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Local Governance and Decentralization Support

LOGOS



LOGOS

Analysis and Forecasting for

# Own Source Revenues in The Municipality of Ranilug



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

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# CONTENTS

INTRODUCTION .....	4
LEGAL BACKGROUND TO OWN SOURCE REVENUES .....	5
INTERNAL MUNICIPAL ORGANIZATION OF OSR COLLECTION .....	6
OBSERVATIONS OF THE CURRENT OSR SYSTEM IN KOSOVO .....	7
HISTORICAL PERFORMANCE .....	9
PROJECTIONS OF OWN SOURCE REVENUES FOR THE MUNICIPALITY OF RANILUG .....	14
RECOMMENDATIONS FOR IMPROVEMENTS IN OWN SOURCE REVENUE GENERATION .....	22
General recommendations .....	22
Recommendations for the Municipality of Ranillug.....	23

# Introduction

This report analyzes Own Source Revenues in the municipality of Ranilug, 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 Ranilug, the consultants have used 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.

One has to keep in mind that Ranilug is a new municipality, which has only in the last two years been authorized to collect own source revenues and is still in the process of establishing municipal services and collecting own source revenues.

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

	Codes	2010	2011
<b>Revenues from property tax</b>	40110	14,256.62	14,476.79
<b>Income from businesses</b>		350.00	1,390.00
Revenues from business tax	50006	350	1390
Revenues from commercial licenses			
Revenues from licenses for ads	50212		
Revenues from licenses and services			
Revenues from forest exploitation licenses			
The use of road infrastructure			
Revenues from stonebreakers and mines	50203		
Fees for prolonged working hours			
Revenues from business licenses	50204		
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		
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		
Other taxes on businesses	40050		

Presumptive tax	40010		
<b>Revenues from use of the municipal property</b>		165.00	15.00
Revenues from parking of vehicles	50008		15.00
Revenues from the sale of Municipal property	50413		
Revenues from use of the land	50405		
Rent of municipal properties	50408	165.00	
Revenues from the sale of goods	50403		
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		
<b>Revenues from sales of services</b>		6,589.04	21,216.00
Revenues from inspections			
Veterinary inspections	50505		
Inspection of food premises	50501		
Inspections for fire			
Inspection of the environment			20.00
Revenues from geodesic plans			
Activities in the field to measure the country - Dept. of Urbanization	50504	4684.64	891
Inspections of urban plans - Dept. of Urbanization	50503	961	3406
Revenue from building permits			
Payments for the change in land usage	50012	80	2110
Issuance of construction licenses	50009	863.40	14,789.00
Demolition license	50010		
Other services			
Technical check of buildings	50205		
Sale of services	50401		
Inspection - sanitary hygienic			
Inspections of weighting equipment	50507		
Inspection og measurement units at petrol stations	50508		
Tax for legalization	50509		
Taksa për legalizimin	50026		
<b>Revenue from court fines, police and municipality</b>		3,043.00	7,672.00
Fines			
Fines - Forestry			
Court Fees			
Revenues from traffic fines	50101		
Inspectorate Fines	50104	160	4275
Other fines	50107	2,883.00	3,397.00
Removal and Deposition of vehicles	50103		
<b>Other</b>		0.00	0.00
Other payments	55300		
Other Revenues	55300		

<b>Revenues from administrative tax</b>		19,177.50	32,699.00
Fees from the registration of vehicles	50001	90.00	1,060.00
Issuance of driving licenses	50005		
Fees from traveling documents	50003		
Tender participations	50020		460.00
Road tax	50002		
Certificate of the registrar (birth, marriage, death etc.).	50013, 50014, 50015	778.00	1,375.00
Other registrar documents			
Certification of different documents	50017	3,242.00	1,631.00
Tax for request forms			
Inheritance registration fee	50011		
Health certificates for driving licenses	50024		
Tax on ID Cards	50004		
Other administrative taxes	50019	15,067.50	23,957.00
Tax other certificates	50016		
Tax on photocopy of various docs	50018		487.00
Citizenship certificate tax	50025		3,729.00
Product stamps	50412		
<b>Citizen Participation (health and education)</b>		0.00	0.00
Revenues from culture	50409		
Revenue from health services	50409		
Revenues from kindergarten	50409		
Revenues from secondary Education	50409		
<b>Grants and donations</b>		0.00	0.00
Citizen participation in projects			
Foreign donations			
Kosovo donors			
<b>Total OSR Generated during the financial year</b>		43,581.16	77,468.79
			77.76%
<b>Carried forward revenues</b>			
<b>Grand Total</b>		43,581.16	77,468.79

Table 1. Municipality of Ranilug – Historical Own Source Revenue Collection 2010-2011

When analyzing historical trends of own source revenues in the municipality of Ranilug, one can notice the following observations for the main groups of own source revenues. As presented in the table 1, total OSRs generated in 2011 have increased by 77.76% in comparison to financial year 2010, which shows great progress in the developments in this municipality. The main contributors to this increase are revenues from businesses, revenues from sale of services, revenues from fines, police and municipality and revenues from administrative taxes.

Own Source Revenues generated during the financial year in Ranilug were on average at 6.71% of the total annual budget set for the municipality at the beginning of the year. This is presented in the two figures below:

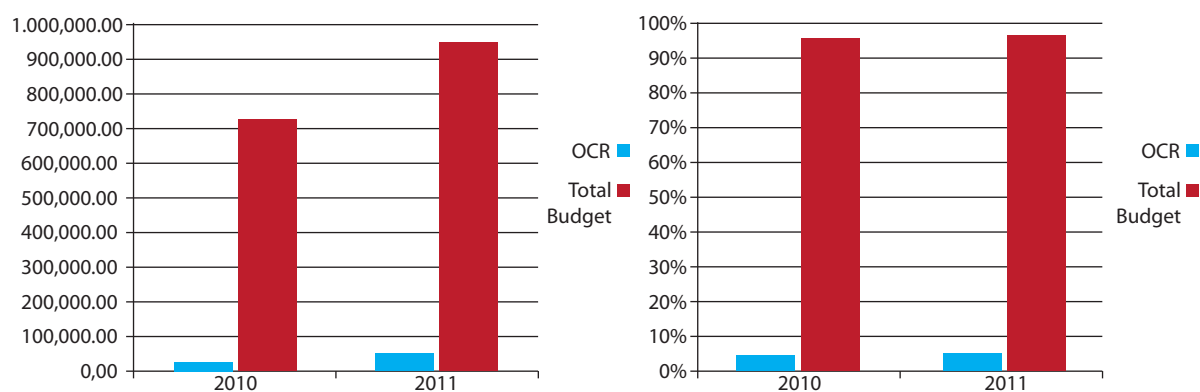


Figure 1 – OSR compared to total municipal budget

The majority of the income for this municipality is generated by property tax, administrative taxes and levies, sale of services, and fines. A breakdown of the participation of different categories is presented below:

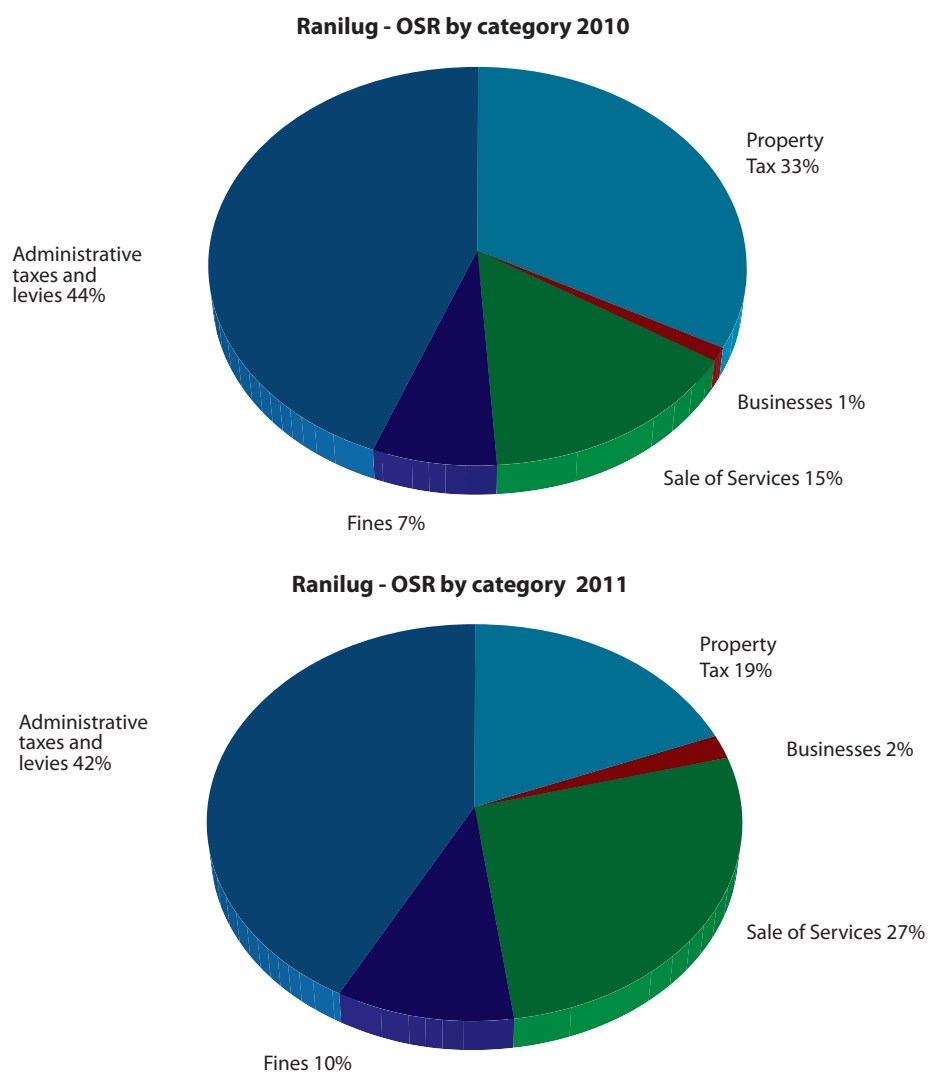


Figure 2 – Breakdown of OSR into the main categories 2010-2011

When analyzing the specific categories of own source revenues, one notices the following observations. There is an increase of 2% in revenues from property tax during 2011 as compared to 2010. This category is the second largest contributor to OSRs, composing 33% in 2010 and 19% in 2011 of the total amount generated by the municipality.

The property tax collection levels relate to issues of management and in Ranilug in particular, the issue that the system is still nascent and establishing itself. Problems with the property tax are however very similar to other municipalities, with a special emphasis here as it is a newly established Serbian majority municipality. 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 Ranilug with the registration of over 130 new properties, which has 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 recorded a great increase during 2011 as compared to year 2010; it went from 350 EUR to 1,390 EUR. The main driver and single contributor to this increase are revenues from business license fees. On average, this category generates around 1.13% of the total municipal OSRs.

Revenues from the use of municipal property, even though they were quite low during 2010, went down even further during 2011. The main source of revenue during 2010 was rent of municipal properties which generated 165 EUR and during 2011, only 15 EUR were collected through revenues from parking vehicles.

Revenues from sale of municipal services were the third largest contributor to OSRs during the analyzed period. They increased by more than 200% during 2011 in comparison to 2010. There are four main sub-categories that generate revenue: Urbanization Department's activities in the field, inspection of urban plans, payments for the change in land usage, and issuance of construction licenses. The whole category composes around 21.25% of total OSRs generated by the municipality of Ranilug.

Revenues from court fines, police and municipality have more than doubled during 2011 in contrast to 2010. This great increase was caused by increase of revenues from inspectorate and other fines issued by municipality authorities. On average, this category generates 8.44% of the total OSRs of the municipality.

Finally, revenues from administrative taxes represent the largest contributor to total OSRs, with an average participation of 43.11%. In general, this category has been steady during the analyzed period, recording an increase of 7.05% during 2011. This increase was a result of increased revenues from citizenship certificate tax and fees for registrar certificates. Other than that, tender participation and fees from registration of vehicles have recorded increasing trends too.

## Projections of own source revenues for the municipality of Ranilug

In order to perform projections for Own Source Revenue generation for the forecast period 2012-2016, the consultant used the collected revenues for 2011 as a baseline for projections, as 2010 was the first year that Ranilug collected OSR. Then, based on assumptions made in terms of increased efficiency in collection, natural growth and having in mind the current political situation and expected developments in this front.

As municipalities report aggregate 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%. For 2011, it is assumed that revenues will grow linearly for the period October-December 2011. 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 Kacanik has increased by over 1,000 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:

Business taxes have been forecast to be zero from 2012 due to the change in policy from the central government, taking away the competency of municipalities to impose fees for business licenses as part of a national drive to improve the business environment.

### 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.

### 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.

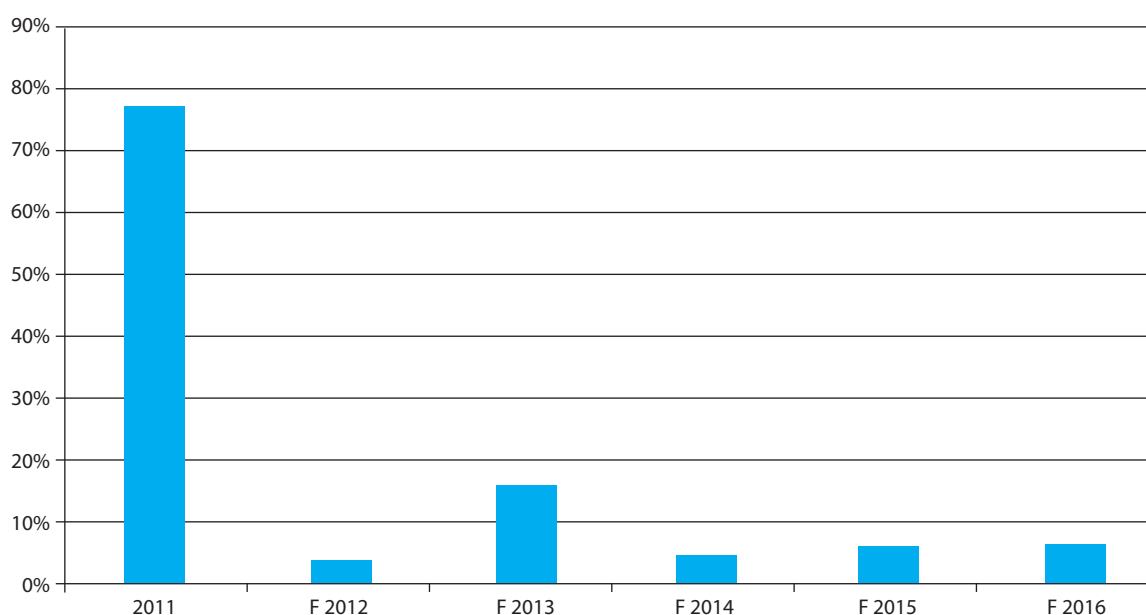
### Forecasted Own Source Revenues – Municipality of Ranilug

Own Source Revenue Type	2010	2011	F 2012	F 2013	F 2014	F 2015	F 2016
Property tax	14,256.62	14,476.79	14,896.62	21,302.16	21,962.53	23,499.91	25,144.90
Business taxes and levies	350.00	1,390.00	0.00	0.00	0.00	0.00	0.00
Revenues from usage of municipal property	165.00	15.00	15.75	17.33	19.92	19.92	19.92
Revenues from the sale of services	6,589.04	21,216.00	22,595.04	24,289.67	26,354.29	28,199.09	30,173.03
Revenues from court, police and municipal fines	3,043.00	7,672.00	8,170.68	8,783.48	9,530.08	10,197.18	10,910.99
Other revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenues from administration taxes and levies	19,177.50	32,699.00	34,987.93	37,437.09	40,057.68	43,262.30	46,723.28
Citizen participation (health and education)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants and Donations	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total:</b>	<b>43,581.16</b>	<b>77,468.79</b>	<b>80,666.02</b>	<b>91,829.72</b>	<b>97,924.50</b>	<b>105,178.40</b>	<b>112,972.11</b>

As can be seen from the forecasted Own Source Revenues table, OSR for the municipality of Ranilug can go up 112,972.11 Euro at the end of 2016, compared to the revenues of 77,468.79 Euro collected in 2011. There is clearly a positive trend when looking at the overall OSRs. As compared to the previous year, OSRs increase in all forecasted years, as shown in the table below.



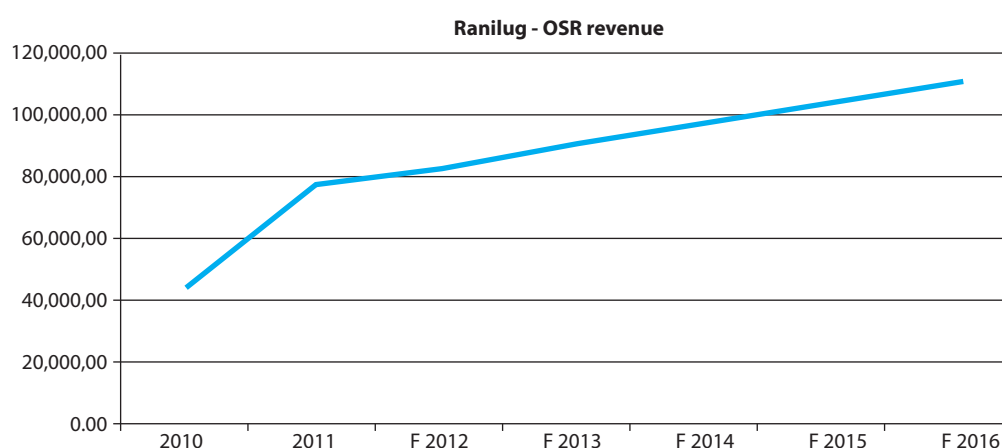
### Municipality of Ranilug – Historical and Forecasted Year to Year OSR in percentage change



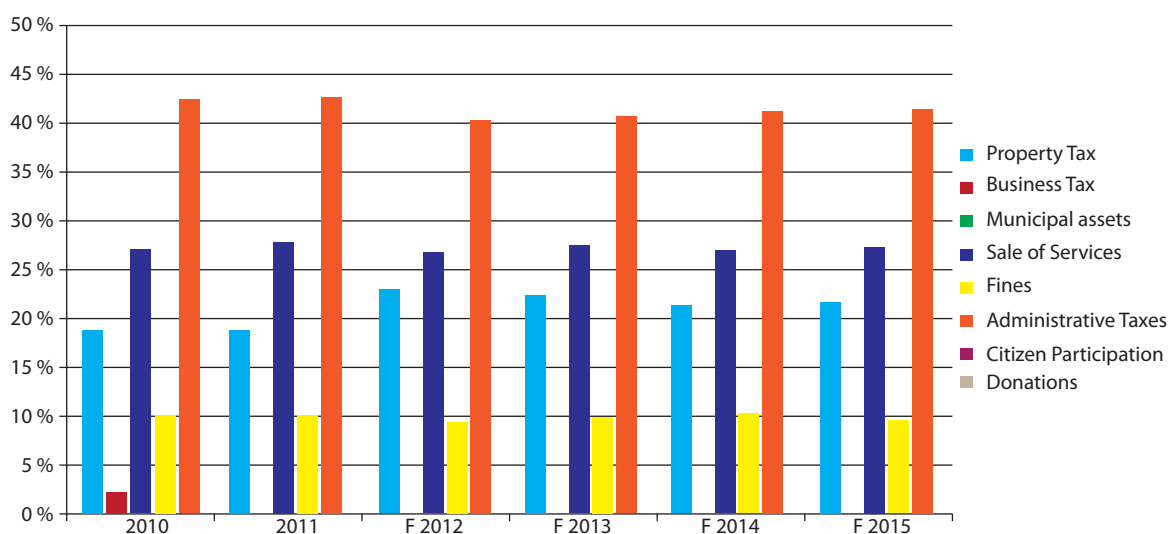
The municipality according to the forecasts by 2016 can achieve to generate up to 50% more annually compared to OSR generated during 2011. This can be achieved through improved political situation and the inclusion of the Serb population of the municipality, better management and utilization of municipal 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 Ranilug – Historical and Forecasted Own Source Revenues

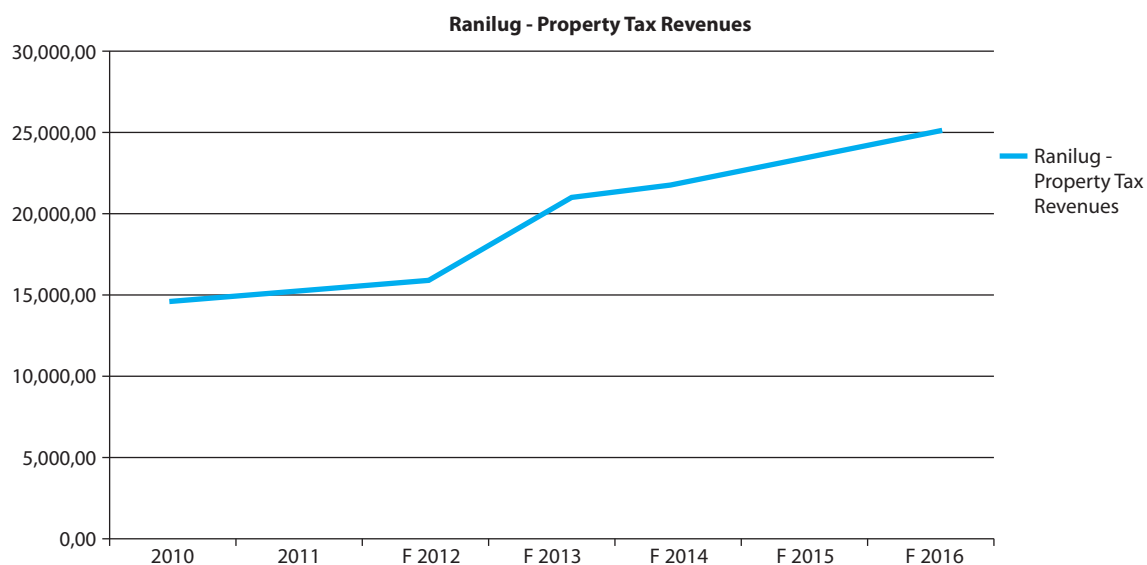


The table below presents the forecasted participation of each OSR category in the total forecasted OSRs for the Municipality of Ranilug:

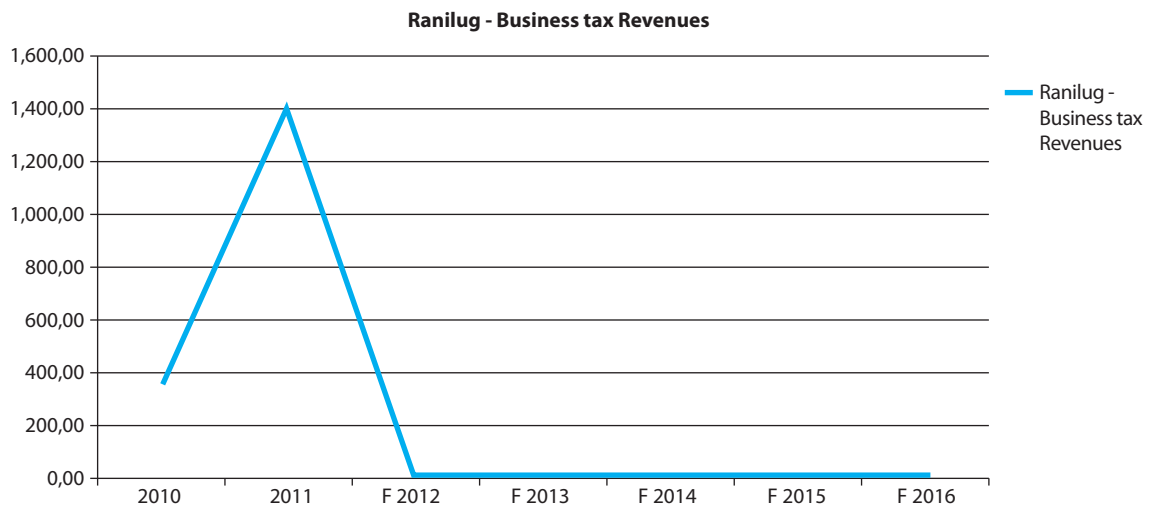


As can be seen from the chart above, the main forecasted drivers of OSR over the coming period are administrative fees and levies, property tax and Municipal services. These are the areas where municipality of Ranilug should try to achieve increases in terms of OSR through increased efficiency in their financial management and enforcement.

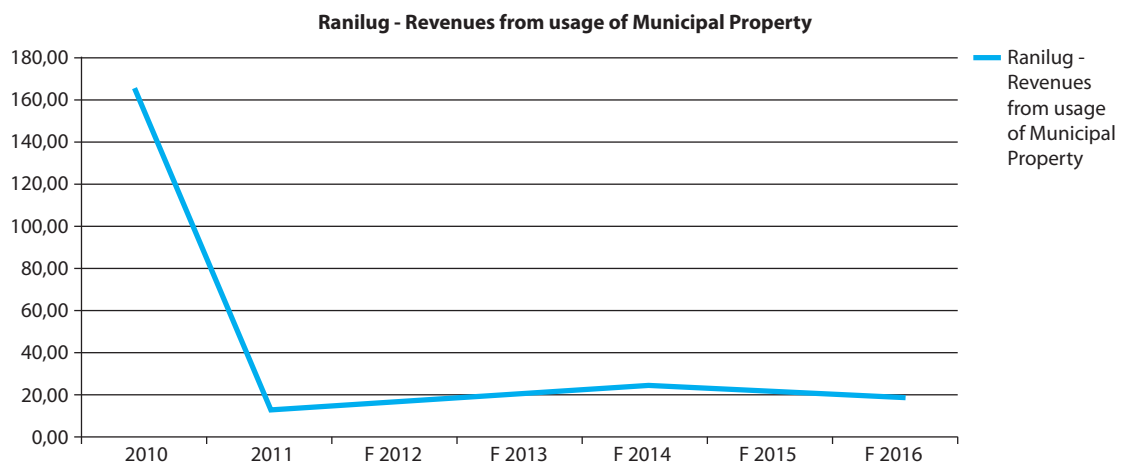
The growth of each category of OSRs forecasted is as presented in the charts below:



Revenues from Property tax continue to increase due to improved political situation, increase and improved registering, database management, improved invoicing and better enforcement, with a forecasted increase of just over 70% in generated property tax compared to the 2011 collection.

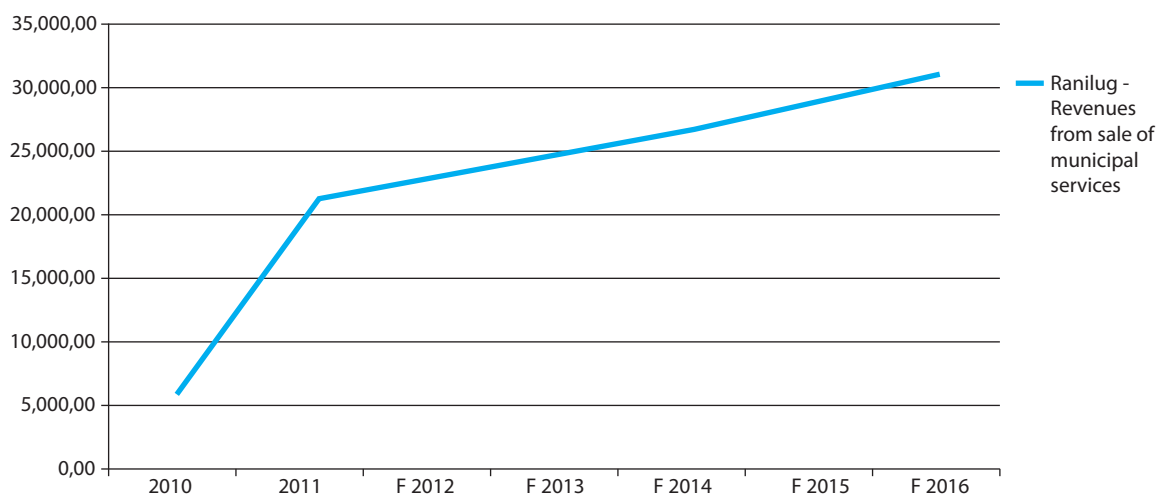


Business taxes collected in 2011 were low and these are expected to cease completely due to the change in government policies on business levies at the municipal level.



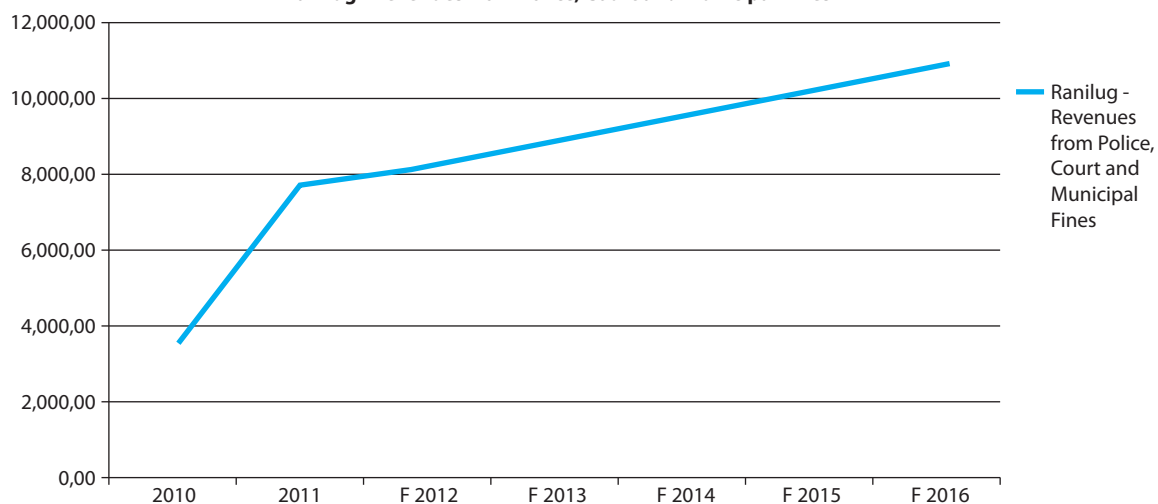
Revenues from municipal property decreased drastically in 2011 and are expected to remain low for the entire period.

Ranilug - Revenues from sale of municipal services

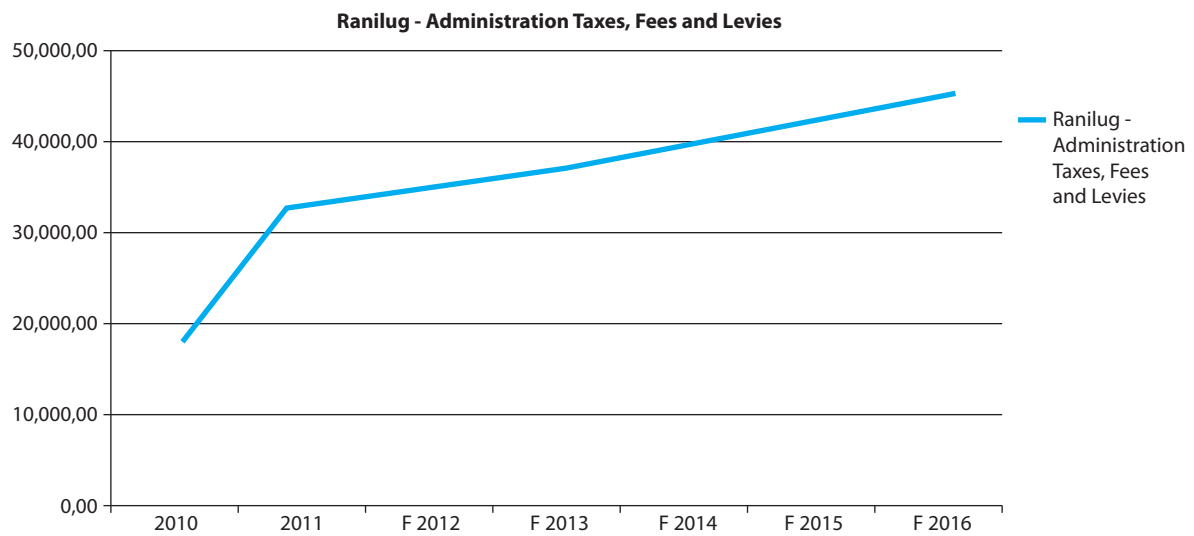


Revenues from sale of municipal services are an important projected contributor to OSR in the municipality, especially with the calming down of the political situation and the integration of the majority Serb population. Forecasts are that the municipality can achieve an increase of over 40% compared to the realized revenues in 2011.

Ranilug - Revenues from Police, Court and Municipal Fines



Revenues from fines issued by courts, police and the municipality are mainly coming from the assumed increase in traffic passing through the municipal territory, due to its geographical position, and constitute a good forecasted contributor to municipal OSR. Municipality should try to increase the participation in these fees by increasing the contribution to this category coming from municipal fines through improving the efficiency of its municipal inspection services. Forecasted growth compared to the realized level in 2011 is around 42%.



Administration fees, levies and taxes are expected to be the largest contributor to forecasted OSR, contributing on average 41.48% to the OSRs expected to be generated by the municipality. The increase in revenues generated from this category by 2016 will result in an increase of 43% when compared to collected levels 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 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 the Municipality of Ranillug

Property tax, is an important revenue generating source. The property registration project support given by LOGOS to Ranillug 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, Ranillug should do analysis of how to compensate for the potential revenue losses as a consequence of the abolishment of this category of revenues.

Revenues from municipal services provide one of the biggest revenue sources currently and having in mind the future developments in the municipality, could potentially provide a good source for OSR. Construction permits, geodesic plans and measurements, field inspections of construction sites could all be potentially good earners. In this direction, Ranillug should prepare the regulatory documentation for land development so as to benefit from revenues like construction permits and changes of land use. Ranilug could also benefit from a developing agro-processing sector, especially in the dairy sub-sector, where veterinary inspections and other municipal services play an important role, thus providing for a larger involvement of the municipality as well.

Ranilug, being a very small ethnically mixed municipality, with a strategic position in terms of nature and tourism, is a very attractive destination for donor supported projects as well. Thus the municipality should try to identify all possible sources of donor funding and actively pursue these.

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