sources. While sufficient to demonstrate the scale and implications of the issue, the actual fiscal impact of collective agreement-related liabilities may be higher than the amounts identified through court and enforcement expenditure data alone.

4.4 Collective Agreement Expenditures in 2024 and 2025

The analysis of collective agreement-related expenditures focuses on 2024 and 2025 because municipal audit reports for these years provide a more complete and consistent basis for identifying and comparing collective agreement-related expenditures across municipalities.

However, it is important to note that the expenditures reported in 2024 and in 2025 do not reflect obligations incurred during these years alone. Instead, they mostly represent payments for liabilities that accumulated over several years following the signing of the collective agreements (beginning in 2014). As many employee claims were resolved only after lengthy administrative and court proceedings, these liabilities were paid over time rather than when they first rose. As a result, the 2024 and 2025 expenditure figures should be understood as the settlement of accumulated obligations, rather than the annual cost of implementing the collective agreements.

The introduction of this reporting practice by NAO significantly improved transparency regarding the scale, financing sources and fiscal implications of collective agreement-related liabilities across municipalities. It also enabled a more systematic assessment of their impact on audit opinions and MPG eligibility.

The increased attention given to collective agreement-related expenditures may also reflect the growing importance of audit findings linked to MPG minimum conditions. As municipalities became increasingly affected by audit qualifications and MPG minimum conditions, greater attention was placed on identifying and reporting the underlying causes of audit findings.

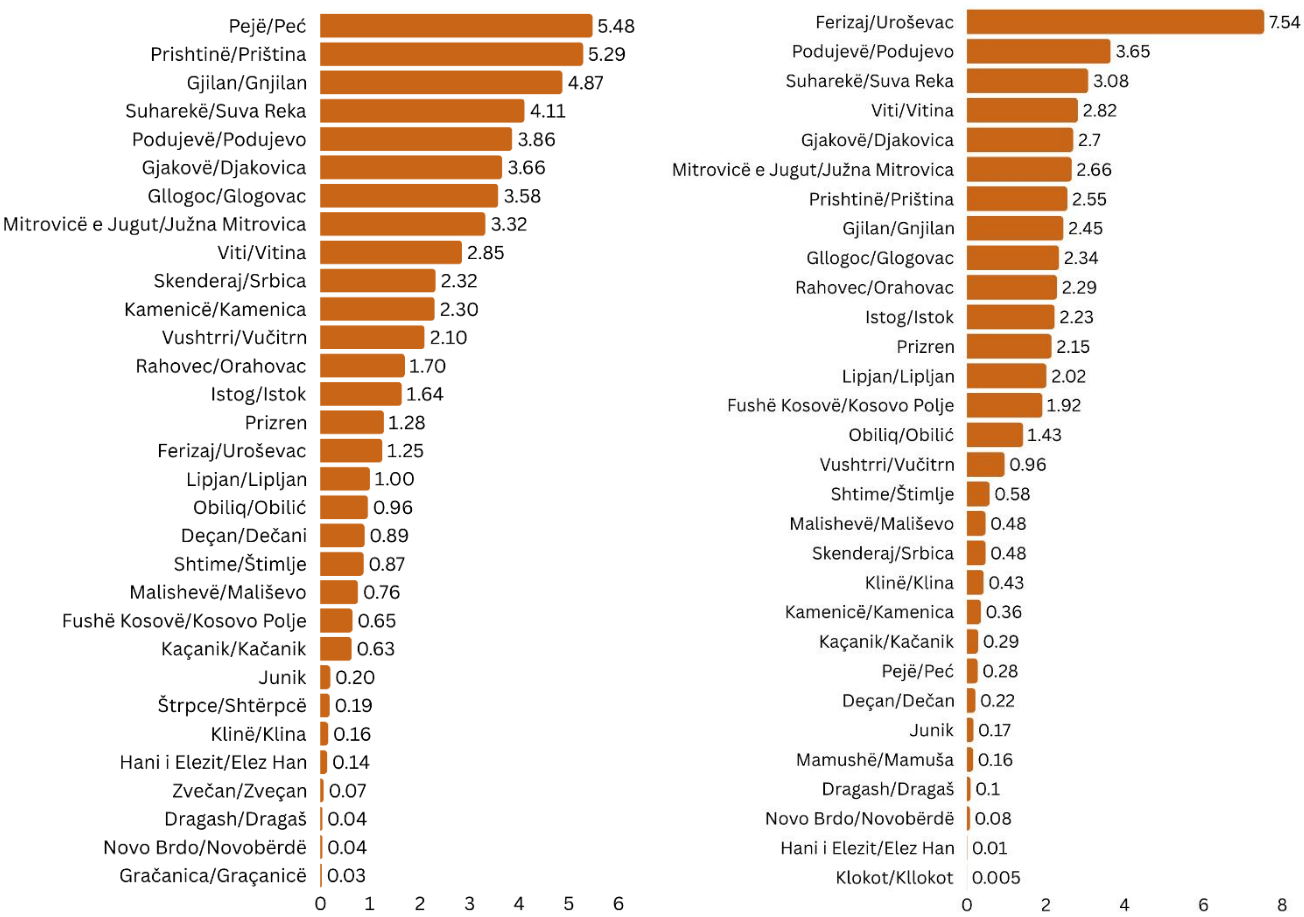

Figure 4.4. Identified collective agreement-related expenditures in mil Euros in a) 2024 and b) 2025

In 2024, collective agreement-related expenditures were identified in 32 municipalities, with a total available value of approximately €56.2 million. The graph in Figure 4.4a presents 31 municipalities, excluding Zubin Potok because its identified amount was only €731. Seven municipalities[10] received unmodified audit opinions[11], while four municipalities had no available data[12].

The 2025 graph (Figure 4.4b) includes 30 municipalities. Four municipalities[13] received unmodified audit opinions, while five municipalities[14] had no identified collective contract-related value/data in the reviewed audit findings.

The impact of collective agreement payments differs considerably when municipal size and budget capacity are taken into account. In 2024, Pejë/Peć recorded the highest absolute amount, at €5.48 million, followed by Prishtinë/Priština at €5.29 million, Gjilan/Gnjilan at €4.87 million, Suharekë/Suva Reka (€4.11 million), Podujevë/Podujevo (€3.86 million), , Gjakovë/Djakovica (€3.66 million), Gllogoc/Glogovac (€3.58 million) and Mitrovica/Južna Mitrovica (€3.32 million). While Prishtinë/Priština, Pejë/Peć and Gjakovë/ Djakovica are large municipalities, the amounts recorded in Suharekë/Suva Reka, Podujevë/Podujevo and Gllogoc/Glogovac are particularly significant given their comparatively smaller municipal budgets. Viti/Vitina (€2.67 million), Skenderaj/Srbica (€2.32 million) and Kamenicë/Kamenica (€2.30 million) also appear highly exposed relative to their size.

In 2025, Ferizaj/Uroševac became the clear outlier, with €7.54 million in identied collective agreement related expenditures. Podujevë/Podujevo (€3.65 million) and Suharekë/Suva Reka (€3.08 million) again ranked among the municipalities with the highest expenditures, while Viti/Vitina and Gllogoc/Glogovac remained high at at 2.82 and €2.34 million respectively. Rahovec/Orahovac (€2.29 million) and Istog/Istok (€2.23 million) also stand out because these amounts are substantial relative to their municipal size. By comparison, larger municipalities such as Prishtinë/Priština and Prizren recorded €2.55 million and €2.15 million respectively.

Looking across both years, Suharekë/Suva Reka, Podujevë/Podujevo and Gllogoc/Glogovac stand out as municipalities facing a persistently high burden, rather than only an isolated annual spike. Suharekë/Suva Reka recorded €4.11 million in 2024 and €3.08 million in 2025; Podujevë/Podujevo €3.86 million and €3.65 million respectively; and Gllogoc/Glogovac €3.58 million and €2.34 million. Together, these figures suggest sustained pressure on municipal fiscal space. By contrast, some of the largest individual amounts appear more year-specific, particularly Pejë/Peć in 2024 and Ferizaj/Uroševac in 2025. This distinction is important, as recurrent collective agreement payments may have a more structural impact on municipalities' ability to implement planned expenditures and meet existing contractual obligations.

4.5 Impact on Capital Investments

Capital investments are one of the primary instruments through which municipalities deliver local development and improve citizens' quality of life. Through capital investments, municipalities finance roads, schools, health facilities, public lighting, water supply systems, environmental infrastructure, public spaces and other assets that directly affect communities. Capital investments also play an important role in supporting local economic development by improving infrastructure, creating conditions for business activity, and generating employment opportunities during project implementation.

Given their importance, the ability of municipalities to plan and implement capital investments is closely linked to their capacity to respond to local priorities and deliver visible development outcomes. Any

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[10] Mamusha/Mamuša, Klinë/Klina, Kamenicë/Kamenica, Hani i Elezit/Elez Han, Dragash/Dragaš, Rahovec/Orahovac, Parteś/Partesh

[11] It should be noted that an unmodified audit opinion does not necessarily mean that no expenditure misclassification occurred. In some of the seven municipalities with unmodified audit opinions, misclassified expenditures were identified, but they were likely not material enough to lead to modification of the audit opinion.

[12] Ranilug/Ranillug, Mitrovicë e Veriut/Severna Mitrovica, Kllokot/Klokot, Leposavić/Leposaviq

[13] Ranilug/Ranillug, Mitrovicë e Veriut/ Severna Mitrovica, Štrpce/Shtërpcë – for these municipalities no expenditures related to collective agreements were identified

[14] Gračanica/Graçanicë, Leposavić/Leposaviq, Parteś/Partesh, Zubin Potok, Zvečan/Zveçan

factors that reduce the resources available for capital investments may therefore have broader implications for local development, service delivery and citizen satisfaction.

Under the Law on Public Finance Management and Accountability and the Annual Budget Law, municipalities are required to meet legally binding obligations, while salaries, social benefits and other priority expenditures cannot easily be reduced or deferred. As a result, when additional liabilities arise from collective agreements and related court decisions, municipalities have limited flexibility to absorb these costs within their current budgets. In practice, capital investments are often the expenditure category that is postponed or reduced to accommodate these obligations. To understand the scale of the issue, collective agreement and court-related expenditures can be compared with the total municipal budget and the resources available for capital investments.

The figure illustrates the scale of collective agreement and court-related expenditures relative to municipal finances. In 2024, the 26 municipalities analysed for which \collective agreement data include misclassified amount and the amount paid from the salaries and allowances budget category (Code 11900) had a combined budget of approximately €783 million, of which €268.6 million was allocated to capital investments. During the same year, these 26 municipalities spent approximately €55.2 million (7% of the total budget and 20% of the capital investment budget) on collective agreement obligations and €81.4 million (10.4% of the total budget) through court and enforcement procedures.

The scale of court and enforcement payments also raises the question of whether some costs could have been avoided through earlier planning and settlement. Once similar court decisions become established and liabilities are reasonably predictable, municipalities have a responsibility to assess potential obligations, disclose fiscal risks and plan payments in a way that minimises unnecessary enforcement costs.

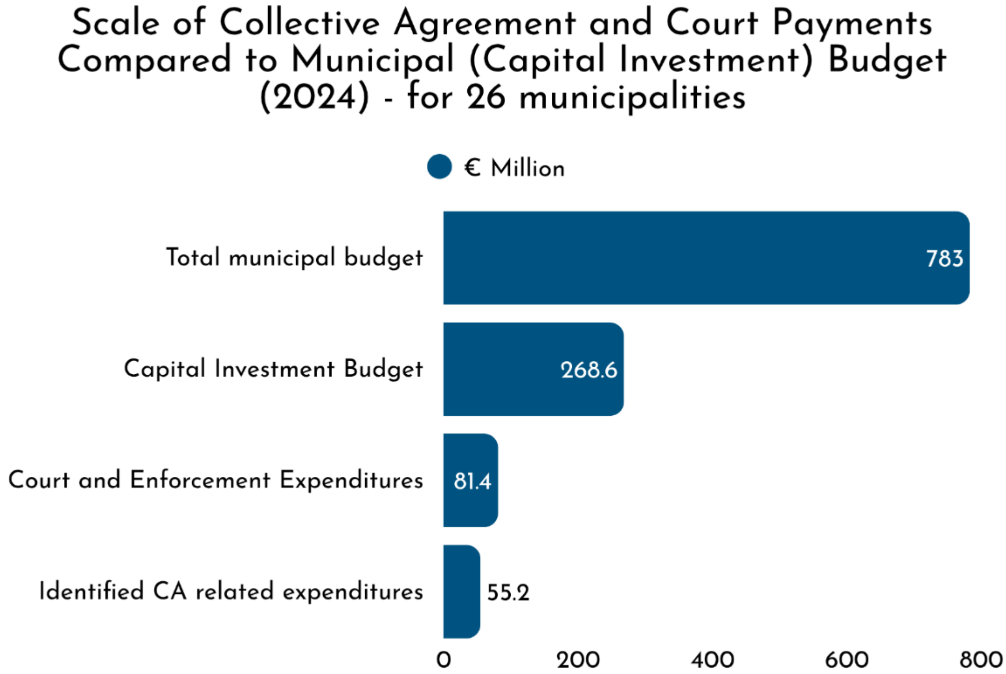


Figure 4.5.1 Scale of Collective Agreement and Court-Related Expenditures Relative to Total Municipal Budgets and Capital Investment Budgets (2024) – for 26 municipalities

At the same time, municipalities face constraints, including limited fiscal space, uncertainty about the number and timing of claims, and the absence of dedicated financing for obligations that they argue were not directly negotiated by them. This creates a situation in which waiting for enforcement may appear administratively safer, even though it increases the total cost to public budgets.

This means that a substantial share of resources that could otherwise finance roads, schools, health facilities, water supply systems, environmental infrastructure and other development projects was used to satisfy court-enforced obligations.

Municipalities consistently noted that the effects are most visible in capital investments, creating a significant transparency challenge.

> **“One day we have money in our account, the next day we do not. In such circumstances, it is very difficult to plan properly or to hold meaningful budget hearings with citizens.”**
>
> **— Chief Financial Officer, Municipality of Prizren**

Although financial reports may show high capital budget execution, citizens often do not see corresponding investments on the ground. This can create a gap between reported budget performance and public expectations. In many cases, expenditures recorded under capital budgets reflect court-enforced obligations rather than new infrastructure or public assets. As a result, capital budget execution rates may appear strong even though planned investments have been delayed or displaced, potentially weakening public trust in municipal budgeting, financial reporting, and local government performance. To improve transparency, municipalities could explain in their annual reports the extent to which capital budget execution reflects court enforced obligations rather than new capital investments. Reporting the value or share of these expenditures would give citizens a clearer understanding of budget execution and the factors affecting the delivery of planned investments. The impact is particularly significant for municipalities with smaller capital investment budgets. In these municipalities, collective agreement liabilities can consume a large share of available development resources, limiting their ability to implement infrastructure projects and respond to local priorities. Consequently, municipalities with similar legal obligations may experience very different financial consequences depending on their fiscal capacity and investment resources.

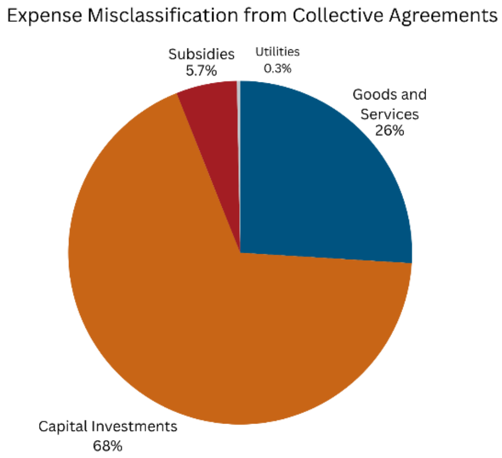


Figure 4.5.2 Distribution of Collective Agreement-Related Expenditures by Budget Category

The analysis shows that municipalities finance collective agreement-related expenditures primarily through budget categories that were originally intended for investments and service delivery.

The 2024 data indicate that collective agreement-related expenditures were financed predominantly from the Capital Investment category, which accounted for 76.2% of all identified expenditures across 32 municipalities. A further 19.1% was financed through the Goods and Services category, while 4.4% was financed through Subsidies and Transfers. Less than one percent was financed through other expenditure categories.

The 2025 data from municipalities reveal a similar pattern. Capital Investments remained the dominant source of financing in most municipalities.

The findings presented in this chapter demonstrate that collective agreement-related liabilities have become a significant fiscal challenge for municipalities. Their impact extends beyond the direct financial cost of employee claims and increasingly affects investment planning, budget flexibility and local development priorities. The following chapter examines how these liabilities affect municipal financial reporting, audit outcomes and compliance with the conditions of the Municipal Performance Grant system.

5 IMPACT ON AUDIT OPINIONS AND MUNICIPAL PERFORMANCE GRANT ELIGIBILITY

5.1 Collective Agreement Expenditures and Audit Findings

The impact of collective agreement-related liabilities extends beyond municipal finances and investment planning. In recent years, these expenditures have increasingly affected municipal financial reporting and audit outcomes, becoming one of the most significant issues identified by the NAO. This development is particularly noteworthy because municipalities have made considerable progress in addressing many audit findings that historically affected their audit opinions. Over the years, municipalities have invested significant efforts in improving asset registration and management, strengthening financial controls, and reducing expenditure misclassifications and other recurring audit findings that were largely within their control to address. As a result, many long-standing weaknesses identified by the NAO have gradually been reduced or resolved.

In contrast, collective agreement-related expenditures have emerged as a growing source of audit qualifications. Consequently, municipalities increasingly face qualified audit opinions not only because of weaknesses in financial management practices under their control, but also because of the accounting and budgetary implications of collective agreement-related obligations.

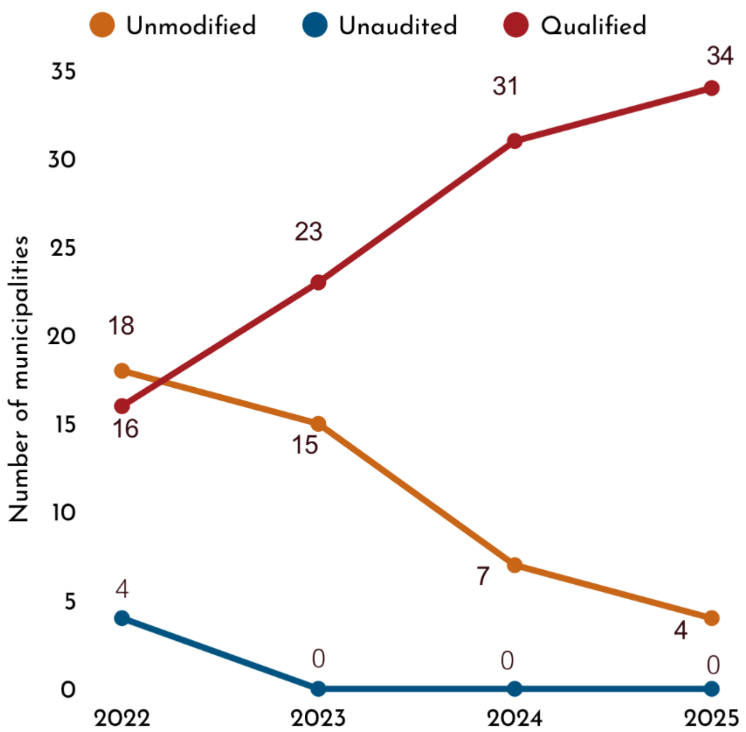


Figure 5.1.1 Municipal audit opinion trend, 2022–2025

Source: National Audit Office municipal audit reports; DEMOS analysis.

Figure 5.1.1 shows a clear deterioration in municipal audit outcomes between 2022 and 2025. The number of municipalities with unmodified audit opinions decreased from 18 in 2022 to only 4 in 2025, while qualified opinions increased from 16 to 34 over the same period. This trend does not mean that collective agreement-related expenditures were the only factor affecting audit opinions, but it shows the broader context in which these liabilities became increasingly important for municipal financial reporting and MPG eligibility.

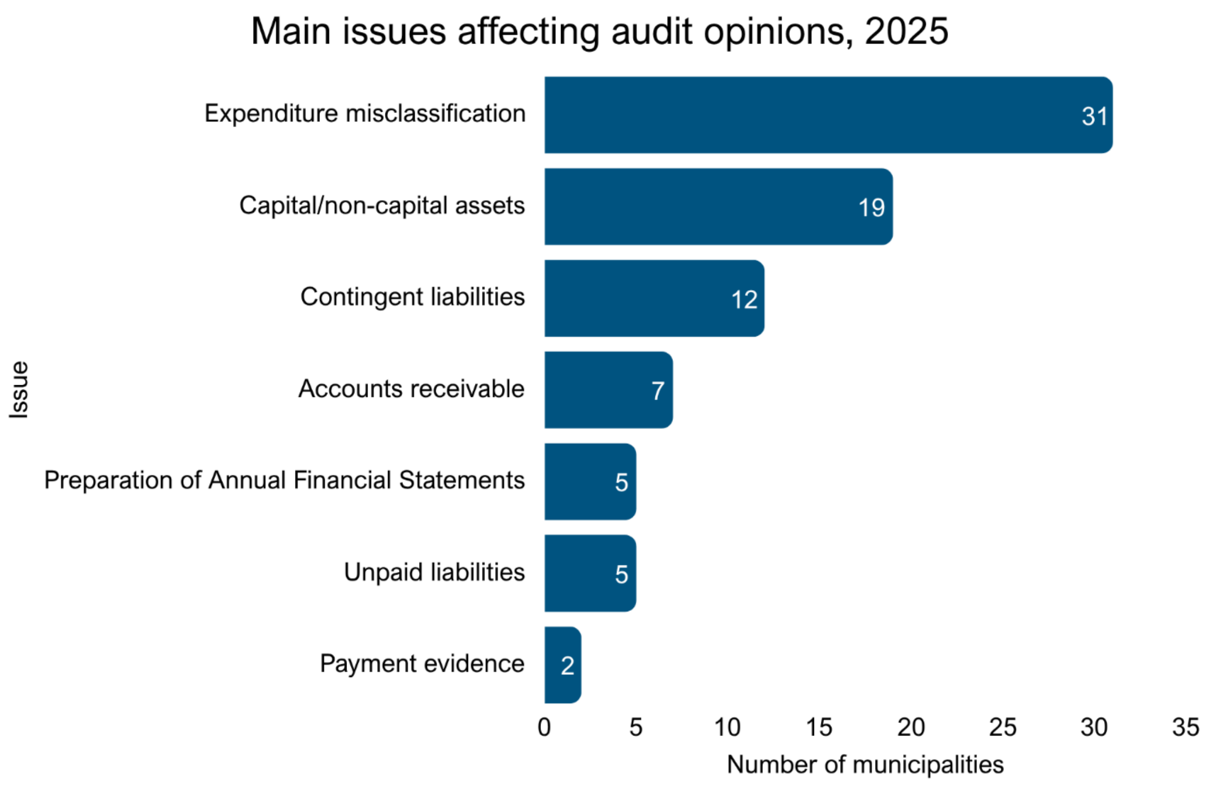


Figure 5.1.2 Main issues affecting municipal audit opinions, 2025

Source: National Audit Office municipal audit reports; DEMOS analysis.

In 2025, expenditure misclassification was the most frequent issue affecting audit opinions, identified in 31 municipalities. Other frequent issues included capital and non-capital assets, contingent liabilities and accounts receivable. Since collective agreement-related payments represented the dominant share of expenditure misclassification in 2025, they played an important role in explaining the audit outcomes for that year.

During consultations, the MFLT's approach of encouraging municipalities to plan for potential collective agreement-related liabilities through contingency provisions emerged as one of the few practical measures currently available within the existing legal framework. According to the NAO, this approach may help municipalities avoid expenditure misclassifications and improve compliance with budget classification requirements. At the same time, both the NAO and municipalities recognised its limitations considering that this does not mean additional budget allocation, but rather reallocation of the budget within the approved fiscal ceiling. As a result, municipalities argued that allocating resources to contingency provisions often requires reducing funds available for capital investments, while the measure does not address the underlying liabilities themselves. The NAO similarly viewed contingency budgeting as a useful but largely technical measure, emphasising that a more comprehensive solution would be needed to address outstanding liabilities and reduce the continued accumulation of enforcement costs, interest and other related expenses[15].

The primary challenge arises from the classification of expenditures executed through court decisions and enforcement procedures. Since collective agreement obligations originate from employee-related entitlements, they would normally be expected to be recorded within salary-related expenditure categories. However, when payments are executed through court and enforcement procedures,

[15] Interview with NAO

municipalities record them under the economic categories from which funds were withdrawn, such as goods and services, utilities, subsidies or capital expenditures.

As a result, auditors frequently identify expenditure misclassifications when reviewing municipal financial statements. While the underlying obligation may be legally valid, the accounting treatment may not comply with the applicable budget classification framework.

The figure 5.1.3 demonstrates that collective agreement expenditures accounted for the vast majority of expenditure misclassifications identified by auditors in 2025. Approximately 83% of the total value of expenditure misclassifications identified by the NAO was related to collective agreement expenditures. This suggests that the issue has become a dominant factor affecting municipal financial reporting.

In several municipalities, collective agreement-related expenditures accounted for all identified expenditure misclassifications. This indicates that, in the absence of collective agreement-related accounting issues, audit outcomes could have been substantially different.

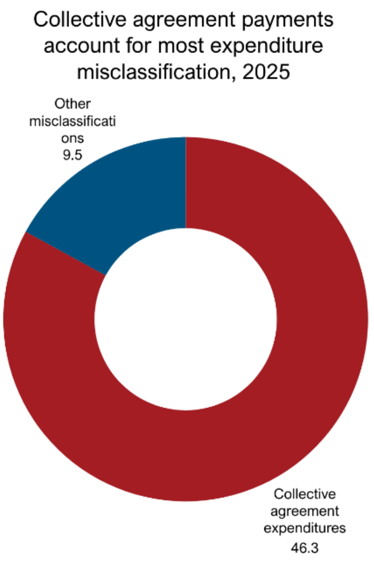


Figure 5.1.3. Contribution of Collective Agreement Expenditures to Total Misclassifications (2025)

5.2 Impact on Audit Opinions in 2024

The significance of collective agreement-related expenditures becomes even more apparent when examining municipal audit opinions.

This is particularly important because municipal audit opinions are one of the key minimum conditions under Kosovo's Municipal Performance Grant (MPG), a performance-based funding scheme that provides additional development financing to municipalities that meet a set of minimum governance and financial management requirements. Under the MPG framework, municipalities are required to obtain an unmodified (clean) audit opinion in order to satisfy Minimum Condition 3 (MC3). Municipalities receiving qualified, adverse or disclaimer opinions do not satisfy this condition and are therefore excluded from grant eligibility.

According to audit reports for fiscal year 2024, collective agreement-related expenditure misclassifications played a determining role in the audit outcomes of a significant number of municipalities.

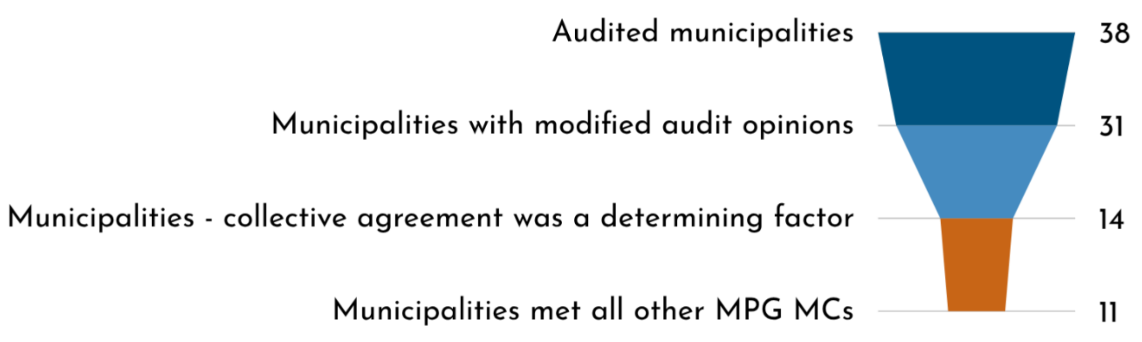


Figure 5.2. Impact of Collective Agreement Expenditures on Municipal Performance Grant Eligibility (2024)

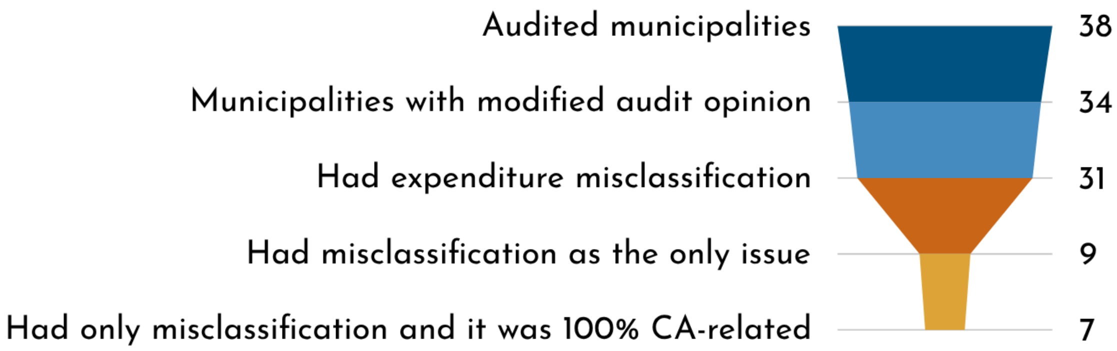
Figure 5.2 illustrates the extent to which collective agreement-related expenditures influenced municipal audit outcomes in 2024 and, consequently, eligibility for MPG funding. Of the 38 municipalities audited by the NAO, 31 received a qualified audit opinion. Within this group, collective agreement-related expenditure misclassifications were identified as a determining factor in 14 municipalities.

The figure further shows that 11 of these 14 municipalities fulfilled all other MPG minimum conditions. In other words, these municipalities would otherwise have been eligible for MPG funding had they not received a qualified audit opinion linked to collective agreement-related accounting issues. On the other hand, capital investment expenditures could have been lower if not affected by the collective agreement and have the opposite effect for the MPG.

The findings suggest that collective agreement expenditures had consequences beyond municipal finances and financial reporting. They also affected eligibility for performance-based financing, limiting the ability of some municipalities to benefit from additional development resources despite meeting other performance requirements.

5.3 Audit Outcomes and Misclassification in 2025

The issue appears to have continued during fiscal year 2025.



Analysis of these reports indicates that collective agreement-related expenditures continued to be a major contributor to expenditure misclassifications identified by auditors.

The figure demonstrates that collective agreement-related expenditures remained the dominant source of expenditure misclassifications in most municipalities audited in 2025. 9 municipalities had misclassification of expenditure as the only issue affecting the audit opinion. Out ot these 9 municipalities, in 7 municipalities collective agreement expenditures accounted for 100% of identified expenditure misclassifications.

These findings suggest that the influence of collective agreement expenditures on audit outcomes remains significant and may continue to affect Municipal Performance Grant eligibility in future years.

5.4 Impact on Minimum Condition 4 – Capital Investment Execution in 2025

Collective agreement expenditures may also affect compliance with Minimum Condition 4 (MC4) of the MPG, which requires municipalities to execute at least 75% of their capital investment budget.

To assess the potential effect of these expenditures, an illustrative analysis was conducted by removing only the value of collective agreement-related expenditures from capital budget execution rates.

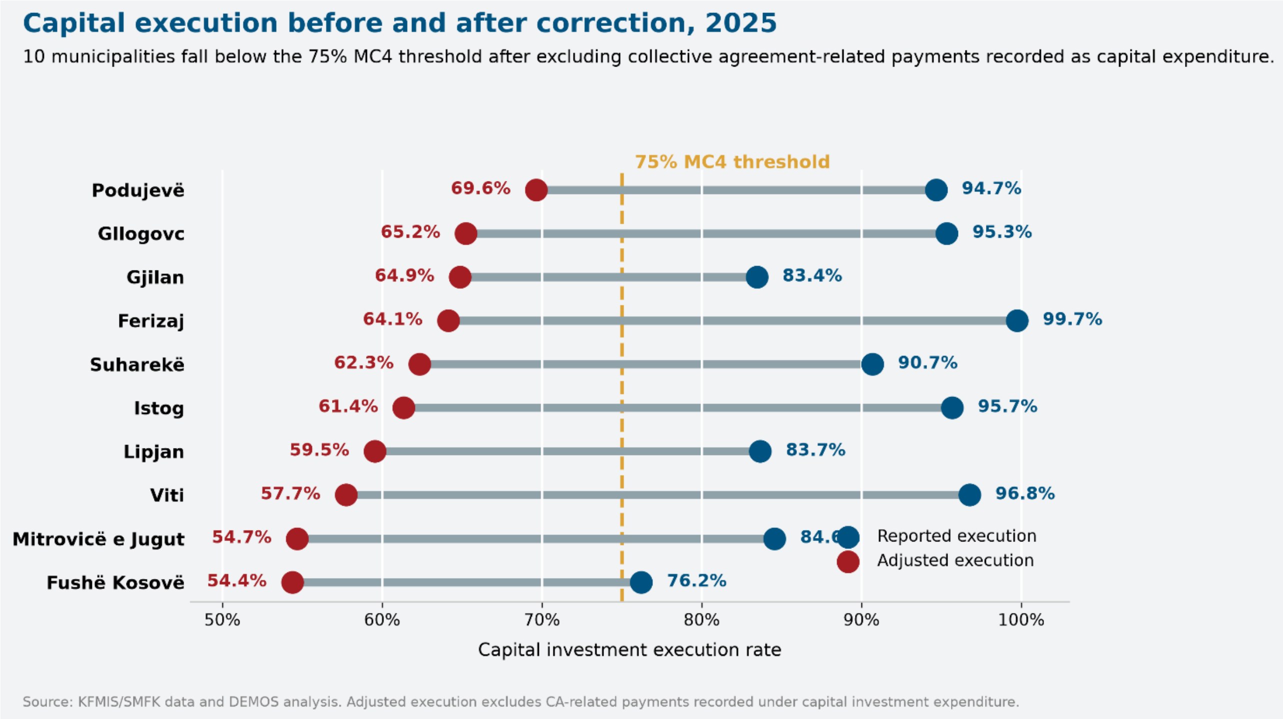


Figure 5.4. Effect of Collective Agreement Expenditures on Capital Budget Execution Rates (2025)

Figure 5.4 shows the effect of excluding collective agreement-related payments that were recorded under capital investment expenditure in 2025. Before correction, all ten municipalities shown reported capital investment execution above the 75% MC4 threshold. After removing collective agreement-related payments from capital expenditure, each of these municipalities falls below the threshold. This indicates that part of the reported capital execution did not reflect actual implementation of capital investment projects, but rather payments of collective agreement-related obligations recorded under the capital investment category. This figure again illustrates how the current accounting treatment can influence the measurement of performance and create outcomes that may not fully reflect actual investment implementation.

The evidence presented in this chapter demonstrates that collective agreement-related expenditures have become a significant factor affecting municipal audit outcomes and MPG eligibility in two minimum conditions. In 2025, collective agreement expenditures accounted for the majority of expenditure misclassifications identified by auditors and played a determining role in the audit opinions of numerous municipalities, but on the other side increased the level of capital investment expenditures. Findings from 2025 suggest that these effects may continue.

5.5 Performance Incentives and the Enabling Environment

The findings presented in this chapter raise broader questions regarding the relationship between municipal performance and the environment within which municipalities operate. International experience with performance-based grant systems suggests that municipalities can only be held accountable for results that are reasonably within their control.

Performance incentives are most effective when municipalities operate within an enabling environment that provides predictable resources, clear responsibilities and a reasonable degree of managerial autonomy.

International practice demonstrates that performance-based grant systems are generally designed to incentivise improvements in areas that local governments can reasonably influence through their own actions and management decisions. Where performance indicators are significantly affected by external factors, there is a risk that the incentive system may not fully reflect actual municipal performance or managerial effort.

These findings suggest that the policy discussion should extend beyond the design of MPG conditions alone. It should also consider whether the broader intergovernmental finance framework provides municipalities with sufficient predictability, fiscal autonomy and control over resources to enable effective management. Addressing collective agreement-related liabilities may therefore be important not only for municipal finances, but also for preserving the credibility and effectiveness of Kosovo's local governance system.

The following chapter examines the broader institutional, governance and political economy implications of the issue.

6 INSTITUTIONAL, GOVERNANCE AND POLITICAL ECONOMY PERSPECTIVES

6.1 Stakeholder perspectives and policy implications

Collective agreement-related liabilities affect different institutions in different ways. For municipalities, the issue is experienced primarily as a challenge of budget predictability, fiscal autonomy and investment planning. For the MFLT and the Treasury, the issue is linked to the implementation of final court decisions, compliance with the legal public finance framework and the execution of payments through available municipal budget appropriations. For the NAO, the central concern is whether expenditures are planned, classified and reported correctly in municipal financial statements. For courts and enforcement institutions, the issue appears through large numbers of similar employee claims and additional procedural costs. For employees, it concerns the realisation of legally recognised rights, while for citizens it affects the delivery of planned investments and services.

These different perspectives show that the issue cannot be understood only as a technical accounting problem or only as a labour-relations matter. It sits at the intersection of social dialogue, rule of law, municipal finance, audit accountability, decentralisation and service delivery.

Understanding these perspectives also helps explain why no comprehensive solution has been reached so far. Each institution sees only part of the problem and operates within different legal, financial and political constraints.

Stakeholder / perspective	Main concern	Implication for the solution
Municipalities and AKM	Municipalities are required to finance obligations from collective agreements that they did not directly negotiate or sign. Court and Treasury executions are difficult to predict and affect budget planning, capital investments, MPG qualification, and citizen expectations.	Any solution should address the mismatch between decision-making authority, financing responsibility and accountability. Municipalities need greater predictability, clearer financing arrangements and a mechanism for settling outstanding liabilities.
Ministry of Finance, Labour and Transfers	The Ministry must operate within the existing public finance framework and ensure that court decisions are executed. Contingency budgeting is one of the few practical tools currently available to reduce misclassification.	Contingency allocations can improve budget discipline and reduce misclassification, but they do not solve the underlying liabilities. They should be treated as a short-term management measure, not a comprehensive solution.
National Audit Office	Municipalities remain responsible for correct financial reporting and expenditure classification. Even legally valid obligations can result in audit findings if recorded under inappropriate budget categories.	Better planning, disclosure and classification are needed. However, audit compliance alone cannot resolve the broader fiscal and governance problem.
Courts and judiciary	Courts must protect legally recognised employee rights and enforce final decisions. However, large numbers of similar claims increase judicial workload.	A coordinated settlement mechanism could respect employee rights while reducing repetitive litigation and court burden.
Employees	Employees who litigate may secure payment, while others in similar circumstances may not receive the same benefits.	A more predictable and equitable approach is needed to avoid unequal treatment and reduce incentives for further litigation.
Citizens and local communities	Funds planned for capital projects and services may be redirected to court-enforced obligations. Reported capital execution may appear high even when citizens do not see corresponding investments.	Municipalities should disclose how court and collective agreement payments affect capital budgets, investment delivery and service priorities.

The table above summarises the main stakeholder perspectives identified through the analysis and consultations. It does not present these perspectives as opposing positions, but as different parts of the same problem. Together, they show why collective agreement-related liabilities require a coordinated institutional response. A more detailed presentation of stakeholder positions, including specific issues raised during consultations, is provided in Annex 4: Stakeholder Perspectives and consultation findings.

6.2 Enforcement Procedures and Incentives for Individualisation

The costs associated with collective agreement liabilities extend beyond the original employee entitlement. Once cases enter litigation and enforcement procedures, municipalities may incur additional expenses, including court fees, legal representation, expert assessments, interest and enforcement fees.

Consultations conducted for this study suggest that the current system creates incentives for claims to be processed individually rather than collectively. Because litigation and enforcement costs are linked to individual cases, municipalities may face substantially higher costs when large numbers of similar claims are pursued separately. Several stakeholders questioned why thousands of substantially similar cases must proceed through individual litigation when courts have already established precedents confirming the underlying legal principle. While the protection of individual legal rights remains essential, the current approach may generate substantial transaction costs for municipalities, courts, enforcement agents and Treasury.

The individualisation of claims also creates a considerable administrative burden. Processing large numbers of similar cases requires repeated action by courts, municipalities, enforcement agents and Treasury, diverting institutional resources from other priorities.

During consultations, AKM reported that an understanding with the Bailiffs Association was reached aimed at avoiding unnecessary individualisation of cases during enforcement procedures. While this may help reduce certain enforcement-related costs, municipalities noted that substantial costs may already have accumulated during earlier stages of litigation.

The findings suggest that the issue is not driven solely by the original employee entitlement but also by the cumulative costs generated throughout the litigation and enforcement process.

Figure 6.2 illustrates that a significant share of expenditures arises from the way claims are processed through litigation and enforcement procedures.

As an example, while the original employee entitlement amounted to €1,446, municipalities ultimately paid €2,297.89, representing an increase of approximately 59% above the principal amount.

The example demonstrates that a substantial portion of the final cost arises from procedural and transaction costs rather than from the original benefit itself. This suggests that policy solutions aimed solely at financing outstanding liabilities may not be sufficient unless accompanied by measures that reduce unnecessary litigation, enforcement costs and administrative burdens associated with the processing of large numbers of similar claims.

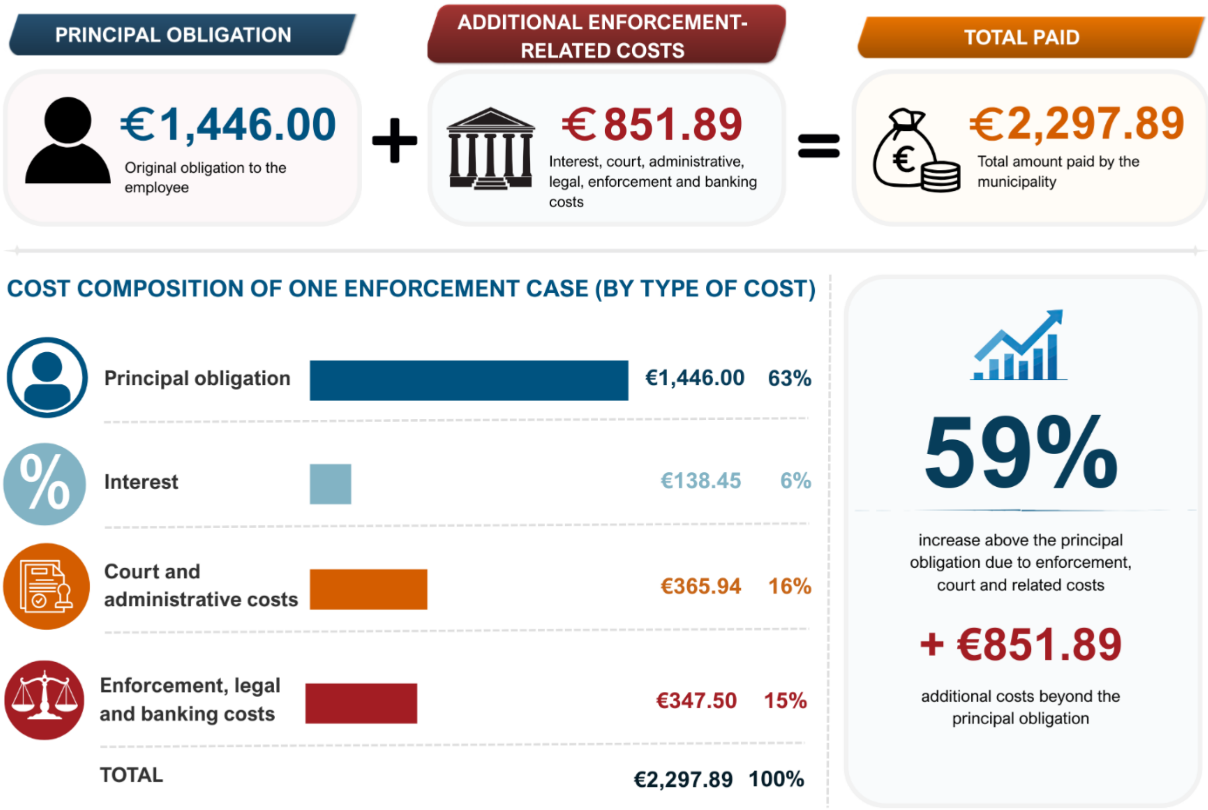


Figure 6.2. An example of how Costs Escalate Through the Litigation Process

The example presented in Figure 6.2 relates to only one benefit claim and shows that procedural costs associated with litigation and enforcement amounted to approximately €852, in addition to the original employee entitlement. Discussions with municipalities and other stakeholders indicate that employees submitted multiple claims for various benefits under the collective agreement rather than combining multiple benefits into a single claim.

As a result, procedural costs can accumulate rapidly. If an employee pursues four or five separate benefit claims through litigation and enforcement procedures, the associated procedural costs alone may reach €2,000 - €3,000 per employee, excluding the value of the underlying benefits themselves.

This finding suggests that a substantial portion of municipal expenditures is not necessarily driven by the value of employee entitlements but by the transaction costs generated through individual litigation and enforcement procedures. Consequently, the total fiscal impact of collective agreement liabilities depends not only on the number of beneficiaries but also on how claims are processed and resolved.

6.3 Shared responsibility and incentives for settlement

The transaction-cost analysis in Section 6.2 shows that delayed settlement can increase the overall cost of collective agreement-related obligations. However, the persistence of the issue cannot be explained by municipal behaviour alone or by central government decisions alone. It reflects a shared responsibility problem across the intergovernmental system.

> ***Key question:***
> **If liabilities are already confirmed or highly predictable, why should enforcement become the default route for payment?**

This is not a question of blame, but of public financial management. Municipalities did not create the original obligations, and they lacked dedicated financing. However, enforcement adds avoidable costs to public budgets. Once liabilities are legally confirmed or highly predictable, municipalities have a responsibility to assess the fiscal risk, inform municipal assemblies, plan payments where possible and avoid unnecessary enforcement costs.

Central institutions need to address the financing, legal and intergovernmental dimensions of the issue, including how future obligations are negotiated, assessed and financed.

Without clearer rules, stronger municipal risk planning and a coordinated approach to outstanding liabilities, the current system may continue to encourage delayed payment even when delay increases the total cost to public budgets. This is why the solution requires both central government action and stronger municipal responsibility.

7 RECOMMENDATIONS

The findings of this study show that liabilities arising from the collective agreements have evolved beyond a legal or labour-relations issue and now represent a broader fiscal, governance and intergovernmental finance challenge. Their effects extend from municipal budgets and capital investments to financial reporting, audit outcomes, performance-based grant eligibility, public confidence in local government, the functioning of the local government system, and more broadly, the rule of law and how equitable access to employee.

The analysis also suggests that no single measure is likely to resolve the issue. While municipalities remain responsible for implementing final court decisions, the scale of the liabilities, the costs generated through litigation and enforcement procedures, and the institutional factors that contributed to their emergence require a coordinated response involving both central and local government institutions.

The recommendations presented below seek to balance several objectives: protecting legally established employee rights, improving fiscal predictability and transparency, reducing avoidable litigation and enforcement costs, safeguarding local development investments, and preventing similar liabilities from arising in the future. The recommendations distinguish between immediate actions that can be implemented within the existing legal framework and longer-term reforms aimed at strengthening the sustainability of Kosovo's intergovernmental finance and collective bargaining systems. The recommendations should therefore be viewed as complementary elements of a broader response rather than as stand-alone measures.

7.1 Establish a Coordinated Institutional Response

The Government should establish a coordinated process involving the Ministry of Finance, the Ministry of Local Government Administration, municipalities, the Association of Kosovo Municipalities, and other relevant institutions.

The purpose of this process should be to:

- clarify the scale and nature of the remaining liabilities;
- improve the consistency of financial reporting;
- reduce avoidable litigation and enforcement costs;
- develop a realistic approach for addressing outstanding obligations; and
- prevent similar liabilities from arising in the future.

7.2 Improve the Identification and Reporting of Expenditures

The Ministry of Finance, should introduce a clear coding or tagging mechanism for collective agreement-related expenditures within the Treasury and the Kosovo Financial Management and Information System (KFMIS).

This would allow institutions to distinguish these payments from other court and enforcement expenditures and improve the quality of financial analysis, budgeting and reporting.

Until a dedicated coding mechanism is introduced, municipalities should be provided with guidance or develop their own (possibly through AKM) uniform way on how to record and disclose collective agreement-related expenditures in their annual financial statements and explanatory notes.

7.3 Provide Initial Government Support through Municipal Contingency Budgets

As an immediate measure, the Government of Kosovo should consider allocating funds to the contingency budgets of municipalities with confirmed collective agreement-related obligations.

The initial allocations could potentially be financed from identified savings within the 2026 budget, subject to an assessment of available fiscal space and the applicable budget procedures.

This would allow the Government to lead the response and support municipalities in paying court-confirmed liabilities before they generate additional enforcement costs, interest and legal expenses.

The allocation mechanism should be transparent and based on clearly defined criteria, including:

- the value of confirmed obligations;
- the scale of the burden relative to the municipal budget;
- the municipality's fiscal capacity;
- the risk of additional enforcement costs; and
- the quality of supporting documentation.

This measure would not replace the need for a comprehensive solution. However, it would reduce immediate fiscal pressure, limit further cost escalation and create a practical starting point for a coordinated response.

7.4 Develop a Mechanism to Reduce Litigation and Enforcement Costs

Relevant institutions should explore a coordinated mechanism for resolving substantially similar claims before they proceed through separate litigation and enforcement procedures.

The objective should be to protect employees' legal rights while reducing unnecessary transaction costs for municipalities, courts and other institutions.

Possible approaches should be assessed through legal review and consultation with relevant stakeholders. The mechanism should encourage timely settlement of confirmed obligations and avoid the unnecessary individualisation of similar claims.

7.5 Develop a Sustainable Approach for Outstanding Liabilities

The Government and municipalities should assess options for addressing the remaining liabilities in a comprehensive and predictable manner.

A sustainable approach should:

- define the categories of eligible claims;
- establish transparent procedures for verification;
- determine the responsibilities of central and local institutions;
- consider the fiscal capacity of municipalities;
- limit the continued accumulation of interest and enforcement costs; and
- provide greater predictability for municipal budget planning.

The approach should also consider the origin of the liabilities. Where obligations resulted from agreements negotiated outside municipal control, the discussion should include appropriate compensation arrangement from the central to local governments.

7.6 Strengthen Rules for Future Collective Bargaining

The experience with liabilities deriving from collective agreement should not be interpreted as diminishing the importance of social dialogue or collective bargaining within the public sector. Constructive engagement between government institutions, employers and employee representatives remains an important mechanism for protecting labour rights, promoting stable employment relations and supporting effective public administration.

However, future collective bargaining processes should ensure the meaningful participation of all institutions that may be responsible for implementing or financing the resulting obligations, including municipalities where relevant. Social dialogue processes should be supported by clear legal assessments, fiscal impact analyses and transparent consultations regarding implementation arrangements and financing responsibilities. Where collective agreements have implications for municipal finances or service delivery, municipalities and their representative bodies should be consulted during negotiations to ensure that potential impacts are fully understood and appropriately reflected in financing arrangements. Most importantly, the government should allocate additional funds to municipalities to cover those costs. Future collective agreements affecting municipal finances should be supported by:

- a comprehensive fiscal impact assessment;
- clear identification of the institutions responsible for financing the obligations;
- consultation with municipalities and other affected institutions;
- alignment with the regular budget planning process;
- appropriate financial allocations; and
- clear implementation and monitoring arrangements.

These safeguards are necessary to prevent the creation of obligations that are not matched by adequate financial resources.

7.7 Sequence the Response

The recommended measures should be implemented in three stages.

Immediate measures:

- establish a coordinated institutional process;
- map and quantify the remaining liabilities;
- assess available savings within the 2026 budget and consider allocating initial support to the contingency budgets of municipalities with confirmed obligations;
- issue/develop uniform guidance on expenditure classification and disclosure; and
- begin consistent monitoring of collective agreement-related expenditures.

Medium-term measures:

- introduce dedicated Treasury and KFMIS coding;
- develop a mechanism for early settlement of confirmed claims;
- ensure that Treasury executions are drawn first from dedicated contingency allocations;
- improve transparency in municipal financial reporting.

Structural measures:

- develop a sustainable approach for outstanding liabilities;
- compensation from the central to local governments;
- review Article 40 of the Law on Public Financial Management and Accountability for the execution of final court decisions by municipalities; and
- introduce fiscal impact assessment and consultation requirements for future collective agreements.

8 ANNEXES

Annex 1: Legal opinions of Kosovo Supreme Court regarding the collective agreements

*Legal Opinion on issues related to **the Collective Agreement of Education***

On 9 October 2023, the Supreme Court of Kosovo has issued a legal opinion on whether the regulation set by the collective agreement on education is binding on the signing parties when it comes to:

1. Whether employees have the right to have their salaries adjusted annually based on the inflation rate.
2. The time period during which the Collective Agreement on Education in Kosovo, No. 105, dated January 22, 2021, is applicable.

The Supreme Court of the Republic of Kosovo, in the General Session of all judges, based on Article 26, paragraph 1, point 1.4 of the Law on Courts (Law No. 06/L-54), on October 9, unanimously issues the following Legal Opinion: *"Regarding the requests of teachers for compensation based on qualifications (licensing), compensation in accordance with inflation, and the time period during which the Collective Education Agreement in Kosovo, No. 105, dated January 22, 2021, is applied".*

I. For the requests of teachers for compensation based on qualifications (licensing), compensation is made under the conditions and criteria defined by the Government Decision of the Republic of Kosovo No. 01/33, dated August 29, 2008.

II. Employees, based on the Collective Education Agreement in Kosovo dated April 18, 2017, and the Collective Education Agreement in Kosovo dated January 22, 2021, have the right to have the inflation percentage included in their salaries, based on the annual inflation rate determined by the Statistical Agency of the Republic of Kosovo, as stipulated in Article 35, point 10 of these agreements.

III. The Collective Education Agreement in Kosovo signed on January 22, 2021, by the employee organizations (United Union of Education, Science, and Culture, and the Government of the Republic of Kosovo - Ministry of Education, Science, and Technology), is applicable for the time period from January 22, 2021, to November 21, 2022.

*Legal Opinion on issues related to **the Collective Agreement on Health***

Similarly, on 09 October 2023, the Supreme Court of the Republic of Kosovo, in the General Session of all judges, pursuant to Article 26, paragraph 1, point 1.4 of the Law on Courts (Law No. 06/L-54), on October 9, with a majority vote, issues the following Legal Opinion *"On the implementation of the sectoral collective agreement regarding the claims for the 13th salary of healthcare workers".*

"Healthcare workers, in labour disputes concerning claims for the 13th salary, based on the Sectoral Collective Agreement dated 12.06.2018, have the right to compensation for the 13th salary for each calendar year, in the amount of the basic salary, subject to the budgetary capabilities of the employer. The Supreme Court of Kosovo considers that, as formulated in the cited provision, the matter of compensating the 13th salary for healthcare workers is conditional upon the employer's financial capabilities, specifically whether there are available budgetary funds. Consequently, the aforementioned provision must be interpreted to mean that the right to claim the 13th salary arises when the employer fails to fulfil the obligation provided, they cannot prove a lack of budgetary capacity. According to this Court, if an employee submits a claim for compensation of the 13th salary, asserting that they meet the specified conditions, it is the employer's burden to demonstrate, at every stage of the procedure where the court provides an opportunity for concrete evidence, that budgetary constraints prevent such compensation".

Annex 2: Collective Agreement-Related Expenditures by Municipality (2024 2025)

Municipality	2024 (€)	2025 (€)	Total 2024-2025	Data source note
Deçan/Dečan	885,751	219,490	1,105,241	2024: NAO audit report; identified CA-related expenditure executed by the Treasury through enforcement procedures. 2025: NAO; amount represents CA-related misclassification.
Dragash/Dragaš	45,110	105,000	150,110	2024: NAO audit report; identified CA-related expenditure executed by the Treasury through enforcement procedures. Municipality had an unmodified audit opinion. 2025: NAO; amount represents CA-related misclassification.
Ferizaj/Uroševac	1,245,685	7,537,110	8,782,795	2024: municipal annual financial statement; expenditures for education and health sectors recorded under budget code 11900, “court decisions,” within salaries and allowances, used as a proxy for CA-related payments, plus NAO-identified misclassification (€195,685). 2025: NAO; amount represents CA-related misclassification.
Fushë Kosovë/Kosovo Polje	649,587	1,921,761	2,571,348	2024: NAO; amount represents only NAO-identified misclassification. 2025: NAO; amount represents CA-related misclassification.
Gjakovë/Đakovica	3,662,771	2,700,991	6,363,762	2024: NAO audit report; identified CA-related expenditure, including misclassified amount. 2025: NAO; amount represents CA-related misclassification.
Gjilan/Gnjilan	4,866,807	2,452,435	7,319,242	2024: municipal expenditure analytical ledger (kartela analitike e shpenzimeve) published on the municipal website; payments for the education and health sectors recorded as “court decisions” under the salaries and allowances category, plus NAO-identified misclassification. 2025: NAO; amount represents CA-related misclassification’s
Gllogoc/Glogovac	3,580,855	2,341,210	5,922,065	2024: NAO audit report; identified CA-related expenditure, including misclassified amount (€2,488,200). 2025: NAO; amount represents CA-related misclassification.
Gračanica/Graçanicë	26,720	No data available	26,720	2024: NAO; amount represents only NAO-identified misclassification.
Hani i Elezit/Elez Han	142,676	13,791	156,467	2024: municipal annual financial statement; expenditures for education recorded under budget code 11900, “court decisions,” within salaries and allowances, used as a proxy for CA-related payments, plus NAO-identified misclassification (27,791). 2025: NAO; amount represents CA-related misclassification.
Istog/Istok	1,637,434	2,231,264	3,868,698	2024: municipal annual financial statement; expenditures recorded under budget code 11900, “court decisions,” within salaries and allowances, used as a proxy for CA-related payments, plus NAO-identified misclassification (€626,785). 2025: NAO; amount represents CA-related misclassification.
Junik	202,326	171,033.53	373,360	2024: NAO audit report; identified CA-related expenditure executed by the Treasury through enforcement procedures, including misclassified amount (€161,589). 2025: municipal interview data; amount refers to CA-related payments. Municipality had an unmodified audit opinion.
Kaçanik/Kačanik	626,017	285,737	911,754	2024: NAO audit report; identified CA-related expenditure executed by the Treasury through enforcement procedures, including misclassified amount (€458,448). 2025: NAO; amount represents CA-related misclassification.

Kamenicë/Kamenica	2,302,150	363,721	2,665,871	2024: municipal annual financial statement; expenditures recorded under budget code 11900, “court decisions,” within salaries and allowances, used as a proxy for CA-related payments plus NAO-identified misclassification (€37,029); municipality had an unmodified audit opinion. 2025: NAO; amount represents CA-related misclassification.
Klinë/Klina	157,032	434,328	591,360	2024: municipal annual financial statement / court decisions executed through the Treasury from salaries and allowances; municipality had unmodified audit opinion. 2025: NAO; amount represents CA-related misclassification.
Klokot/Kllokot	No data available	5,508	5,508	2025: NAO; amount represents CA-related misclassification.
Leposavić/Leposaviq	No data available	No data available	No data available	No amount identified in the reviewed sources
Lipjan/Lipljan	1,001,295	2,024,565	3,025,860	2024: NAO/identified collective agreement-related expenditure from Court Decisions executed through the Treasury including identified misclassification (403,589). 2025: NAO; Amount represents CA-related misclassification.
Malishevë/Mališevo	764,580	481,311	1,245,891	2024: municipal annual financial statement / court decisions executed through the Treasury from salaries and allowances plus NAO identified misclassification (41,465); municipality had unmodified audit opinion. 2025: NAO; amount represents CA-related misclassification.
Mamuša/ Mamushë	Clean audit opinion/No data available	161,987	161,987	2025: NAO; amount represents CA-related misclassification.
Mitrovica e Jugut/Južna Mitrovica	3,321,174	2,658,483	5,979,657	2024: municipal financial statement/court decisions executed through the Treasury from salaries and allowances plus NAO-identified misclassification (593,680). 2025: NAO. amount represents CA-related misclassification.
Severna Mitrovica/ Mitrovicë e Veriut	No data available	Clean audit opinion/no data available in the annual audit report	No data available	No amount identified in the reviewed sources
Novo brdo/Novobërdë	35,784	80,899	116,683	2024: NAO; amount represents only NAO-identified misclassification. 2025: NAO; amount represents CA-related misclassification.
Obiliq/Obilić	959,273	1,429,172	2,388,445	2024: municipal financial statement/court decisions executed through the Treasury from salaries and allowances plus NAO-identified misclassification (796,648). 2025: NAO. amount represents CA-related misclassification.
Parteś/Partesh	Clean audit opinion/No data available	No data available	No data available	No amount identified in the reviewed sources
Pejë/Peć	5,479,672	275,597	5,755,269	2024: NAO/identified collective agreement-related expenditure from Court Decisions executed through the Treasury including identified misclassification (2,109,921). 2025: NAO; Amount represents CA-related misclassification.
Podujevë/Podujevo	3,861,535	3,653,581	7,515,116	2024: NAO/identified collective agreement-related expenditure from Court Decisions executed through the Treasury including identified misclassification (2,166,110). 2025: NAO; Amount represents CA-related misclassification.

Prishtinë/Priština	5,286,654	2,546,154	7,832,808	2024: municipal financial statement/court decisions executed through the Treasury from salaries and allowances plus NAO-identified misclassification (1,508,162). 2025: NAO; Amount represents CA-related misclassification.
Prizren	1,276,235	2,148,191	3,424,426	2024: municipal financial statement/court decisions executed through the Treasury from salaries and allowances plus NAO-identified misclassification (208,324). 2025: NAO; Amount represents CA-related misclassification.
Rahovec/Orahovac	1,696,453.64	2,289,103	3,985,557	2024: municipal data provided by the Municipality of Rahovec; payments executed for the education and health sectors; Municipality had unmodified audit opinion. 2025: NAO; amount represents CA-related misclassification.
Ranilug/Ranillug	No data available	Clean audit opinion/no data available in the annual audit report	No data available	No amount identified in the reviewed sources
Shtime/Shtimlje	868,505	582,606	1,451,111	2024: NAO/identified collective agreement-related expenditure from Court Decisions executed through the Treasury including identified misclassification (461,764). 2025: NAO; Amount represents CA-related misclassification.
Skenderaj/Srbica	2,317,772	478,807	2,796,579	2024: municipal financial statement/court decisions executed through the Treasury from salaries and allowances plus NAO-identified misclassification (862,157). 2025: NAO; Amount represents CA-related misclassification.
Štrpce/Shtërpcë	191,066	Clean audit opinion/no data available in the annual audit report	191,066	2024: NAO; amount represents only NAO-identified misclassification.
Suharekë/Suva Reka	4,107,583	3,082,897	7,190,480	2024: NAO/identified collective agreement-related expenditure from Court Decisions executed through the Treasury including identified misclassification (2,457,441). 2025: NAO; Amount represents CA-related misclassification.
Viti/Vitina	2,847,712	2,817,932	5,665,644	2024: municipal financial statement/court decisions executed through the Treasury from salaries and allowances plus NAO-identified misclassification (175,754). 2025: NAO; Amount represents CA-related misclassification.
Vushtrri/Vučitrn	2,097,888	964,242	3,062,130	2024: municipal financial statement/court decisions executed through the Treasury from salaries and allowances plus NAO-identified misclassification (658,353). 2025: NAO; Amount represents CA-related misclassification.
Zubin Potok	731	No data available	731	2024: NAO; amount represents only NAO-identified misclassification.
Zvečan/Zveçan	74,246	No data available	74,246	2024: NAO; amount represents only NAO-identified misclassification.
Total (available data)	**56,219,080**	**46,458,907**	**102,677,986**	

Colour coding: The colours indicate the level of CA-related payments across municipalities. **Red** indicates a very high level of CA-related payments, **yellow** indicates a high level, while lighter colours indicate lower levels. The categorisation reflects the amounts reported for each municipality and does not account for differences in municipality size or population.

Annex 3: Payments as per court and enforcement decisions 2022-2025

Municipality	2022	2023	2024	2025	Total 2022 - 2025
Gllogoc/Glogovac	2,418,201	1,077,771	3,580,866	3,082,963	**10,159,801**
Fushë Kosovë/Kosovo Polje	147,843	1,028,531	3,342,321	1,958,541	**6,477,236**
Lipjan/Lipljan	354,842	368,834	1,775,177	2,387,613	**4,886,466**
Obiliq/Obilić	405,103	199,209	1,330,128	1,815,148	**3,749,588**
Podujevë/Podujevo	1,895,158	1,123,115	3,861,535	3,786,581	**10,666,389**
Prishtinë/Priština	6,218,087	4,757,254	10,582,839	45,691,077	**67,249,257**
Shtime/Shtimlje	128,097	511,946	869,882	742,880	**2,252,805**
Gračanica/Graçanicë	260	274,323	752,986	679,992	**1,707,561**
Dragash/Dragaš	174,075	483,498	938,113	419,442	**2,015,128**
Prizren	1,688,164	4,023,424	5,573,248	12,695,072	**23,979,908**
Rahovec/Orahovac	295,253	920,102	1,779,043	2,634,091	**5,628,489**
Suharekë/Suva Reka	972,282	615,959	4,133,857	3,082,898	**8,804,996**
Malishevë/Mališevo	812,800	763,977	1,254,073	1,229,547	**4,060,397**
Mamushë/Mamuša	91,074	1,449	51,323	179,221	**323,067**
Deçan/Dečani	1,404,868	2,149,951	4,388,918	3,862,934	**11,806,671**
Gjakovë/Djakovica	624,185	2,065,307	3,280,432	3,672,160	**9,642,084**
Istog/Istok	1,150,495	732,475	2,349,111	2,231,264	**6,463,345**
Klinë/Klina	54,749	64,632	312,908	609,560	**1,041,849**
Pejë/Peć	1,132,612	5,466,897	7,081,044	2,394,830	**16,075,383**
Junik	63,132	107,915	215,400	171,034	**557,481**
Leposavić/Leposaviq	0	0	168,723	707,372	**876,095**
Mitrovica/Južna Mitrovica	3,615,609	1,168,509	5,042,057	3,581,153	**13,407,328**
Skenderaj/Srbica	183,203	54,834	2,455,186	1,588,555	**4,281,778**
Vushtrri/Vučitrn	199,229	2,610,378	3,566,054	3,699,807	**10,075,468**

Zubin Potok	21,893	0	69,066	46,288	**137,247**
Zvečan/Zveçan	678	31,059	72,966	63,376	**168,079**
North Mitrovica/Severna Mitrovica	0	17,663	4,671	N/A	**22,334**
Gjilan/Gnjilani	5,733,917	1,987,677	7,006,316	9,064,340	**23,792,250**
Kaçanik/Kačanik	56,645	17,656	736,775	1,322,644	**2,133,720**
Kamenicë/Kamenica	364,754	561,289	2,504,310	1,400,521	**4,830,874**
Novo Brdo/Novobërdë	103,266	83,959	121,499	196,456	**505,180**
Štrpce/Shtërpcë	132,670	343,817	419,416	202,301	**1,098,204**
Ferizaj/Uroševac	4,990,519	5,190,665	3,260,412	8,236,793	**21,678,389**
Viti/Vitina	872,800	971,428	3,308,823	2,818,263	**7,971,314**
Parteš/Partesh	25,474	204,962	5,325	4,015	**239,776**
Hani i Elezit/Elez Han	69,000	124,389	204,161	311,843	**709,393**
Klokot/Kllokot	30,937	89,043	29,069	58,484	**207,533**
Ranilug/Ranillug	30,184	7,408	0	N/A	**37,592**
Total	**36,462,058**	**40,201,305**	**86,428,033**	**126,629,058**	**289,720,455**

Source: Annual Financial reports for the years 2022-2025, Ministry of Finance

Annex 4: Stakeholder perspectives and consultation findings

Municipalities and AKM Perspective

Municipal representatives consistently acknowledged that court decisions must be respected and implemented. At the same time, municipal representatives expressed concerns regarding the scale, unpredictability and distribution of collective- agreement-related liabilities.

A recurring concern was that municipalities became responsible for financing obligations arising from agreements that they did not negotiate or sign directly. They argued that while municipalities are expected to implement the resulting obligations, the associated financial consequences were not fully reflected in municipal financing arrangements.

The growing difficulty of budget planning was also emphasized. Unlike many other expenditure categories, court decisions and Treasury executions are often difficult to predict. They reported that liabilities accumulated over several years may materialise within a relatively short period, reducing budget flexibility and making it difficult to prioritise investments and service improvements.

Several municipalities as well as representatives of the Association of Kosovo Municipalities (AKM) also highlighted what they perceived as an inconsistency within the current framework. On one hand, municipalities are required by the Ministry of Finance to budget for contingent liabilities arising from court and enforcement decisions. On the other hand, municipalities are generally not permitted to budget directly for collective agreement benefits before such claims are confirmed through judicial procedures. According to municipal representatives, this creates a situation where the underlying obligation is not recognised for regular budgeting purposes, yet court-confirmed payments arising from the same obligation must subsequently be financed through municipal budgets. During consultations, several stakeholders questioned why Treasury continues to execute payments arising from collective agreement claims if the legal basis for budgeting such obligations directly remains disputed.

Municipal representatives further noted that liabilities attributed to collective agreement affect their ability to deliver on development priorities communicated to citizens. It also makes the consultations with citizens on budget planning redundant and often meaningless. Resources originally planned for infrastructure projects and service improvements may need to be redirected to court-enforced obligations, making it more difficult to implement commitments reflected in municipal development plans and annual budgets. As a result, municipalities face increased challenges in meeting citizen expectations despite complying with legally binding obligations. Furthermore, municipalities may have less flexibility to address urgent infrastructure maintenance, co-financing opportunities, environmental challenges, demographic pressures or other priority interventions. During consultations, municipalities indicated a willingness to engage in discussions on comprehensive and binding solutions that would bring closure to the issue. Some municipal representatives stated that they would be prepared to accept short-term fiscal sacrifices, including a temporary reduction in capital investment spending, if this resulted in a sustainable settlement of outstanding liabilities and prevented the continued accumulation of litigation, enforcement and interest costs. Municipalities consistently argued that the priority should be to resolve the root causes of the problem rather than to rely on temporary measures that address only its symptoms. Municipal representatives also discussed the MF's recommendation to budget for court-confirmed liabilities through contingency budget provisions. While municipalities generally acknowledged the existence of this mechanism, most reported that they had not systematically used it. A frequently cited challenge was the difficulty of predicting when specific court decisions would become enforceable and when Treasury executions would occur. They argued that, in practice, effective use of contingency budgets would require continuous monitoring of individual cases and frequent reallocations of funds as liabilities materialise. Given the large number of ongoing cases in some municipalities, several interviewees considered this approach administratively burdensome and difficult to implement.

Municipalities further acknowledged weaknesses in the tracking and management of collective agreement-related cases. Most municipalities reported that they do not maintain comprehensive systems for monitoring the status of claims, court proceedings, settlements and payments. As a result, some stakeholders interviewed expressed concerns that insufficient tracking may increase the risk of duplicate payments or other administrative inefficiencies. The Municipality of Kaçanik/Kačanik represented a notable exception, reporting that a dedicated staff member had been assigned to monitor and manage collective agreement-related cases.

At the same time, municipal representatives generally argued that improved case management alone would not resolve the underlying problem. While some municipalities have pursued legal action against central institutions, arguing that they should not bear the financial consequences of obligations arising from agreements in whose negotiation they did not participate, municipalities acknowledged that relatively limited efforts have been undertaken collectively to develop systematic mechanisms for tracking liabilities, coordinating responses or reducing future litigation. This suggests that, alongside broader policy reforms, there may also be opportunities to strengthen municipal administrative practices and case management systems.

Box 5.1. Municipal Perspective: Budget Unpredictability and Public Trust

Municipal representatives emphasised that collective agreement-related liabilities affect not only municipal finances but also the credibility of local budgeting processes. During budget hearings, municipalities discuss priorities and make commitments to citizens regarding projects and services that will be delivered. However, when significant resources are later redirected towards court decisions, enforcement procedures or Treasury executions, planned investments and operational expenditures may no longer be affordable.

Interviewees described situations where municipalities effectively have resources available one day and lose access to them the next due to Treasury-executed payments. This makes budgeting less predictable and creates difficulties in delivering commitments made to citizens. Several municipalities noted that it becomes challenging to return to budget hearings the following year when projects promised in previous consultations have not been implemented, potentially undermining public trust and the credibility of municipal leaders.

The experience of Prizren illustrates these challenges. According to the 2025 audit report, the municipality paid approximately €12.7 million through Treasury executions based on court and enforcement decisions. The audit report also identified €2.15 million in expenditure misclassifications related to collective agreement payments, including approximately €1.4 million charged to the Goods and Services category and more than €700,000 charged to Capital Investments. Municipal representatives reported that these expenditures significantly reduced budget flexibility and, according to statements by the Mayor, contributed to difficulties in covering basic operational expenditures towards the end of the fiscal year.

The Prizren case illustrates how court-enforced liabilities can affect multiple aspects of municipal governance simultaneously, including budget predictability, implementation of planned investments, operational spending and public confidence in municipal budgeting processes.

Central government policy perspective: MESTI and MLGA

The collective agreement issue has been shaped not only by fiscal considerations but also by differing legal and institutional interpretations regarding the validity, implementation and financing of the agreement.

In this context, the Ministry of Education, Science, Technology and Innovation (MESTI) has argued that the collective agreement contained significant legal and procedural deficiencies. In its notification terminating the agreement[16], the Ministry stated that it lacked a sufficient legal basis, was inconsistent with applicable legal provisions and public policy requirements and had been signed by a party whose

[16] Notification for Termination of Collective Agreement dated 22 January 2021, Ministry of Education, Science, Technology and Innovation, Notification Nr. 01B/488; 21.11.2022

legal legitimacy and authority to conclude such an agreement was contested. The Ministry further argued that the agreement was not supported by an adequate fiscal assessment or budgetary arrangements and that the resulting obligations had not been fully integrated into public financial planning processes.

From the perspective of central institutions, these shortcomings contributed to the disputes and liabilities that subsequently materialised through court proceedings and enforcement procedures. However, the legal landscape has been shaped by differing interpretations.

While the MESTI maintained that the agreement suffered from legal and procedural deficiencies, courts have subsequently recognised and enforced claims arising from the agreement. At the same time, final court decisions have been executed through Treasury procedures in accordance with the applicable legal framework. This illustrates the complex interaction between differing institutional interpretations, judicial decisions and fiscal implementation mechanisms. The Supreme Court has further provided legal guidance on specific issues related to the implementation of collective agreements. Consequently, regardless of differing views concerning the origins and validity of the agreement, its fiscal consequences have become a tangible reality for municipalities and the broader public finance system.

The Ministry of Local Government Administration (MLGA) indicated that it recognizes the implications of collective agreement-related liabilities for municipal performance and MPG eligibility. According to MLGA representatives, discussions have already taken place with NAO and other stakeholders regarding the effects of collective agreement-related expenditures on audit outcomes and grant eligibility.

At the same time, MLGA emphasised that broader issues related to collective agreement liabilities, court decisions and Treasury execution procedures extend beyond its institutional mandate. Consequently, while the Ministry is willing to facilitate discussions regarding implications for municipal performance and grant systems, it considers the resolution of the underlying liabilities to require engagement from a broader group of institutions.

Ministry of Finance Perspective

Representatives of the Ministry of Finance emphasised that collective agreement-related obligations present particular challenges from a budget planning perspective. According to the Ministry, the collective agreement was concluded without a comprehensive assessment of its fiscal implications and created obligations that were not incorporated into regular budget planning processes.

The Ministry further noted that municipalities cannot easily budget collective agreement liabilities through the regular budgeting process because, prior to court decisions, such obligations do not constitute clearly defined and legally enforceable budget commitments. The number of beneficiaries, the value of claims and the timing of payments often remain uncertain until liabilities are confirmed through judicial procedures. For this reason, the Ministry issued a budget circular instructing municipalities to plan under the contingency budget lines the appropriate budgetary mechanism for managing these expenditures, demonstrating once again inconsistent approach among central government institutions in treating the issue. Once liabilities are established through court decisions, municipalities may use contingency provisions to finance the resulting obligations. According to the Ministry, greater use of contingency budgets could reduce expenditure misclassifications, improve compliance with budget classification rules and lower the risk of modified audit opinions that affect MPG eligibility.

The Ministry also argued that earlier budgeting and payment of court-confirmed obligations through contingency provisions could help reduce the overall cost of liabilities. By paying court decisions before cases proceed to enforcement procedures, municipalities may avoid additional costs associated with enforcement agents, legal representation, interest and other procedural expenses. From this perspective, contingency budgets are viewed not only as an accounting solution but also as a mechanism that could potentially reduce the total fiscal burden arising from collective agreement-related claims. At the same time, Ministry representatives acknowledged that contingency provisions are primarily a technical budget management instrument. While they may help municipalities manage the accounting, audit and cost implications of court-confirmed liabilities, they do not eliminate the underlying obligations or address the root cause of the problem and factors that continue to generate litigation, enforcement costs and new claims.

National Audit Office Perspective

Representatives of the National Audit Office (NAO) acknowledged the significant financial challenges created by collective agreement-related liabilities. However, they emphasised that municipalities remain responsible for complying with existing public financial management requirements, including obligations related to the planning and reporting of contingent liabilities.

According to NAO, the Law on Budget Appropriations, together with annual budget circulars issued by the Ministry of Finance, require budget organisations to assess and plan for contingent liabilities arising from court and enforcement decisions. From the NAO perspective, municipalities should therefore make greater use of available budget mechanisms, including contingency budget provisions, to manage court-confirmed liabilities.

NAO further noted that municipalities have generally not made systematic use of contingency budget provisions for this purpose. As a result, expenditures resulting from court and enforcement decisions are frequently financed from other budget categories, contributing to expenditure misclassifications and modified audit opinions.

According to NAO, municipalities should first utilise the budgetary instruments available within the current public financial management framework and demonstrate whether these mechanisms are efficient to address the issue. In this regard, the use of contingency budget provisions represents an important test of whether the existing framework can reduce audit findings and improve compliance with budget classification requirements.

At the same time, NAO recognises that contingency budgets primarily address the financial reporting and budget management aspects of the issue. Whether they are sufficient to address the broader fiscal impact of collective agreement-related liabilities remains a separate policy question.

Court and Judicial Perspective

The issue has also created significant pressures on the judicial system. According to information obtained during consultations, the large volume of collective agreement-related claims has generated substantial administrative workload for courts.

A court official informally met indicated that approximately 2,000 individual claims related to collective agreement obligations were submitted within a single day. According to the official, employment-related claims concerning salaries and benefits are often treated as matters affecting livelihoods and economic security and therefore receive priority attention.

Although this observation does not represent an official position of the judiciary, it illustrates the operational challenges associated with processing large numbers of substantially similar claims. The concentration of such cases can affect court workloads and may reduce the capacity available to address other disputes. The issue has also raised concerns regarding the relationship between judicial protection of individual rights and the administrative burden associated with processing large volumes of similar claims.

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