



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

**Swiss Agency for Development
and Cooperation SDC**



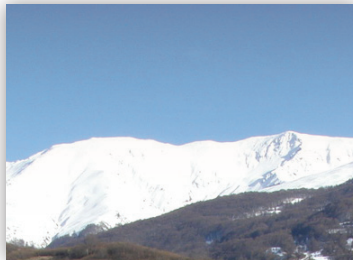
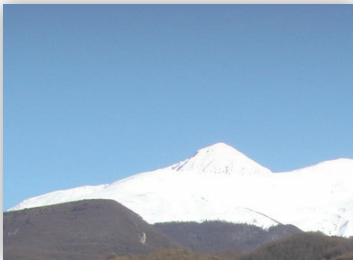
HELVETAS
Swiss Intercooperation

KOSOVO

Swiss – Kosovo

Local Governance and Decentralization Support

LOGOS



Analysis and Forecasting for
Own Source Revenues
in Municipality
of Shterpce/Strpce

LOGOS



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

January 2012

RECURA Financials

Address: Nëna Terezë 28/1, 10000 Prishtina, Kosovo

tel: +381 (0)38 777 800, Fax: +381 (0) 38 22 14 14 ; cel: +386(0)49 160 049; 777 800

info@recura.biz - www.recura.biz

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 SHTERPCE/STRPCE	14
RECOMMENDATIONS FOR IMPROVEMENTS IN OWN SOURCE REVENUE GENERATION	22
General recommendations	22
Recommendations for the Municipality of Shterpce/Strpce	23

Introduction

This report analyzes Own Source Revenues in the municipality of Shterpce/Strpce, 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 fee's 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 Shterpce/Strpce, the consultants have used Auditor General reports, Department of Treasury reports, Municipal Financial Reports, 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.

A more detailed discussion of the historical performance and trends for the different categories of OSRs is presented after the historical financial reports on OSR for the Shterpce/Strpce municipality, presented in the table below:

	Codes	2008	2009	2010	2011
Revenues from property tax	40110	2,817.30	24,630.63	18,025.35	37,752.41
		1.87	7.74		
Income from businesses		4,807.08	7,194.94	6,138.50	14,329.00
Revenues from business tax	50006	116.91	4,440.00	6,138.50	
Revenues from commercial licenses		0.00	157.00	0.00	165.00
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		4,690.17	2,597.94	0.00	
The use of road infrastructure		0.00	0.00	0.00	
Revenues from stonebreakers and mines	50203	0.00	0.00	0.00	
Fees for prolonged working hours		0.00	0.00	0.00	
Revenues from business licenses	50204	0.00	0.00	0.00	
Change of business tax	50007				14,164.00
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				
Revenues from use of the municipal property		0.00	145.00	0.00	37,813.80
Revenues from parking of vehicles	50008	0.00	145.00	0.00	36,887.50
Revenues from the sale of Municipal property	50413	0.00	0.00	0.00	
Revenues from use of the land	50405	0.00	0.00	0.00	
Rent of municipal properties	50408	0.00	0.00	0.00	
Revenues from the sale of goods	50403				
Sale of official gazette	50404				
Use of public property for open market	50406				926.30
Rent from leasing to trading companies	50407				
Revenues from concessions	50417				
Revenues from rent on residential property	50418				
Revenues from sales of services		5,333.79	13,143.17	37,855.87	81,687.64
Revenues from inspections		0.00	0.00	0.00	
Veterinary inspections	50505	0.00	0.00	0.00	
Inspection of food premises	50501	0.00	0.00	0.00	
Inspections for fire		0.00	0.00	0.00	
Inspection of the environment		0.00	0.00	0.00	
Revenues from geodesic plans		4,378.00	12,723.90	18,020.00	
Activities in the field to measure the country - Dept. of Urbanization	50504	0.00	0.00	0.00	
Inspections of urban plans - Dept. of Urbanization	50503	0.00	0.00	0.00	
Revenue from building permits		0.00	0.00	0.00	
Payments for the change in land usage	50012	0.00	0.00	0.00	25,569.16
Issuance of construction licenses	50009	955.79	419.27	19,835.87	56,118.48
Demolition license	50010	0.00	0.00	0.00	
Other services		0.00	0.00	0.00	
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				
Revenue from court fines, police and municipality		12,554.44	21,535.00	39,087.23	0.00
Fines		0.00	0.00	0.00	
Fines - Forestry		0.00	0.00	5,310.58	
Court Fees		8,039.44	15,510.00	24,076.65	
Revenues from traffic fines	50101	4,515.00	6,025.00	9,700.00	
Inspectorate Fines	50104				
Other fines	50107				
Removal and Deposition of vehicles	50103				
Other		-78.00	0.00	0.00	0.00
Other payments	55300	0.00	0.00	0.00	
Other Revenues	55300	-78.00	0.00	0.00	

Revenues from administrative tax		2,350.00	7,117.34	12,797.50	24,132.00
Fees from the registration of vehicles	50001	0.00	0.00	0.00	12,129.00
Issuance of driving licenses	50005	0.00	0.00	1,332.00	
Fees from traveling documents	50003	0.00	0.00	0.00	
Tender participations	50020	570.00	2,190.00	6,880.00	2,050.00
Road tax	50002	0.00	0.00	0.00	
Certificate of the registrar (birth, marriage, death etc.).	50013, 50014, 50015	940.00	3,807.00	4,130.00	
Other registrar documents		0.00	29.00	0.00	8,546.00
Certification of different documents	50017	0.00	84.00	455.50	1,316.50
Tax for request forms		840.00	1,007.34	0.00	
Inheritance registration fee	50011	0.00	0.00	0.00	
Health certificates for driving licenses	50024				
Tax on ID Cards	50004				
Other administrative taxes	50019				90.50
Tax other certificates	50016				
Tax on photocopy of various docs	50018				
Citizenship certificate tax	50025				
Product stamps	50412				
Citizen Participation (health and education)		292.90	708.20	359.20	813.60
Revenues from culture	50409	0.00	0.00	0.00	
Revenue from health services	50409	292.90	708.20	359.20	813.60
Revenues from kindergarten	50409	0.00	0.00	0.00	
Revenues from secondary Education	50409	0.00	0.00	0.00	
Grants and donations		0.00	0.00	12,130.00	24,228.16
Citizen participation in projects		0.00	0.00	0.00	
Foreign donations		0.00	0.00	7,130.00	24,228.16
Kosovo donors		0.00	0.00	5,000.00	
Total OSR Generated during the financial year		28,077.51	74,474.28	126,393.65	220,756.61
		-28.16%	165.25%	69.71%	74.66%
Carried forward revenues		25,274.72	14,962.17	34,119.00	
Grand Total		53,352.23	89,436.45	160,512.65	220,756.61

Table 1. Municipality of Shterpce/Strpce - Historical OSR Collection 2008-2011

When analyzing historical trends of own source revenues in the municipality of Shterpce/Strpce, one can notice the following observations for the main groups of own source revenues. As presented in the table 1, Shterpce/Strpce OSRs generated during the year 2009 increased by almost 3 times when compared to 2008. In 2009, after the Kosovo municipal elections, where the majority Serb population of the municipality turned out to vote in the elections of 2009, there was a clear shift in allegiance of the local population to locally elected and sourced politicians and political parties created by Kosovan Serbs. In 2010 revenues grew even further by almost 70% compared to 2009. The same trend with an even larger increase was recorded in 2011, where collection grew to 220,756.61 Euro, an increase of 74.5% over 2010. This was driven by a large increase in revenues from property tax, revenues from use of municipal resources (parking), revenues from municipal services and business licenses. Own Source Revenues generated during a financial year in Shterpce/Strpce were on average at 5.18% of the total annual budget set for the municipality at the beginning of the year, which is clearly low compared to other municipalities, indicating possibilities for further increase. This is presented in the two figures below:

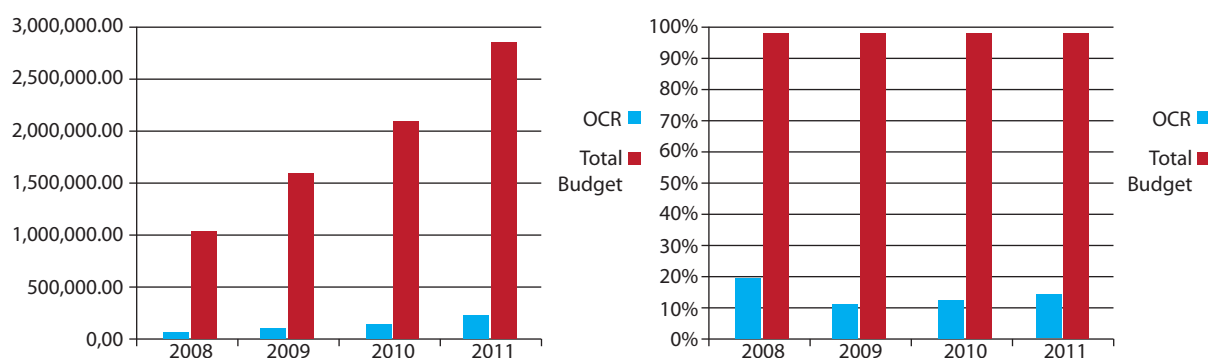


Figure 1 – OCR compared to total municipal budget

The main sources of own revenues for the Municipality of Shterpce/Strpce have shifted over the years, reflecting the developing political situation in the municipality. In 2008 the main driver were fines issued by the police and the courts, as no other municipal function was generating revenues to their potential due to their inability to be active in the field. Sale of municipal services was an important factor in 2008, followed by business taxes and property tax. Financial year 2009 resembles more the typical Kosovan municipality in terms of OSR, with property tax leading in terms of revenue generation, followed by court and police fines, sale of services, business tax and administrative taxes. Revenues in the following two years 2010-2011, present a more standard distribution. A breakdown of the participation of different categories is presented below:

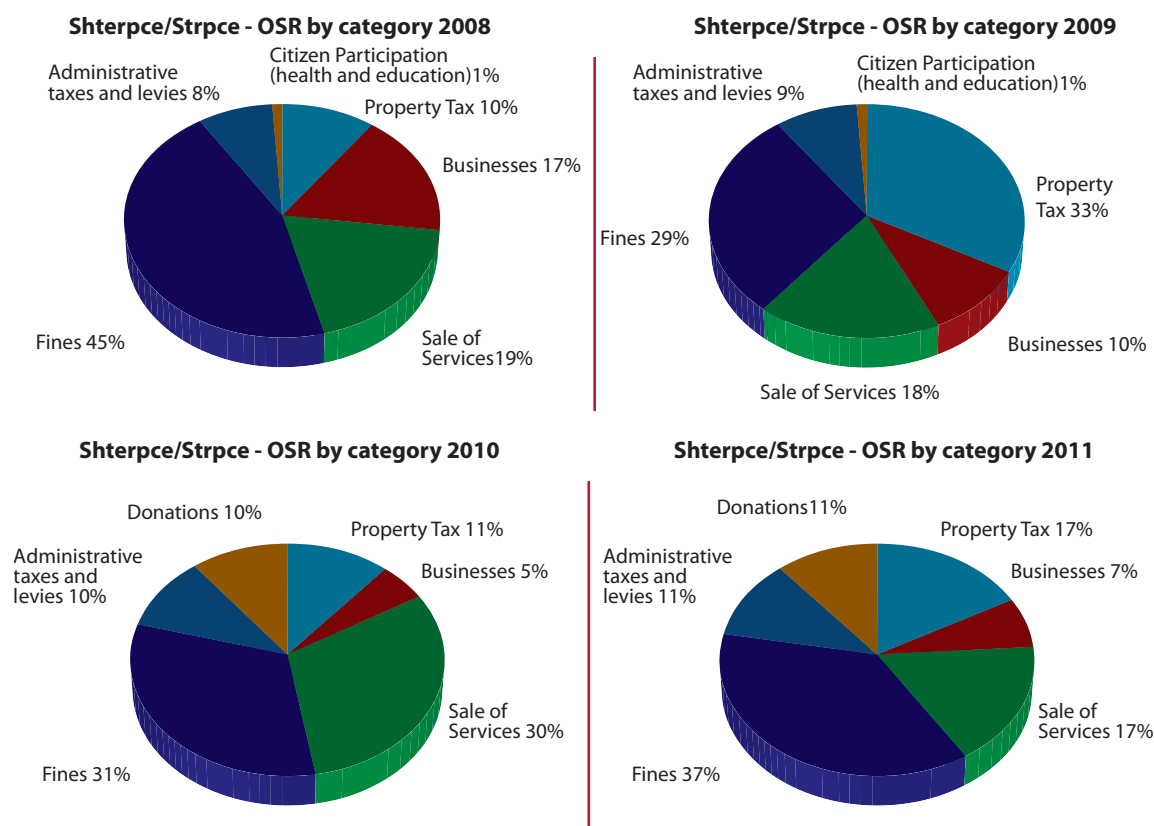


Figure 2 – Breakdown of OSR into the main categories 2008-2011

When analyzing the specific categories of own source revenues, one notices the following observations. There is an increase in revenues from property tax in 2009, recording an increase of 7.74 times compared to 2008. This fluctuation, as stated above, reflects political changes in the municipality and should not be considered very strange. The figure collected in 2009 is still much below the level of property tax invoices issued and there is space for improvement. If we also take into account the new urban plan for the touristic zone in Brezovica, this will increase the taxable base for the municipality that, if managed properly, should result in an increase of property tax collected. However, contrary to the expectation, in 2010 it decreased again, resulting with a 27% decrease from the revenues from property tax in 2009. 2011 however, marks a change for the better with 37,752.41 Euro collected, which is an increase of more than 100% compared to 2010.

The participation level of property tax on the overall OSR for the Shterpce/Strpce municipality was 10%, 33%, 14% and 17% for the period 2008-2011 respectively. Thus, it is one of the biggest contributors to OSR in the municipality, however still remains low in comparison. The property tax collection levels relate to issues of management, whereby the property database is not updated regularly as required by law. 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 Shterpce/Strpce 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 seen a steady growth during the 2008-2011 periods, except for a slight decrease in 2010. It recorded an increase of almost 50% in 2009 and a decrease of 14.7% in 2010; whereas during 2011, the revenues generated in this category increased by 133%. The driver behind this is revenues from business license fees. The contribution of business taxes oscillates around 5-10% of total revenues, with the exception of 2008 where it was a larger contributor.

Revenues from use of municipal property are exclusively coming from fees levied for parking of vehicles, respectively from levies charged for entering the ski centre of Brezovica by vehicle. This is potentially a very good source as this levy has been collected by the parallel structures in 2008 and 2009. Even though during 2010 there were no revenues in this category, during 2011 there was a tremendous increase in this respect with revenues surpassing 30,000 Euro. This figure could realistically be much higher in the coming years as the levy continues being collected by the municipality and as the ski centre develops further.

Revenues from sale of municipal services comprise a large portion of OSR generated by the Municipality of Shterpce/Strpce. They have been constantly increasing since 2008. During 2009 revenues from sale of services almost tripled, and continued with 188% increase in 2010. During 2011, they have increased by 158% compared to 2010. The effect of this category on the total OSR has seen a slight decrease in 2009 from 19% in 2008 to 17.6% and then its effect has become more and more significant over 2010 and 2011 years with 30% and 37% respectively. The main drivers in this category have been revenues from geodesic plans and construction licenses.

Revenues from municipal, court and traffic police fines are a major contributor to the Own Source Revenues over the 2008-10 period, participating on average with 26% in total OSRs collected over the period whereas they dropped to zero during 2011. There has been a steady increase in revenues generated from this category in terms of amounts, while, the proportion of these fines to total OSR collected has decreased in 2009 to 29% from 45% in 2008 and has recorded a slight increase in 2010 when it reached 30.9%. As for 2011, there have been no revenues reported in this category, which may be due to misallocation of fines by the Minor Courts system, as Shterpce does not have a Minor Court within its jurisdiction.

Administration fees, levies and taxes have seen a steady increase; however they still make up only a small proportion of OSRs generated in the municipality of Shterpce/Strpce, providing on average 9.7% of OSR. The largest contributor here is the revenues coming from the issuance of different certificates, which on average generate 31.4% of revenues from administration fees and taxes. Until 2011, there were no fees generated from vehicle registration, which was a major difference from other municipalities. During the current period of 2011, however, this category has started to generate income as well.

Revenues coming from citizen participation refer to health and education only, and on average secure less than 1% of the total OSRs generated.

Finally, there have been no major foreign donations and citizens' contributions to public works recorded in the financial statements of the municipality of Shterpce/Strpce until 2010 when donations participated with 10% in total OSRs generated. 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 Shterpce/Strpce

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. 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 Shterpce/Strpce, in registering these properties on the system. The newly registered properties, over 130 in Shterpce/Strpce, 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 takes 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 Shterpce/Strpce has increased by over 130 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 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. The effect of the development of the ski center is assumed to kick-in during 2014, thus we have assumed an additional growth of 30% in this year.

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. More specifically, there will be an additional increase in 2013 based on requests for construction permits in the new touristic zone and we have assumed that this will provide an additional increase of 20%, to be followed in 2014 by another 50%.

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. As there were no reported revenues from this category in 2011, we have assumed that the levels to be attained are those reported in 2010 and that the growth assumptions are made on this figure.

Revenues from Administration Taxes and Levies:

Revenues from administrative fees were assumed to 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:

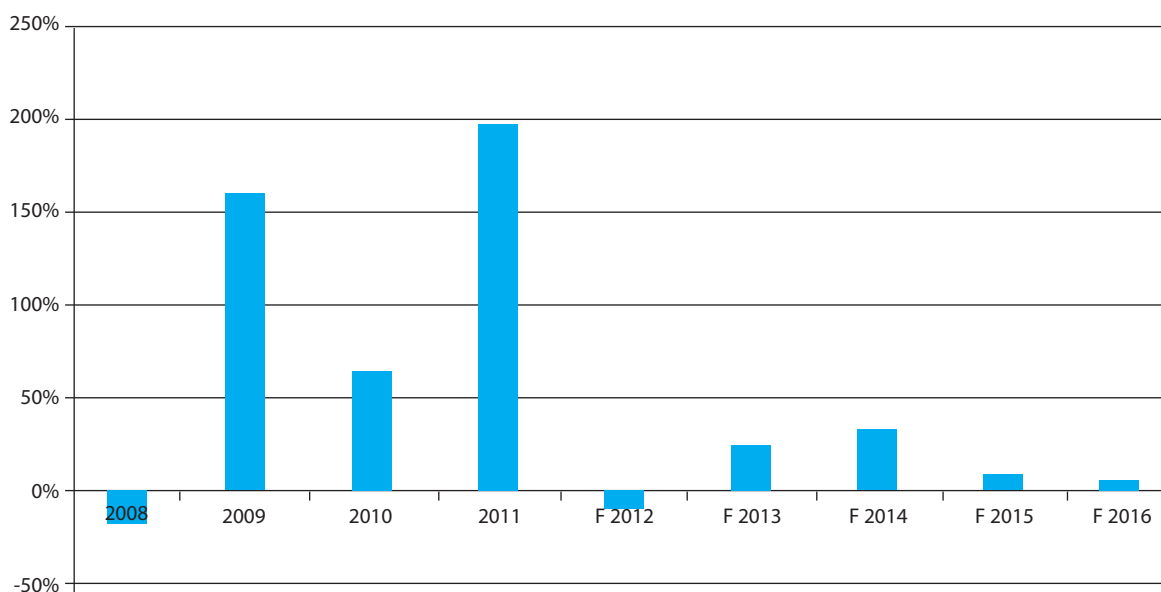
The consultants have not made any assumptions regarding forecasted income from foreign and Kosovan donations nor citizens participation in capital investment projects. This is because it is difficult to estimate the number or size of future donor support in the municipality.

Forecasted Own Source Revenues – Municipality of Shterpce/Strpce

Own Source Revenue Type	2007	2008	2009	2010	2011	F 2012	F 2013	F 2014	F 2015	F 2016
Property tax	8,568.00	2,817.30	24,630.63	18,025.35	37,752.41	38,847.23	55,551.54	57,273.64	61,282.79	65,572.59
Business taxes and levies	2,118.00	4,807.08	7,194.94	6,138.50	14,329.00	0.00	0.00	0.00	0.00	0.00
Revenues from usage of municipal property	5,400.00	0.00	145.00	0.00	37,813.80	39,704.49	51,615.84	74,842.96	74,842.96	74,842.96
Revenues from the sale of services	17,787.00	5,333.79	13,143.17	37,855.87	81,687.64	86,97.34	110,921.60	175,810.74	188,117.49	201,285.72
Revenues from court, police and municipal fines	315.00	12,554.44	21,535.00	39,087.23	0.00	0.00	0.00	0.00	0.00	0.00
Other revenues	0.00	-78.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenues from administration taxes and levies	3,250.00	2,350.00	7,117.34	12,797.50	24,132.00	25,821.24	27,628.73	29,562.74	31,927.76	34,481.98
Citizen participation (health and education)	256.00	292.90	708.20	359.20	813.60	846.14	871.53	888.96	906.74	924.87
Grants and Donations	391.00	0.00	0.00	12,130.00	24,228.16	0.00	0.00	0.00	0.00	0.00
Total:	39,085.00	28,077.51	74,474.28	126,393.65	220,756.61	192,216.44	246,589.24	338,379.04	357,077.74	377,108.12
Year on year percentage change in generated OSR		-28.16%	165.25%	69.71%	196.42%	-12.93%	28.29%	37.22%	5.53%	5.61%

As can be seen from the forecasted Own Source Revenues table, OSR for the municipality of Shterpce/Strpce go up to 377,108.12 Euro by the end of 2016. There is clearly a positive trend when looking at the overall OSRs. As compared to the previous year, OSRs increase in all years except for 2012 due to the assumed dynamics of the development of the Ski Centre, as shown in the table below.

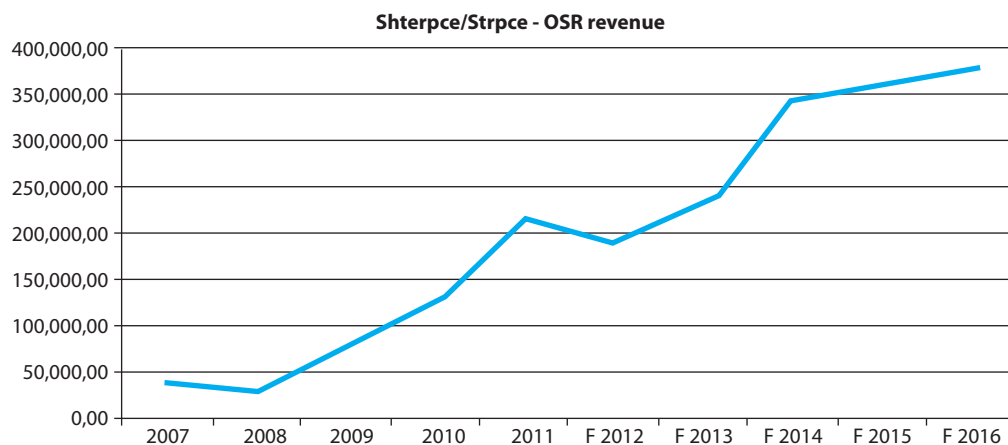
Municipality of Shterpce/Strpce – Historical and Forecasted Year to Year OSR in percentage change



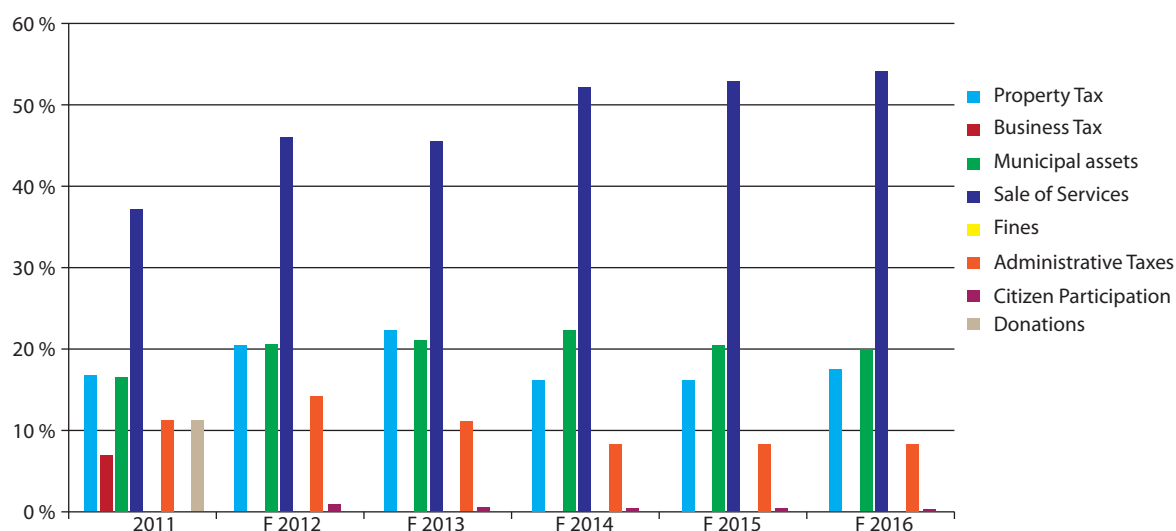
The municipality according to the forecasts can achieve to generate 70% more annually compared to OSR generated in 2011. This can be achieved through improved political situation and the inclusion of the Serb population of the municipality, better management and utilization of municipal resources and services, as well as through more efficient oversight, inspections and enforcement.

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

Municipality of Shterpce/Strpce – Historical and Forecasted Own Source Revenues

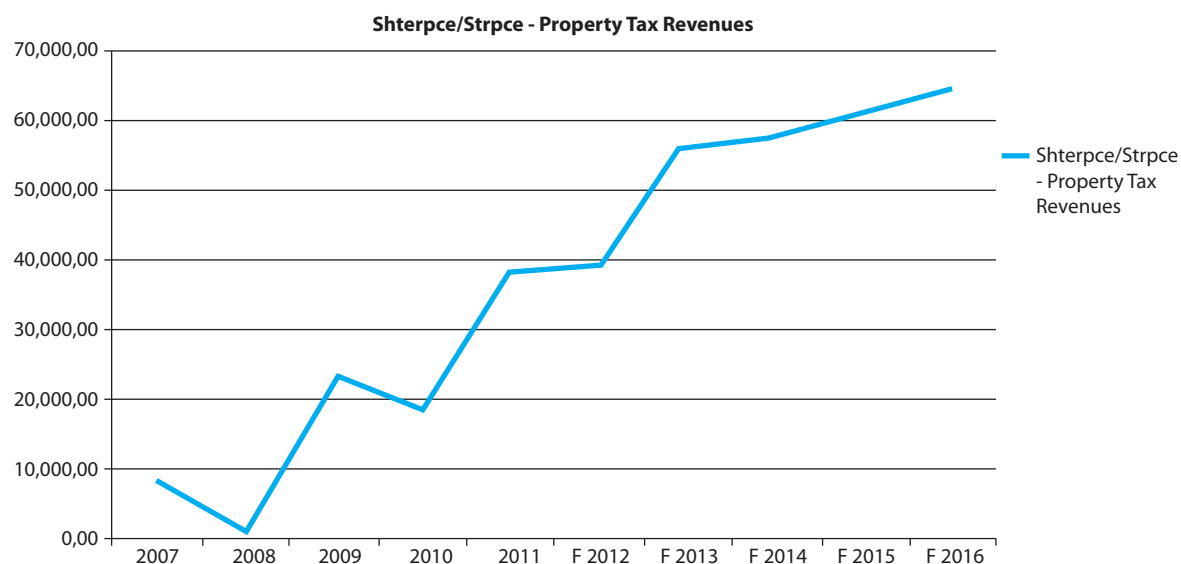


The table below presents the participation of each OSR category in the total forecasted OSRs for the Municipality of Shterpce/Strpce:

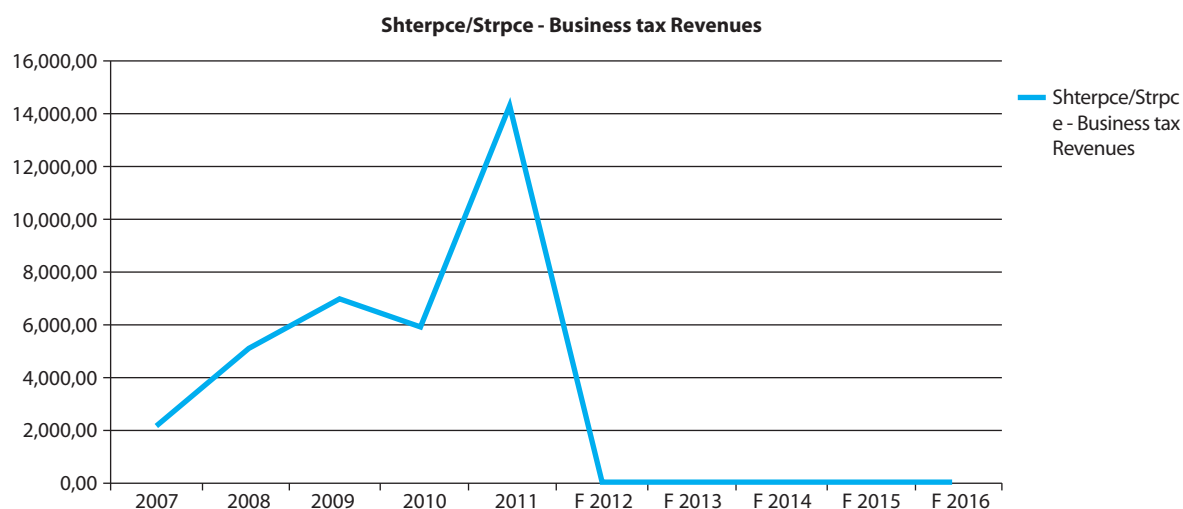


As can be seen from the chart above, the main forecasted drivers of OSR over the coming period are the Sale of Municipal services (construction licenses), Revenues from the Use of Municipal Assets, Fines and Property Tax. These are the areas where municipalities should try to achieve increases in terms of OSR through increased efficiency in their financial management and enforcement.

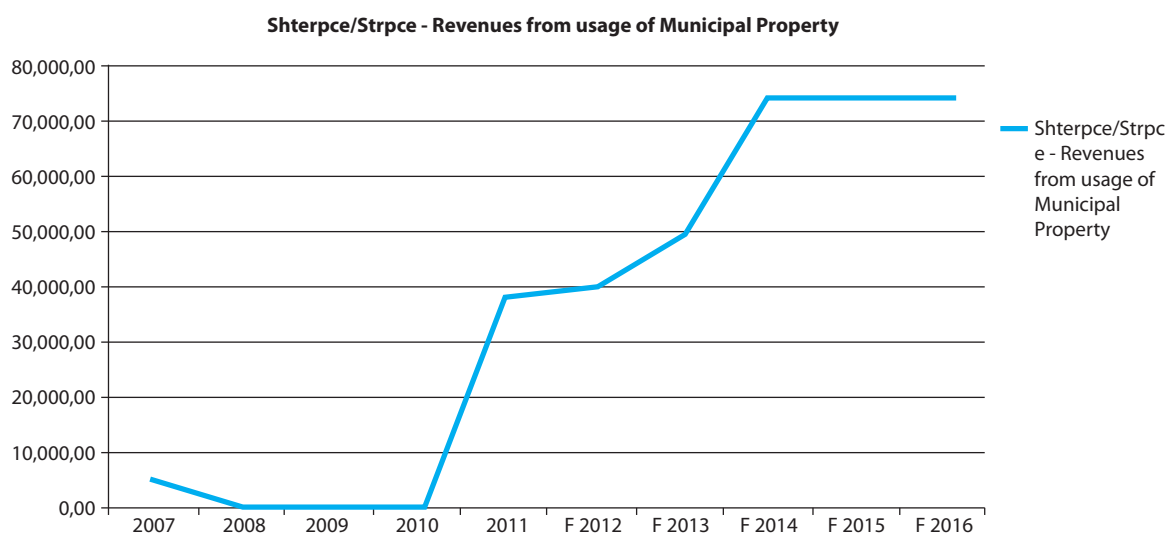
The growth of each category of OSRs forecasted is as presented in the charts below:



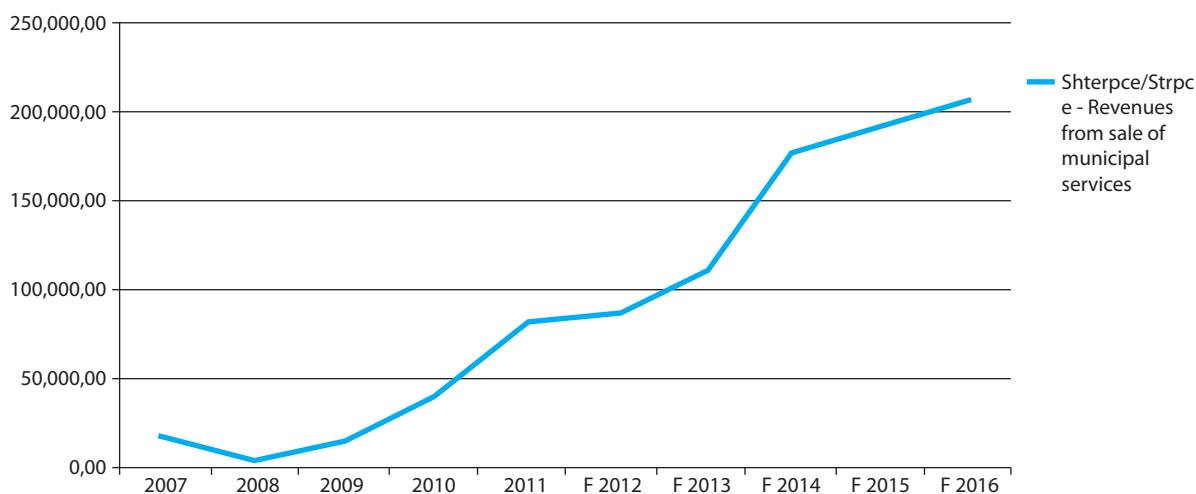
Revenues from Property tax continue to increase due to improved political situation, development of the touristic centre, increase and improved registering, database management, improved invoicing and better enforcement.



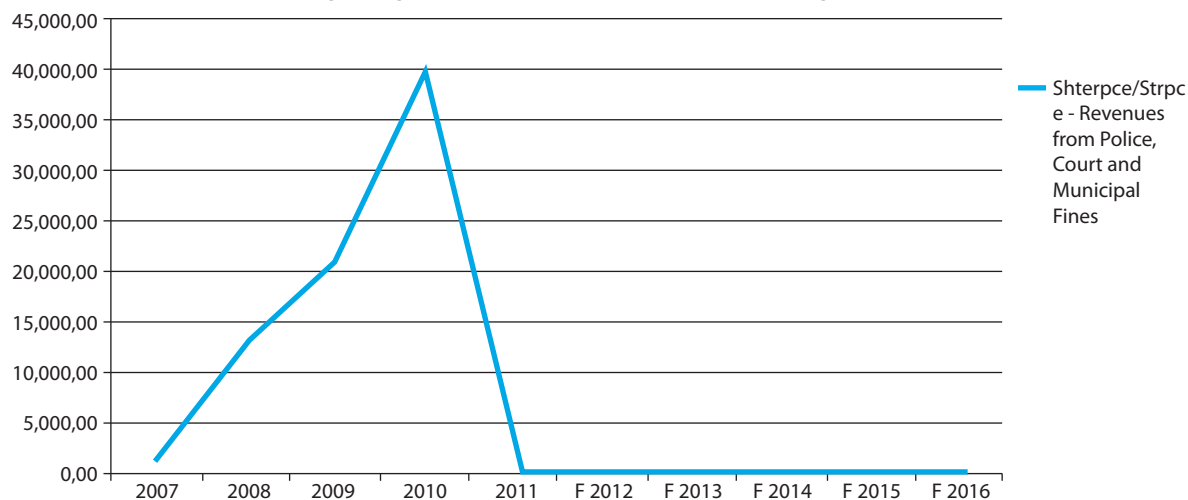
Business taxes although increasing historically, will cease from 2012 due to changes in national level policy over business taxation by municipalities. As a consequence of this decision, municipalities are not allowed to charge businesses with any fees or charges from 2012.



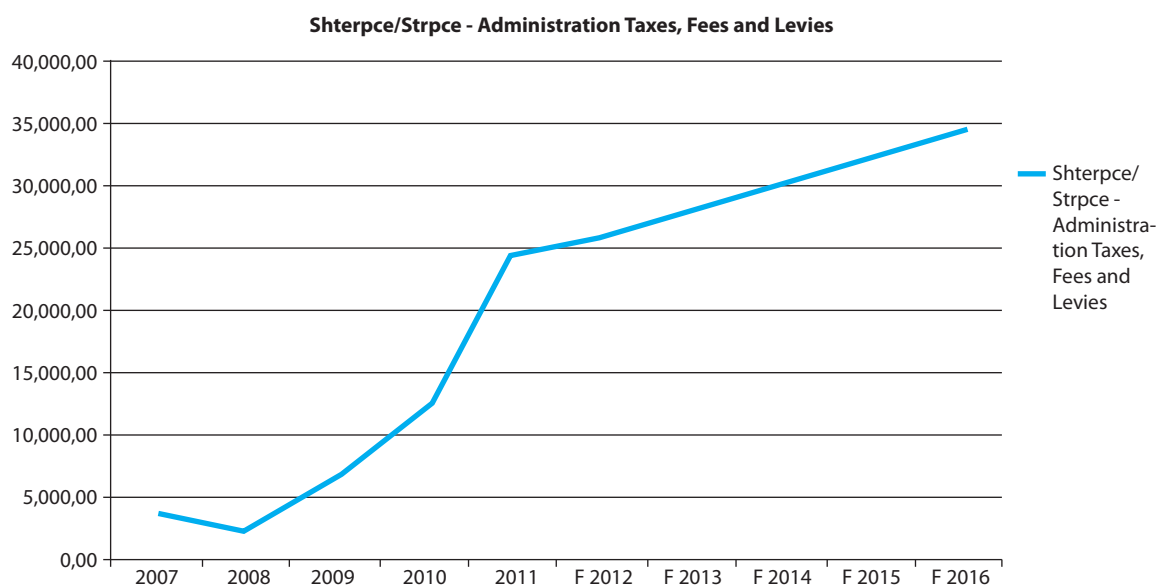
Revenues from use of municipal property have a major impact on OSR in the case of the Municipality of Shterpce/Strpce due to its touristic potential. The revenues from this category can reach levels above 70,000 Euro annually by 2016. On average, these revenues are expected to contribute about 20% over the forecasted period.

Shterpce/Strpce - Revenues from sale of municipal services

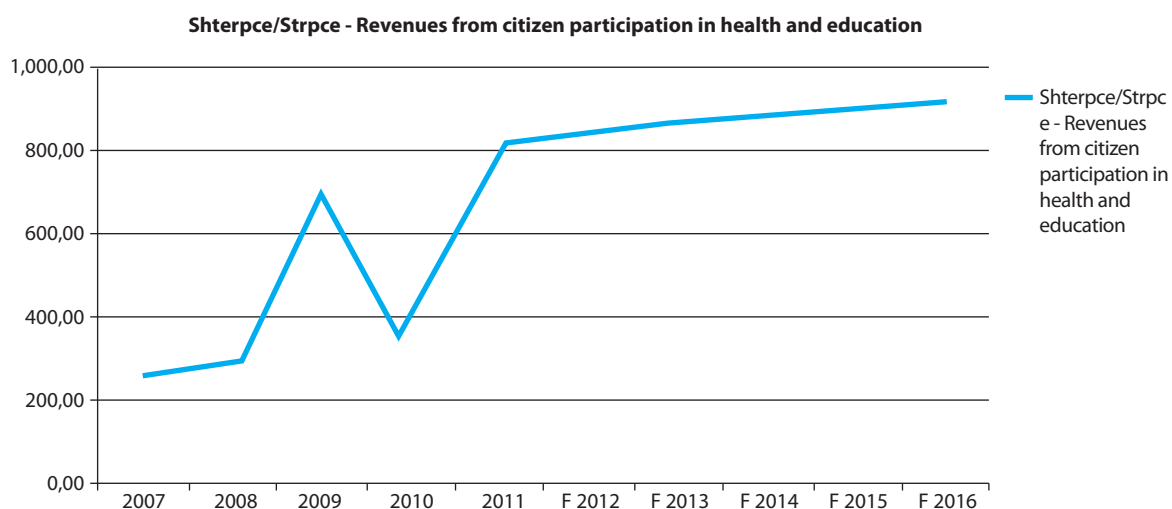
Revenues from sale of municipal services have increasingly become a more important contributor to OSR in the municipality, especially with the calming down of the political situation and the integration of the majority Serb population and the development of the touristic potential of the municipality. Forecasts are that the municipality can achieve an increase of almost 150% compared to generated revenues in 2011.

Shterpce/Strpce - Revenues from Police, Court and Municipal Fines

Revenues from fines issued by courts, police and the municipality mainly came from increased numbers of visitors to the municipality due to its touristic potential; however they have dropped to zero in 2011. Municipality should try to secure regular repayment (cash in) of these revenues due to problems with fine transfers as a consequence of a lack of a municipal minor court in Shterpce/Strpce.



Administration fees, levies and taxes are expected to contribute on average 10.29% to the OSRs generated by the municipality over the forecasted period. The increase in revenues generated from this category will result in an increase by 43% when compared to revenues generated in 2011.



Forecasted revenues coming from citizen's participation in health payments contribute on average less than 1% of OSRs generated during the period 2012 – 2016, reflecting the political situation and the provision of totally free healthcare.

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 the Municipality of Shterpce/Strpce

As Shterpce/Strpce does not have a Municipal Minor Court, traffic fines dealt with through the minor court in Ferizaj should be re-directed to the account of the Municipality of Shterpce/Strpce. Also, the Police Service should be notified that the traffic fines occurring in the territory of the municipality of Shterpce/Strpce should be clearly stated as such so that there is no misallocation of revenues from fines.

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 Shterpce/Strpce 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, Shterpce/Strpce should do analysis of how to compensate for the potential revenue losses as a consequence of the abolishment of this category of revenues.

The municipality could also start issuing licenses for working longer hours (especially important during the skiing season), and also introducing advertisement space tax, as this item is bound to grow with the development of the ski centre. Collection of fees for forest utilization and improved enforcement of these fees, coupled with higher level political lobbying resulting in the municipality managing the fees and levies coming from forest utilization, can also result in a steady revenues source for the municipality, especially having in mind the geography and topography of the municipality of Shterpce/Strpce.

Although the municipality of Shterpce/Strpce does not really have any space assets it can lease out, it can use its land assets in supporting the touristic development of the municipality. However, charging levies for vehicle usage and parking in the national and environment degradation, the municipality should continue to charge for this service and also establish an automatic system for following issued tickets and payments, so that the municipality can better manage this significant income item.

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 having in mind the planned development of the ski centre into a modern touristic centre with complete provisions. This source should be utilized by finalizing the planning, urban and regulatory plans for both the tourist zone as well as the entire municipality.

Further, revenues from inspections of service facilities like restaurants, hotels, villas for rent, ski lifts, in terms of food, fire safety, could all be potentially good sources of revenues. Shterpce/Strpce 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.

Shterpce/Strpce being an 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 focus on identifying potential donor sources and take a proactive approach to targeting these sources.

A thick red vertical bar runs along the left edge of the page.

LOGOS

Nazim Gafurri str. 33
Po Box no.2
10000 Pristina, Kosovo
<http://www.helvetas-ks.org>

Tel: +381(0) 38 51 77 15
Tel: +381(0) 38 51 66 44
Fax: +381(0) 38 51 88 33
info@helvetas-ks.org