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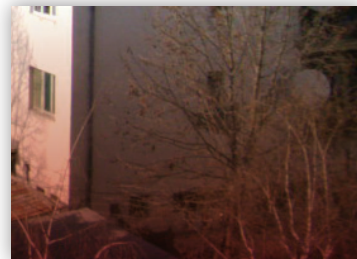
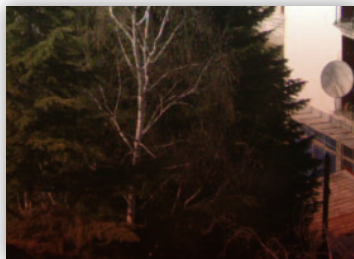
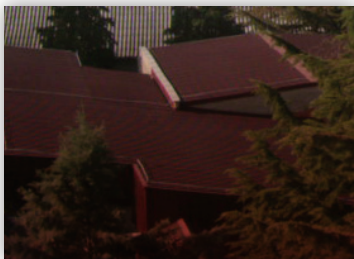
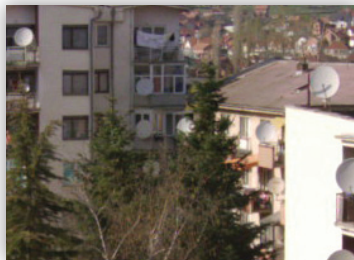
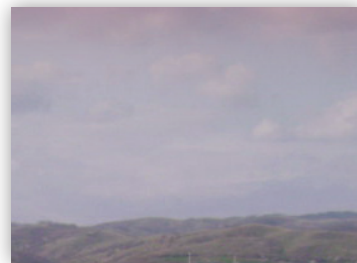
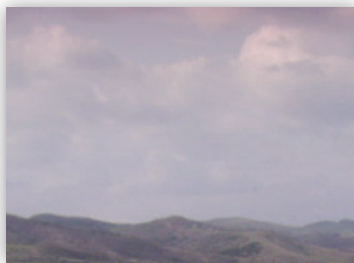
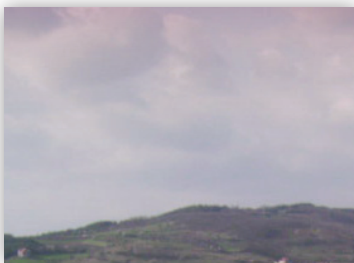
HELVETAS
Swiss Intercooperation

KOSOVO

Swiss – Kosovo

Local Governance and Decentralization Support

LOGOS



Analysis and Forecasting for

Own Source Revenues in the Municipality of Kamenica

LOGOS



This report was prepared by RECURA Financials for the LOGOS project implemented by HELVETAS Swiss Intercooperation

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Introduction

This report analyzes Own Source Revenues in the municipality of Kamenica, a partner municipality of the LOGOS Project (Local Government and Decentralization Support). The report is based on historical data and assumptions made based on the findings from field visits and discussions with municipal officials, and forecasts the generation of Own Source Revenues for the period 2012-2016.

This report is part of the engagement of the financial expert from RECURA Financials, as a consultant to the Local Government and Decentralization Support project (LOGOS) supported by the Swiss Agency for Cooperation and Development, and implemented by HELVETAS Swiss Intercooperation.

This report should be seen as an independent outside evaluation of the municipal performance in generating OSR and in estimating the municipal potential for OSRs in the future. In making the forecasts, the consultant used historical performance, as reported in the Auditor General reports, the Treasury Department of the Ministry of Finance and the Municipal Budget and Finance Department, as well as assumptions and estimates based on observations and discussions with municipal officials. A note of caution is that as all forecasts, one should be careful in interpreting them as expectations rather than guaranteed results. To achieve forecasted results there needs to be engagement first and foremost by the municipality in improving planning and forecasting capacities, reporting of revenues as well as a pro-active approach in developing policies, setting rates and collecting revenues from services. Another stakeholder engaged at this level of governance is the Ministry of Finance, especially the Departments of the Treasury, Budgeting and the Property Tax Department.

The report below outlines the historical performance of the municipality in generating OSR and interprets some of the observations for the different OSR categories over the 2007-2011 period. Then, the report outlines the assumptions made in the forecasting model to conduct the forecasts for OSR generation for the period 2012-2016. Provided that these forecasts are achieved, the report analyzes the forecasted trends and tries to interpret the causes of such forecasted performance. Finally, the report gives some indicative suggestions on areas that municipalities could be supported by the project in order to achieve the objective of increasing own source revenues generated by the municipality.

Legal Background To Own Source Revenues

The municipal own source revenues are regulated with the Law on Local Government Finances (LLGF), which was enacted in June 2008 as part of the Ahtisaari Settlement package of laws and defines the municipal financing. As specified in Article 8 of the Law on Local Government Finance, municipalities were provided with new financial resources that would be utilized to deliver services to their citizens. Among these financial resources are those referred to as Own Source Revenues (OSR). Municipal Own Source Revenues are generated by municipal taxes, fees, charges and fines and make about 10-20% of total annual municipal financing Kosovo wide.

The LLGF lists the categories of own source revenues:

- Municipal taxes, fees, user charges, other payments for public services provided by the municipality, and regulatory charges and fines authorized by the present law
- Rents on immovable property situated in the municipality and under the administration or ownership of the municipality
- Revenues from the sale of municipal assets
- Revenues from undertakings wholly or partially owned by the municipality
- Co-payments from consumers of education and health services provided by the municipality
- Revenues collected by any agency, department or organization of the municipality as a result of the provision of any goods or services
- Interests of municipal deposits, if any
- Any other category of revenue that is designated as municipal own source revenue in a law of the Republic of Kosovo

The Municipal Own Source Revenues (OSR) known also as Municipal Administration Revenues (AR) are divided into two groups: direct and indirect revenues. Direct revenues are services rendered within the municipal administration whereas indirect OSR are the revenue sources that are centrally collected by a line ministry of an agency and are added to municipal accounts: traffic fines and court fees. In addition, parts of OSR are also primary education revenues, primary health care revenues and donor funding which also includes citizen's participations.

Internal Municipal Organization Of Osr Collection

The collection of the OSR in municipalities is done through the Kosovo Central Banking Authority (KCBA). This system was established by the Ministry of Finance and is utilized efficiently by most of the municipalities.

The municipality is provided with a separate bank account within the central banking authority, which is used by the municipalities to save financial resources collected and to affect payments. The Budget and Finance Department designates UNIREF receipt with serial number to each Department that generates OSR. In theory there should be a separate UNIREF for each economic code used to generate revenues, however in reality both the use of economic codes and the UNIREF system leaves a lot to be desired.

Each Department has an assigned municipal official that is in charge of accepting the UNIREF receipts. The municipal officials in charge of issuing the UNIREF receipt against each service rendered report back to the official in charge of all municipal OSR at the OSR Unit within the Municipal Department of Budget and Finance. The OSR Unit within Budget and Finance Department is then responsible to report revenues to the Treasury Department within the Ministry of Finance.

The collection process depends on the value of services that are rendered to the citizens. All services that are below 10 Euro are paid in cash whereas services that are above this amount are paid directly to the bank with a designated UNIREF payment order issued by the person in charge of each department issuing the receipt.

In cases when services are charged at 10 Euro or below, these fees are collected directly by the municipal department officer and reported at the close of business day with one single UNIREF receipt as a lump-sum.

Observations Of The Current Osr System In Kosovo

The basic document regulating own source revenues at the municipal level is the Municipal Regulation on Taxes, Fees, User Charges and Fines. The regulation defines services provided to citizens by the municipalities, municipal departments in charge of providing these services and the costs of such services to citizens.

Although most municipalities now have several years of experience in planning, managing and collecting own source revenues, there are still many problems with the system. At the national level, many of these fees and charges are poorly regulated and not clearly defined with respect to the Chart of Accounts and/or the public sector billing system (UNIREF). At the local level, many of these fees are haphazardly reported by local governments and collected by a number of different municipal departments and agencies who do not work together. Equally importantly, local governments lack, or do not use, information about the base, rate, and yields of these fees to develop coherent local OSR policies. In particular, they are often unable to attribute the origin of fees and taxes to physical and legal persons; to distinguish the payment of past debts from current liabilities and thus to analyze collection rates; and to analyze the yields of particular fees and charges in relation to their bases, or the number taxpayers.

A general problem with all of the municipalities is that the Municipal Regulation on Taxes, Fees, User Charges and Fines is not very clear, lists many municipal services that generate OSR, without linking these to economic codes from the Chart of Accounts that should be used for reporting these revenues. Also, the problems with aligning economic codes with the UNIREF system create further confusion when reporting these revenues. A lack of a MIS system for OSR at the municipalities in addition to the problems outlined above make it almost impossible to do in-depth analysis of own source revenues generated in municipalities, disaggregate data in terms of users of services, identify and disaggregate between old debts and current year invoices, and consequently makes it difficult to improve planning of own source revenues and develop appropriate policies and decisions by the municipal management.

The issues identified above affecting especially the way municipalities record and then report OSR make it difficult to disaggregate data in more detail and analyze past trends, consequently making extrapolation of data and forecasting very difficult. Furthermore, anticipated changes in the legal environment regarding own source revenues, affecting especially the property tax, construction related taxes and business taxes, will change the proportions of contributions by the different categories of revenues and will affect the bottom line OSR in most municipalities.

In order to improve the business enabling environment, the national government has recently completely eliminated business license fees, which used to compose on average 8% of municipal OSR. Further, it is expected that with the new Law on Construction, planned to be passed in 2012, construction permit charges that are levied by municipalities for issuing permits for new construction will also be completely eliminated. This is an even bigger problem as construction permits compose more than 20% of municipal revenues on average, thus creating an even larger hole in OSR generating capacities for municipalities. These changes, although contributing to a more business and investment friendly environment will create problems for municipalities. Further suggestions being given to the Government for reducing the amount of the central level general grant will decrease the total level of municipal revenues, which will make it more difficult for municipalities to provide the services to their citizens as required. In principal, while changes to the total revenues to municipalities (including the introduction of the new census data to the calculation) should be phased in carefully, municipalities must at the

same time retain meaningful sources of OSRs if they are to build new infrastructure, and if they are to retain some real fiscal autonomy and take some real responsibility for taxing citizens and firms in their jurisdictions. As things stand now, property tax, although even currently the most important OSR at municipal level, will gain even more importance as it will be the only source actually driving revenues at municipal level and that can actually allow municipalities to generate from and re-invest for their citizens. For this reason, the focus of the efforts at the municipal level should be at improving the policy, planning and collection of property tax.

The Ministry of Finance Property Tax Department have also recently decided to introduce additional quality of built coefficients into the calculation of the property tax. They have piloted the new system in two municipalities in 2011 and it is expected that the system will be rolled out to 11 new municipalities in 2012. The effect of the introduction of quality coefficients, which will determine a mark-up or mark-down from the basic bill depending on the quality of the property, is expected to in general decrease the amount of property tax invoiced in general, however when factoring the effect of the increase in the minimum tax rate to 0.15% of the property value, then the aggregated effect should be positive with regards to property tax invoiced. However, the challenge of maintaining the same level or increasing collection of property tax remains the biggest challenge. Municipalities should do their utmost to perform well with property tax if they are to at least offset the effects of the elimination of two major sources of OSR and the potential decrease of the general grant from the central level.

Historical performance

When analyzing the historical performance of the municipality of Kamenica, the consultants have used Auditor General reports, reports from the Treasury Department of the Ministry of Finance and the Municipal Budget and Finance Department, as well as extensive consultations with relevant municipal officials. The historical data may not accurately show exact sources of own source revenues due to inconsistent classification of OSR, including the different definitions of revenues of the same type and using different economic codes from the Chart of Accounts for the same revenue, or using completely wrong codes in reporting OSR. Further, there are still issues regarding the use of economic codes in respect to UNIREF bar-code system to register issues invoices and revenues.

This section of the report presents an analysis of the historical performance of the municipality of Kamenica in the collection of own source revenues and analyzes outlying trends.

	Codes	2008	2009	2010	2011
Revenues from property tax	40110	182,500.68	160,119.44	180,393.91	232,675.31
Income from businesses		120,981.92	101,822.85	84,565.20	107,273.60
Revenues from business tax	50006	83,614.90	78,892.00	68,926.00	90,673.00
Revenues from commercial licenses		10,777.00	5,806.00	4,311.00	
Revenues from licenses for ads	50212	0.00	0.00	0.00	
Revenues from licenses and services		0.00	0.00	0.00	
Revenues from forest exploitation licenses		0.00	0.00	0.00	
The use of road infrastructure		0.00	0.00	0.00	
Revenues from stonebreakers and mines	50203	17,705.02	5,764.35	1,328.20	3,676.20
Fees for prolonged working hours		0.00	10,090.00	9,095.00	
Revenues from business licenses	50204	8,885.00	1,270.50	905.00	3,434.90
Change of business tax	50007				
Licenses for individual activities	50201				
Licenses for professional services	50206				
Licenses for transport of goods	50208				
Licenses for harvesting	50209				
Licenses for games (video games / slot machines)	50210				
Licenses for alcoholic beverages and services	50211				
Licenses for hunting and fishing	50213				
Licenses for shops on streets, Kiosques	50202				6,160.00
Licenses for big stores	50217				
Licenses for construction companies	50218				
Licenses for architectonic companies	50220				
Licenses for hotels	50221				
Licenses for insurance services	50223				
Licenses for petrol and gas retail outlets	50308				
Other licenses for businesses	50290				3,329.50
Other taxes on businesses	40050				
Presumptive tax	40010				

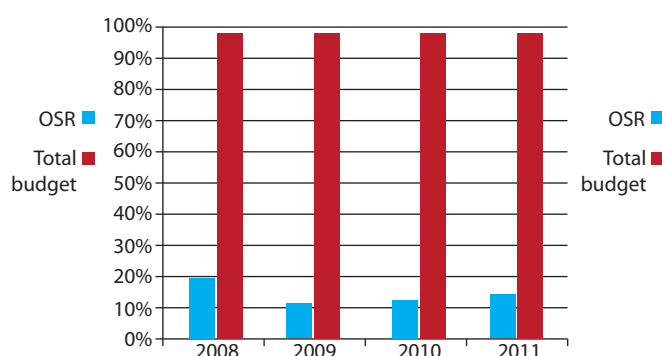
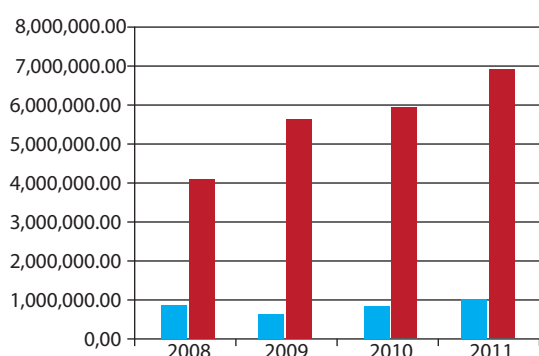
Revenues from use of the municipal property		18,165.00	12,126.90	11,114.80	33,296.55
Revenues from parking of vehicles	50008	696.90	1,216.70	51.00	
Revenues from the sale of Municipal property	50413	0.00	3,120.00	1,515.00	
Revenues from use of the land	50405	7,168.10	5,611.20	5,778.80	22,695.25
Rent of municipal properties	50408	10,300.00	2,179.00	3,770.00	
Revenues from the sale of goods	50403				10,601.30
Sale of official gazette	50404				
Use of public property for open market	50406				
Rent from leasing to trading companies	50407				
Revenues from concessions	50417				
Revenues from rent on residential property	50418				
Revenues from sales of services		90,784.63	51,209.69	58,525.55	57,766.65
Revenues from inspections		10,215.00	7,471.50	6,167.20	
Veterinary inspections	50505	254.38	243.30	2,094.40	1,736.60
Inspection of food premises	50501	0.00	0.00	0.00	
Inspections for fire		135.00	0.00	0.00	
Inspection of the environment		0.00	0.00	0.00	
Revenues from geodesic plans		0.00	0.00	0.00	
Activities in the field to measure the country - Dept. of Urbanization	50504	0.00	4,703.50	2,922.00	3,028.00
Inspections of urban plans - Dept. of Urbanization	50503	0.00	0.00	0.00	1,580.00
Revenue from building permits		36,537.00	1,770.00	1,940.00	
Payments for the change in land usage	50012	0.00	740.00	3,603.75	5,992.00
Issuance of construction licenses	50009	43,373.25	36,281.39	41,798.20	42,949.20
Demolition license	50010	0.00	0.00	0.00	
Other services		270.00	0.00	0.00	
Technical check of buildings	50205				2,480.85
Sale of services	50401				
Inspection - sanitary hygienic	50507				
Inspections of weighting equipment	50508				
Inspection og measurement units at petrol stations	50509				
Tax for legalization	50026				
Revenue from court fines, police and municipality		113,065.76	128,740.92	139,473.82	93,441.50
Fines		1,834.00	2,155.00	5,130.00	
Fines - Forestry		5,055.80	4,123.92	16,716.66	
Court Fees		73,525.96	87,411.00	87,872.16	46,445.00
Revenues from traffic fines	50101	32,650.00	35,051.00	29,755.00	17,926.00
Inspectorate Fines	50104				29,070.50
Other fines	50107				
Removal and Deposition of vehicles	50103				
Other					
Other payments	55300	0.00	0.00	0.00	
Other Revenues	55300	0.00	0.00	0.00	
Revenues from administrative tax		95,948.60	151,448.06	159,633.50	146,670.00

Fees from the registration of vehicles	50001	39,401.60	43,910.48	45,395.00	48,197.00
Issuance of driving licenses	50005	0.00	0.00	0.00	
Fees from traveling documents	50003	0.00	0.00	0.00	
Tender participations	50020	2,330.00	180.08	3,930.00	120.00
Road tax	50002	815.00	1,103.00	1,244.00	883.00
Certificate of the registrar (birth, marriage, death etc.).	50013, 50014, 50015	50,036.00	83,257.50	70,206.00	81.00
Other registrar documents		0.00	0.00		63,122.00
Certification of different documents	50017	670.00	4,786.00	555.00	520.00
Tax for request forms		650.00	0.00	19,289.00	
Inheritance registration fee	50011	2,046.00	18,211.00	19,014.50	17,614.00
Health certificates for driving licenses	50024				
Tax on ID Cards	50004				
Other administrative taxes	50019				16,133.00
Tax other certificates	50016				
Tax on photocopy of various docs	50018				
Citizenship certificate tax	50025				
Product stamps	50412				
Citizen Participation (health and education)		75,984.35	68,357.91	64,713.90	73,556.06
Revenues from culture	50409	0.00	0.00	0.00	
Revenue from health services	50409	65,724.60	59,000.91	50,571.90	73,556.06
Revenues from kindergarten	50409	0.00	0.00	0.00	
Revenues from secondary Education	50409	10,259.75	9,357.00	14,142.00	
Grants and donations		250,933.91	44,000.00	210,843.14	422,267.23
Citizen participation in projects		172,000.00	44,000.00	34,105.00	34,886.00
Foreign donations		15,667.50	0.00	176,738.14	92,381.23
Kosovo donors		63,266.41	0.00	0.00	295,000.00
Total OSR Generated during the financial year		948,364.85	717,825.77	909,263.82	1,166,946.90
Carried forward revenues		252,000.00	312,000.00	168,010.25	339,753.63
Grand Total		1,200,364.85	1,029,825.77	1,077,274.07	1,506,700.53

Table 1. Municipality of Kamenica - Historical Own Source Revenue Collection 2008-2011

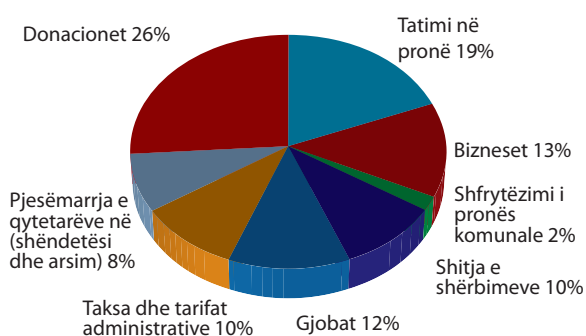
When analyzing historical trends of own source revenues in the municipality of Kamenica, one can notice the following observations for the main groups of own source revenues. As presented in the table 1, Kamenica municipality recorded a decrease in the generation of OSR of 25% in 2009 when compared to 2008, whereas in 2010 OSRs generated during the year increased by 27% as compared to 2009. Revenues generated during 2011 increased by 28% compared to collection in 2010; this increase was partly driven by increased donations to the municipality. If one ignores donations, the increase during 2011 compared to 2010 is 7%, which is still a significant increase driven mainly by increased collection of property tax.

Own Source Revenues generated during the financial year in Kamenica were on average at 16.37% of the total annual budget set for the municipality at the beginning of the year. This is presented in the two figures below:

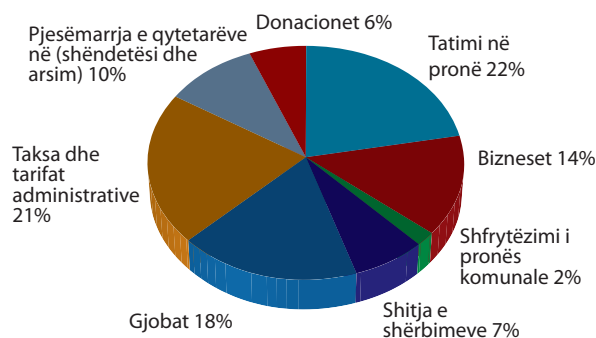


The majority of the income for this municipality was generated by donations, property taxes, revenues from business taxes, sale of municipal services and court and traffic fines. A breakdown of the participation of different categories is presented below:

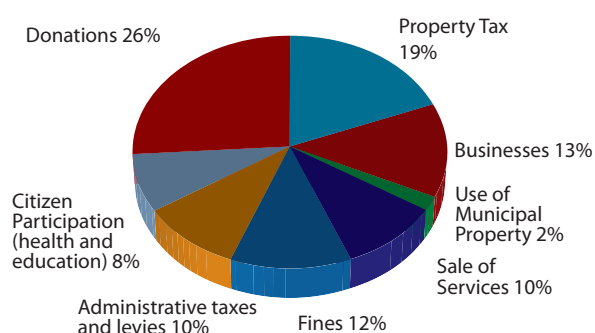
Kamenicë - THV-të sipas kategorive 2008



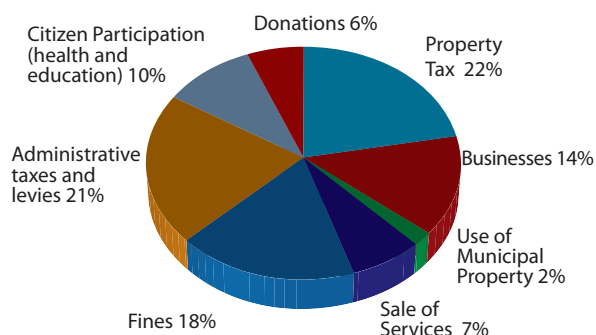
Kamenicë - THV-të sipas kategorive 2009



Kamenica - OSR-by category 2008



Kamenica - OSR-by category 2009



When analyzing the specific categories of own source revenues, one notices the following observations. There is a decrease in revenues from property tax in 2009 in comparison to 2008. However revenues have increased the following year (2010). In addition, during 2011, revenues from property tax have surpassed the total of 2010. This increase in both 2010 and 2011 was partly sourced from payment of property tax liabilities from previous years. The participation level of property tax on the overall OSR for Kamenica was 19.2%, 22.2%, 19.8% and 24.23% for the period 2008-2011 respectively. Thus, after the grants and donations category, the property tax is the single highest contributor to OSR.

The property tax collection levels relate to issues of management. This causes problems with the billing, which are further exacerbated due to the fact that billing is done centrally by the Ministry of Economy and Finance, with limited access for municipalities to the system and generation of automatic aggregated management reports. With respect to property registration and database, the LOGOS project has in 2011 supported all its partner municipalities with a project to register new unregistered properties in the system by providing training, equipment and external surveyors to municipalities for the registration process. This has had the effect of completing municipal databases on property tax and has contributed to making the system more equitable and democratic by including all municipal properties in the tax system. In particular, the project has supported the municipality of Kamenica with the registration of over 100 new properties, which has proportionately increased the taxable base for the municipality. The effects of the registration are expected to be introduced during the 2012 financial year when the invoices for these properties will be issued, increasing proportionately the property tax collection in the municipality.

Revenues from businesses have decreased constantly during the 2008 – 2010 and increased during 2011. Business license fees have contributed to total OSR collected by approximately 14% during 2007-2009, with this contribution decreasing to 9% in 2010 and then 11% in 2011.

Revenues from use of municipal property are mainly coming from use of municipal land and rent of municipal properties. These revenues have been decreasing during 2008 – 2010, whereas during 2011 these revenues tripled. This change comes mainly from revenues coming from lease of land as well as revenues from sales of municipal goods.

Revenues from sale of municipal services are the fifth largest revenue generator by size in Kamenica, if we exclude revenues from court, police and municipality fines. These revenues however have had large oscillation during the period analyzed, jumping from over 90 thousand in 2008 back down to just above 51 thousand in 2009 and up again to 58 thousand in 2010, with collection during 2011 remaining roughly at the same level. The main contributor in this category are construction licenses. Revenues from construction licenses are expected to increase due to the urban regulatory plans being adopted and also from legalization of unlicensed buildings. Sale of services has decreased in significance over the years contribution only 5% in 2011.

Revenues from municipal, court and traffic police fines are a major contributor to the Own Source Revenues over the 2008-11 period. Their contribution to total OSR collected increased in 2009 and 2010, while decreasing in 2011. However, since data for 2011 include only traffic and court fines recorded until October 2011, these figures may not reflect the total for the year.

Administration fees, levies and taxes also make up a large proportion of OSRs generated in the municipality of Kamenica, ranking in second by size after property tax (excluding donations and court), providing a curved contribution to total OSR, with 10% in 2008, 21% in 2009, 18% in 2010 and 13% in 2011. The largest contributor here is the revenues coming from the issuance of different certificates and fees from vehicle registration, which have seen a steady growth over the analyzed period.

Revenues coming from citizen participation refer to health and education only, and on average secure about 7.7% of the total municipal OSR and have remained more or less steady over the period. These revenues include co-payments by citizens when receiving medical services and for secondary school participation.

Finally, foreign donations and citizens' contributions to public works, make up a large proportion of OSRs in Kamenica, in 2011 contribution to OSR reaching 36%. Although considered as OSR by law, the consultant thinks that, due to the nature of donations (especially fluctuations and problems in forecasting donations), that these sub-categories are not analyzed further in this report.

Projections of own source revenues for the municipality of Kamenica

In order to perform projections for Own Source Revenue generation, the consultant faced difficulties in establishing a base for the assumptions and forecasts as data provided is not disaggregated. Although the municipalities set the levels for taxes, levies and charges in the municipality and the municipal regulations on average specify a large number of different items considered as OSR, reported within a limited number of economic codes under the Chart of Accounts as well as UNIREF bar-codes. The data is not collected on each individual item and revenues are recorded based on larger categories. Further, due to changes in economic codes used over the years, certain revenues are recorded under different items in different years creating problems of comparison. In terms of property tax, the municipalities since 2008 have only their forecast budgets and general data on the amounts collected, however they have very limited access to the MIS system on property tax based at the Ministry of Finance. Thus, it is very difficult to assess the amount collected and due, how much of the annual collection comes from payments of current years invoices and how much from payments of old debt. Municipalities further cannot generate automated reports from the system to enable them to do aggregated analysis by zone, property type, valuation type, or identify the largest debtors for better targeting. Further, most of the municipalities do not update the property database as required (1/3 every year) and this is a major problem in establishing the true tax base on property, however Kamenica is a positive exception to this. In this regard, the Ministry of Finance has been running a resurveying project for registered properties already in the system, so that the data is updated and new coefficients on the quality of the buildings introduced in the system and used for property tax calculations. With regards to new/unregistered properties, the LOGOS project in 2011 has supported its partner municipalities, including Kamenica, in registering these properties on the system. The newly registered properties, over 100 in Kamenica, will now be issued invoices on property tax for the first time in 2012, thus increasing both the taxable base for the municipality as well as consequently collection rates. In terms of rates and valuations set by municipalities, rates set by the municipality do not change every year and the valuations of properties remain unchanged, thus the property tax revenues do not follow any changes in property values nor does it have any inflation index linked to the levels charged. Further, the valuations, in most cases, are usually below the actual market prices, consequently keeping the amount of the property tax low. Recently, the Government of Kosovo has decided to amend the minimum rates on property tax and increase the level from 0.05% to 0.15% of the property value annually. As the current average property tax rate in Kosovo municipalities stands at around 0.1%, this increase in the rate will result with a roughly 50% increase in the property tax bill, which may also influence collection levels.

As municipalities report aggregate own source revenues in terms of categories or sub-categories, and due to lack of data in establishing the true tax base, one cannot use the units and price per unit of the specific items of OSR in conducting forecasts. Thus, to conduct the forecasts, the consultants have consulted widely municipal officials in terms of getting as accurate as possible picture of historical performance and the reasons for the larger oscillations over the years. Discussions with the relevant municipal officials in charge of collecting the respective revenues were held in order to get their input into potential future trends. Forecasts are mostly done based on two factors, increased collection rates assumptions and natural growth assumptions. In cases where a historical trend could not be established due to fluctuations in revenues, outlier years are excluded or averages are taken.

Following are descriptions of assumptions taken for specific categories and sub-categories of OSR and the estimated potential of the municipality to rise own source revenues over the period 2012-2016.

Forecasting Assumptions

The consultant has taken the following assumptions when estimating the own source revenues for the period 2012-2016:

Property tax:

As disaggregated data for the different urban zones was not available, and as the consultant was not able to get the exact data from the Ministry of Economy and Finance on the total bill of property tax invoiced over the years for the municipality, nor was there data available on the collections from current vs. previous years debts within payments during one financial year.

Assumptions were made in terms of improved collection rates and natural growth, as well as planned increases in the level of property tax rates, under instructions that are expected to come from the Department of Property Tax in the Ministry of Finance. Further, from 2013 the Government intends to start taxing land properties, which is also expected to have a significant impact in revenues generated from properties in municipalities. The assumption regarding the increase in the tax rates is that it will increase revenues in this category by approximately 30%, while the revenues from the additional land property tax are assumed to have an impact of 10%. Apart from this, the improvements in collection were assumed to be at 2.5% compared to the previous years over the period 2012 – 2014, and then 1% in 2015 onwards. Natural growth rate for new taxable properties was estimated based on feedback from the municipal official in terms of the trend for new properties registered each year, and the natural growth was assumed to be 0.4% in 2012, 0.5% in 2013, 0.6% in 2014 onwards. In particular, as a consequence of the registration of new unregistered properties with the support of the LOGOS project, the taxable base for Kamenica has increased by over 100 new properties, which will be billed for the first time in 2012 and affect the collection rates of property tax from 2012 onwards.

Business Taxes and Levies:

Due to the change in policy from the central level Government, revenues from businesses will stop completely at the municipal level from 2012, as part of the initiative of improving the business environment. Thus, we expect revenues from businesses license fees to stop completely from 2012 and that previous debts will not be collected at all.

Revenues from usage of municipal property:

Revenues coming from leasing of municipal assets (space) were assumed to grow due to better utilization with no new growth. Improved utilization was assumed to be 5% in 2012, 10% in 2013 and 15% in 2014, with no growth afterwards.

Revenues from sale of municipal services:

The revenues from issuing Construction Licenses were assumed to grow due to improved collection and natural growth. Improved collection was assumed to be 2.5% over the 2012-2014 period, going down to 1% growth for 2015 onwards. The natural growth assumed was the same as for the new registered properties and was taken as 4% in 2012, 5% in 2013, 6% in 2014 and onwards.

Revenues from court, police and municipal fines:

Court and Traffic fines were assumed to grow due to the general growth of the municipal economy, with growth rates reflecting economic growth of 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015 and onwards.

Revenues from Administration Taxes and Levies:

Revenues from administrative fees were assumed to grow as the growth in the economy by 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015 onwards, while as a consequence of population growth increase by another 4% in 2012, 3% in 2013 and 2% from 2014 and onwards.

Citizen participation in health and education:

Revenues from health and education services participation were assumed to grow due to population increase, with assumed growth rates being the same as those for birth, marriage and other certificates above. There are no education participation revenues in the municipality.

Grants and donations:

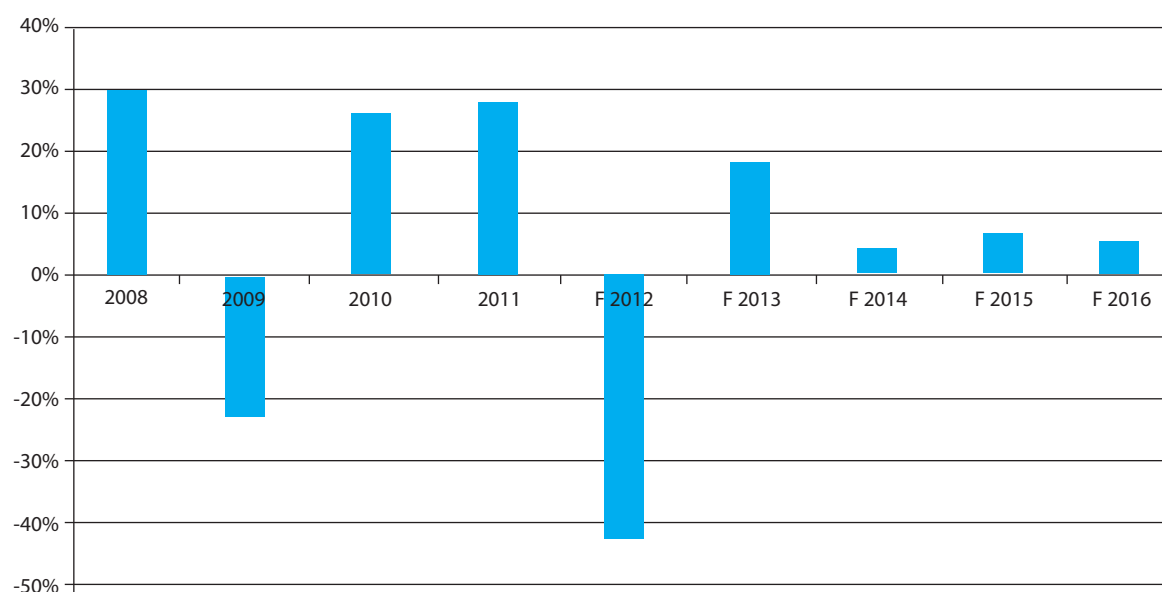
The consultant has not made any assumptions regarding forecasted income from foreign and Kosovan donations, nor citizens participation in capital investment projects. This is because it is difficult to estimate the number or size of future donor support in the municipality. In terms of citizens' participation in capital investment projects, there were indications by municipal officials that this policy will be scraped as a political decision and that citizens will be encouraged to pay their property tax in order to be at an advantage when deciding the location of municipal capital investment projects.

Forecasted Own Source Revenues – Municipality of Kamenica

Own Source Revenue Type	2007	2008	2009	2010	2011	F 2012	F 2013	F 2014	F 2015	F 2016
Property tax	125,882.46	182,500.68	160,119.44	180,393.91	232,675.31	239,422.89	342,374.74	352,988.36	377,697.54	404,136.37
Business taxes and levies	99,386.65	120,981.92	101,822.85	84,565.20	107,273.60	0.00	0.00	0.00	0.00	0.00
Revenues from usage of municipal property	7,265.60	18,165.00	12,126.90	11,114.80	33,296.55	34,961.38	38,457.52	44,226.14	44,226.14	44,226.14
Revenues from the sale of services	73,752.56	98,830.63	69,420.69	58,525.55	57,766.65	61,521.48	66,135.59	71,757.12	76,780.12	82,154.78
Revenues from court, police and municipal fines	96,615.37	113,065.76	128,740.92	139,473.82	93,441.50	96,244.75	100,094.53	105,099.26	111,405.22	118,089.53
Other revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenues from administration taxes and levies	30,373.64	93,902.60	133,237.06	159,633.50	146,670.00	156,936.90	167,922.48	179,677.06	194,051.22	209,575.32
Citizen participation (health and education)	54,644.60	75,984.35	68,357.91	64,713.90	73,556.06	76,498.30	78,793.25	80,369.12	81,976.50	83,616.08
Grants and Donations	242,460.00	250,933.91	44,000.00	210,843.14	422,267.23	0.00	0.00	0.00	0.00	0.00
Total:	730,380.88	948,364.85	717,825.77	909,263.82	1,166,946.90	665,585.70	793,778.12	834,117.05	886,136.74	941,798.11
Year on year percentage change in generated OSR		29.85%	-24.31%	26.67%	28.34%	-42.96%	19.26%	5.08%	6.24%	6.28%

As can be seen from the forecasted Own Source Revenues table, OSR for the municipality of Kamenica go up to 941,798.11 Euro at the end of 2016, compared to 744,679.67 Euro of OSR before grants and donations collected in 2011. There is clearly a positive trend when looking at the overall OSRs, with an increase of 154%. Comparisons of total OSR collected to the previous financial year are shown in the table below:

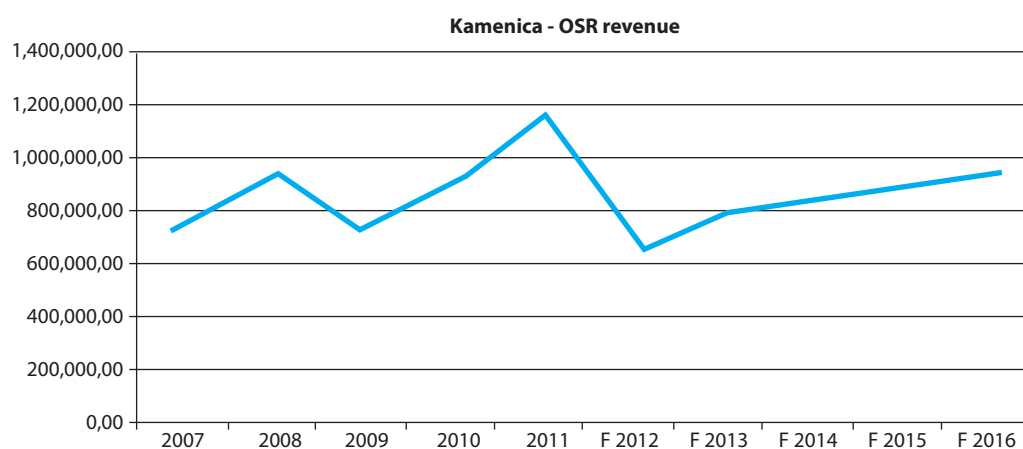
Municipality of Kamenica – Historical and Forecasted Year to Year OSR in percentage change



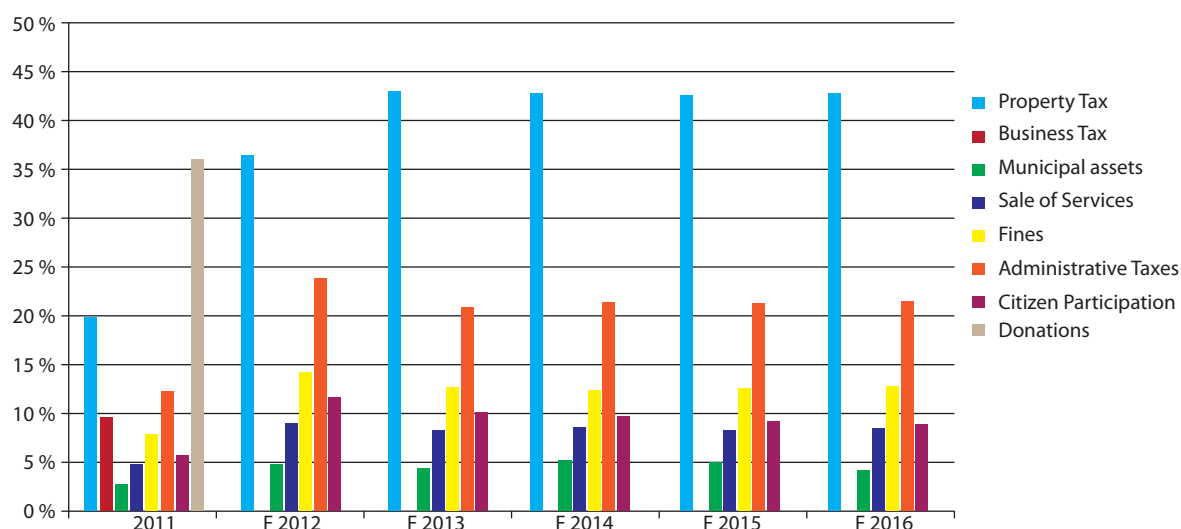
Although years 2008, 2010 and 2011 were high peaks for Kamenica total OSR, the main driver there were grants and donations, which if included at that level in the forecasted years would provide a much higher level of total OSRs. However, when not taking into consideration Grants and Donations, the municipality according to the forecasts is expected to perform better than the performance in any of the historical years recorded in the report. This can be achieved through better management and utilization of municipal resources and services, as well as through more efficient oversight, inspections and enforcement.

The graph below shows historical and projected OSRs up to 2016:

Municipality of Kamenica – Historical and Forecasted Own Source Revenues

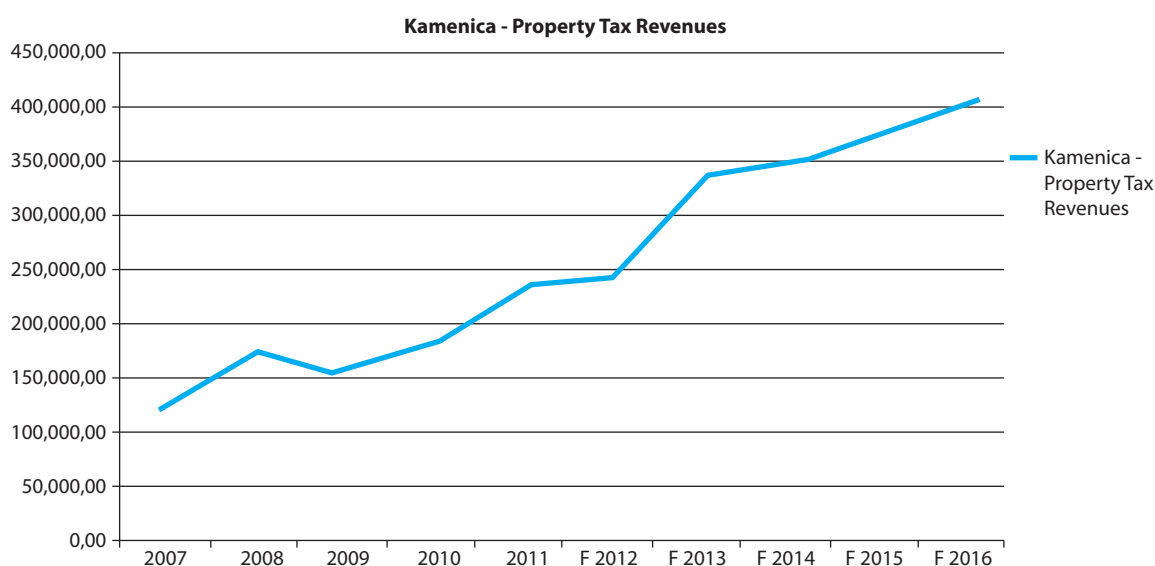


The table below presents the participation of each OSR category in the total forecasted OSRs for the Municipality of Kamenica:



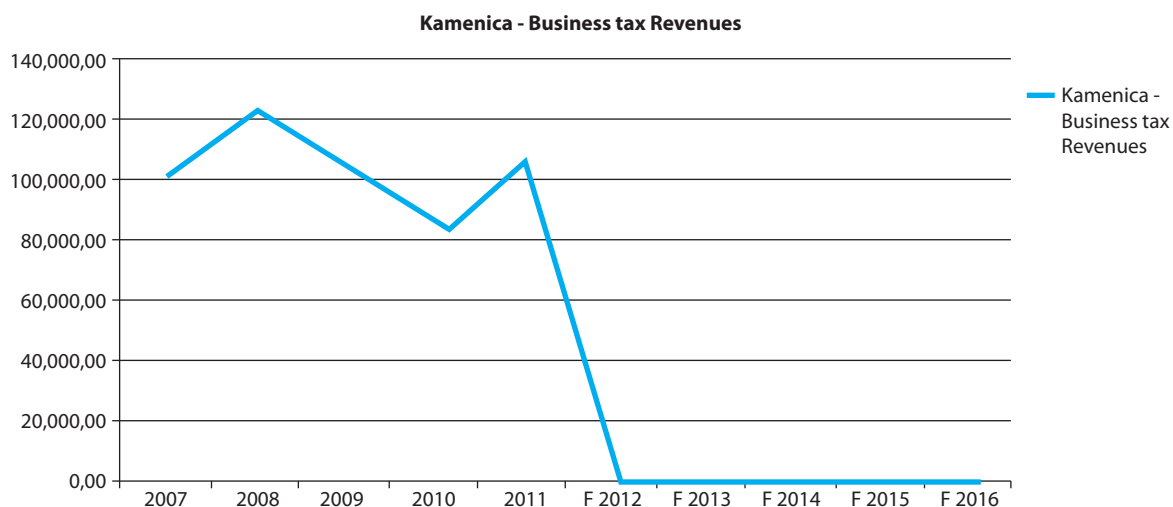
As can be seen from the chart above, the main drivers of OSR over the coming period remain to be the property tax, Administrative taxes and fees and Traffic Fines. The contribution of the property tax is increasing over the years, as is expected as a consequence of new government policies, thus being the main own source of revenue for Kamenica, with on average contribution over the forecasted period of 41.39%.

The growth of each category of OSRs forecasted is as presented in the charts below:

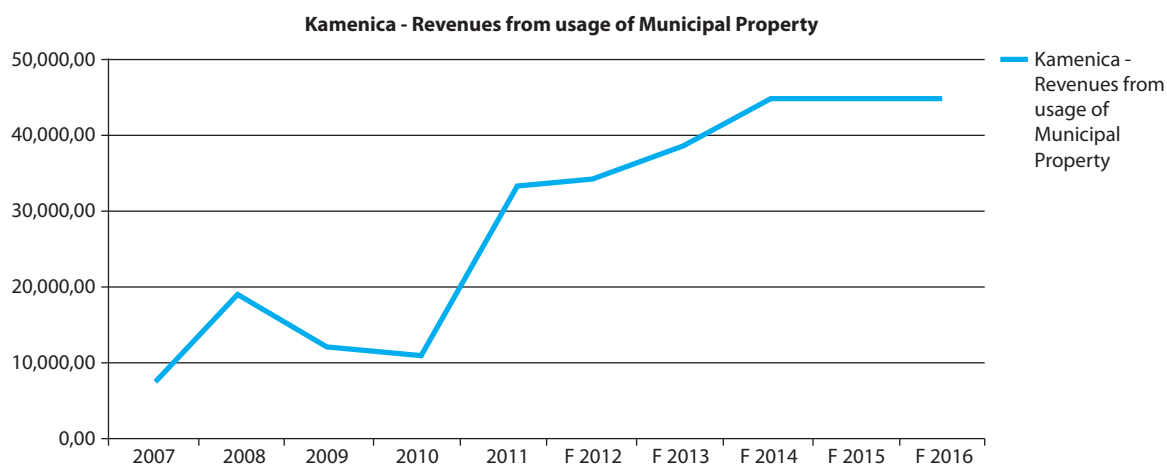


Revenues from Property tax continue to increase due to improved registering, database management, improved invoicing and better enforcement. There are also expected rate increases as well as the introduction of land tax, which all contribute to increased revenues from this category. Revenues from this tax will also increase due to natural growth of the municipality as well as growth of the economy.

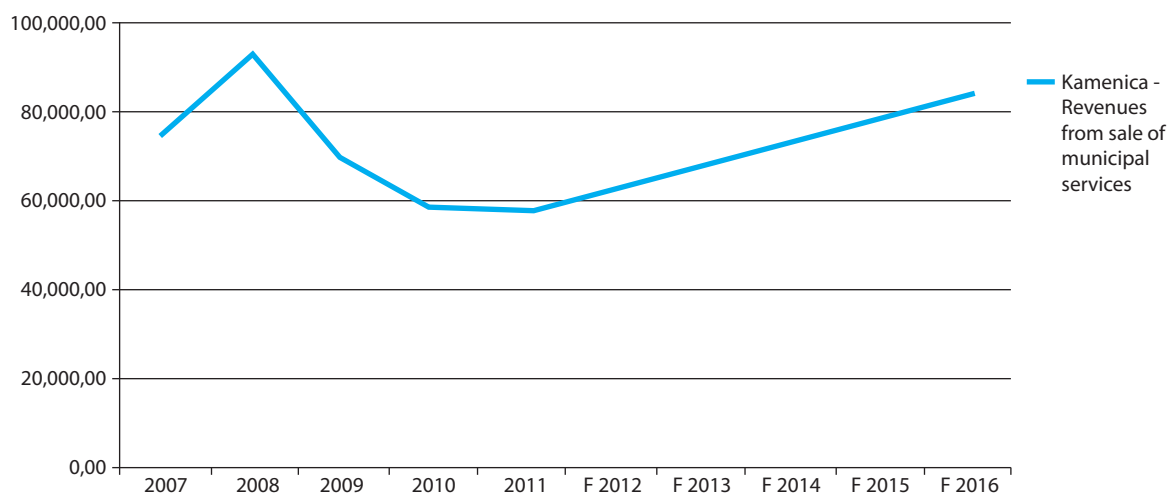
Finally, one can also count on revenue collection of tax liabilities from previous years, which should be done in close cooperation with the property tax department at the Ministry of Finance and Economy.



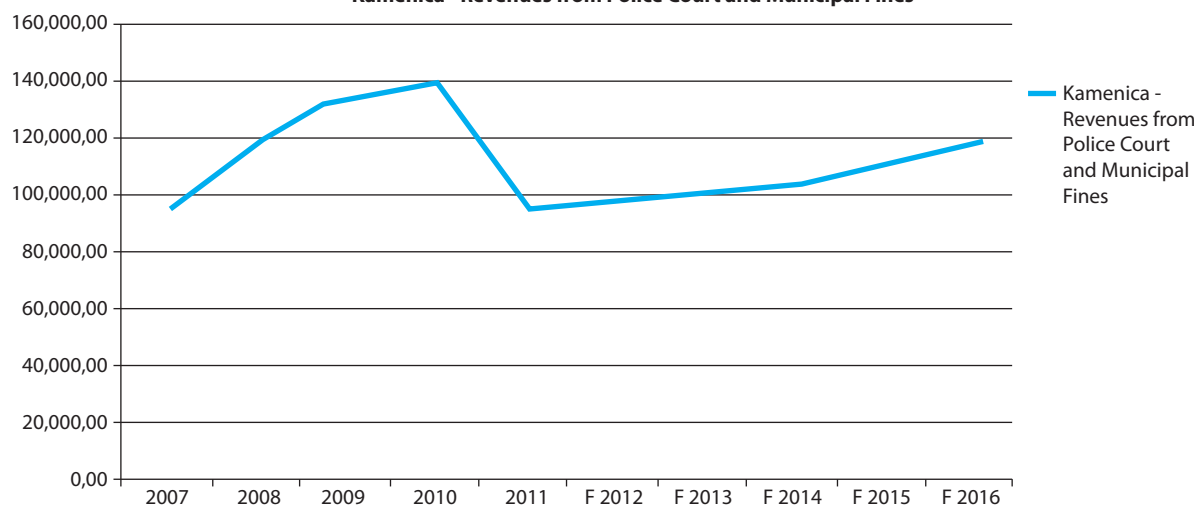
Business taxes will initially drop to zero as a result of the decision of the Government of Kosovo not to allow municipalities to charge businesses with any fees or charges.



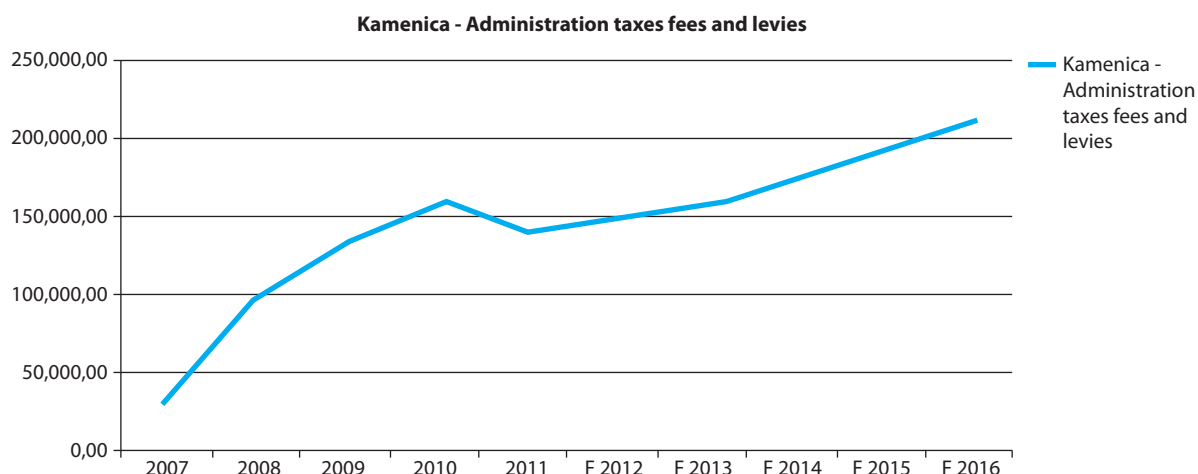
Revenues from use of municipal property do not make up a large percentage of total OSR, however, by improved management of municipal assets, the increase in revenues from this category compared to 2011 could be about 33%.

Kamenica - Revenues from sale of municipal services

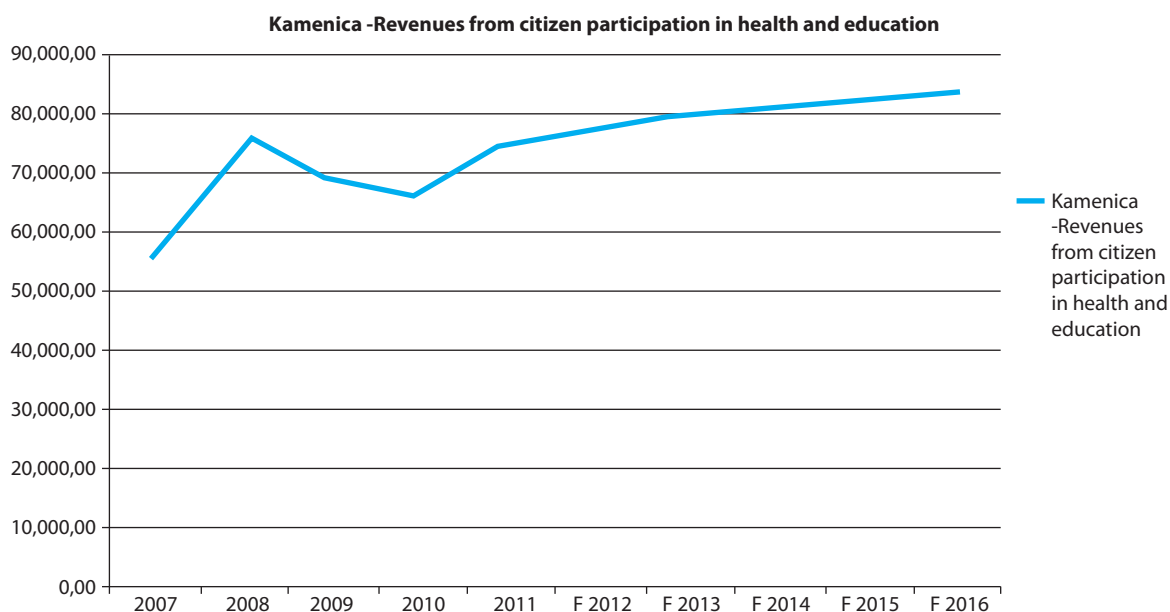
Revenues from sale of municipal services are an important contributor to OSR in the municipality, comprising on average 8.71% of forecasted revenues. Forecasts are that if there is an increase in efficiency and better provision of municipal services, the municipality of Kamenica can achieve an 42.2% increase in generating income from provision of municipal services.

Kamenica - Revenues from Police Court and Municipal Fines

Revenues from fines issued by courts, police and the municipality are and continue to be a large contributor to municipal OSR, on average contributing 12.96% to revenues generated by the municipality in the years up to 2016.



Administration fees, levies and taxes are expected to be the second largest contributor to OSR, providing on average 22.09% to the total OSRs generated by the municipality. The increase in revenues generated from this category will result in an increase of 42.89% in revenues generated compared to 2011.



Forecasted revenues coming from citizen's participation in education and health payments contribute on average by 9.84% of OSRs generated during the period 2012 – 2016. This will result in an increase of 13.67% of revenues generated from this category compared to those generated in 2011.

RECOMMENDATIONS FOR IMPROVEMENTS IN OWN SOURCE REVENUE GENERATION

General recommendations

There are a number of general recommendations that should be valid for all the partner municipalities in an effort to improve the collection of own source revenues. Below are a number of recommendations intended for the LOGOS partner municipalities.

In the official website of the municipalities, the Municipal Regulation on Taxes, Fees and Charges should be published in a transparent and easily accessible location on the official municipal web-page.

Further in the current regulations on taxes, fees and user charges the index of the inflation is not taken into account; therefore it is recommended that when changing the regulation the index of inflation is included into the proposed fees for all the municipal services.

It is recommended that within the new regulation there should be a clear distinction of services provided to legal and physical persons as well as different fee levels for the two categories. Improved use of economic codes and the introduction of new codes to be used by the municipality in planning and reporting of OSR, including the synchronization of these codes with the UNIREF bar code system and the Treasury Department at MoF, is required.

In this regard, in order to contribute to transparency in reporting, the new regulation on taxes, fees and user charges, when describing the different municipal services and taxes and fees related to these services, the regulation should include in the description the exact name of the service, the chart of accounts economic code, UNIREF code linked to the service, unit and department providing the service.

In terms of improving the reporting system there is a need for a management information system on OSR. An MIS in OSR would help the municipalities to improve services and identification of the problem areas within services being offered and increase efficiency in reporting, tracking and generating OSR.

Specifically regarding Property Tax, the municipalities as end-users of a centralized management information system of property tax, which is managed and developed by the Property Tax Department at the Ministry of Finance, should have full access to the data on the system. Municipalities need to be allowed to access customized additional reports from the central system, which would enable improved policy development and decision making. Amongst others, the system should enable reporting features on property tax at least in the following form: Division of physical and legal persons by zones also divided over the years for billing and collection; Division of billing and debt for the current year and the previous years; Old debts and the possibility for tax payers to pay old debt first; Listing of the biggest debtors.

Further, the introduction by the central level of fiscal tills for generating receipts for fees under 10 Euro, which would also be linked to the appropriate economic codes for reporting, would have several benefits. First, it would speed up the payment process at the municipal cashier as there would be no need to write invoices on paper. Second, it would improve reporting and planning as there would be

readily available data on the exact services provided by the municipality to citizens, by economic codes (ie the number of birth certificates, marriage certificates, document verification, etc.). Finally, it would decrease the possibility for errors in reporting and decrease the potential for mistakes in handling cash payments.

Further a reporting line should be established between the municipality and line ministries for Indirect OSR such as licenses from quarries, forestry and traffic fines. This is in particular a specific case for municipalities with no Minor Courts, where the re-direction of traffic fines payments to the appropriate beneficiary municipality should be standardized at the central level.

As part of preparations for changes in policies for municipal levies on businesses, municipalities should prepare to be able to generate revenues from other categories than business license fees so that they could at least soften the impact of ceasing business tax revenues in the coming years.

Recommendations for Kamenica

Property tax, being one of the biggest contributors, is an area that requires further attention. Currently, the municipality does not update the property database as required by law (1/3 of the database updated annually), and invoicing is done based on the existing database by the central Department for Property Tax at the Ministry of Finance, without any direct communication between the municipality and the central level. The property registration project support given by LOGOS to Kamenica should be capitalized and newly registered properties need to be issued invoices from 2012. Improving taxing policies, improving efficiency in enforcement and better targeting of debtors should be high on the agenda. One area of support from the LOGOS project can be in preparing municipal publications and outreach events in order to present achieved results in property tax collection and promote the effect of improved collection in the everyday lives of inhabitants of respective zones.

With the expectation that business taxes will not be allowable at municipal level, Kamenica should do analysis of how to compensate for the potential revenue losses as a consequence of the abolishment of this category of revenues.

Municipal leasing of land, buildings and space is another potential good revenue source is managed properly. The municipality currently enjoys inconsistent revenue from this category, which should change with these revenues sources being utilized to the maximum, especially after the finalization of the new municipal building and releasing of other space from the municipality.

The completion of the spatial planning documentation, including the urban and detail regulatory plan, will allow the municipality to encourage development, especially in the construction sector. This will help the municipality to increase revenues coming from building and construction permits, as well as other related services, through stimulating new construction activity and legalizing existing unregistered and unlicensed properties.

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