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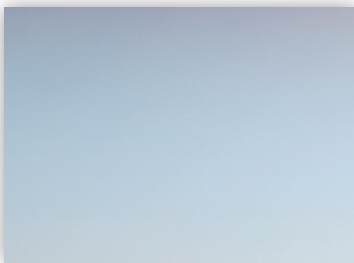
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KOSOVO

Swiss – Kosovo

Local Governance and Decentralization Support

LOGOS



LOGOS

Analysis and Forecasting for

Own Source Revenues in The Municipality of Viti



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

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Introduction

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

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

	Codes	2008	2009	2010	2011
Revenues from property tax	40110	190,306.84	215,839.30	249,696.61	260,518.07
Income from businesses		55,655.00	33,790.10	50,303.00	35,543.25
Revenues from business tax	50006	45,299.50	21,214.10	44,813.00	
Revenues from commercial licenses		5,152.50	5,599.00	4,230.00	
Revenues from licenses for ads	50212	291.00	2,268.50	250.00	1,180.00
Revenues from licenses and services		4,912.00	4,663.50	690.00	
Revenues from forest exploitation licenses				275.00	
The use of road infrastructure			45.00		
Revenues from stonebreakers and mines	50203				
Fees for prolonged working hours					
Revenues from business licenses	50204			45.00	
Change of business tax	50007				
Licenses for individual activities	50201				29,025.75
Licenses for professional services	50206				890.00
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				35.00
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				4,412.50
Other taxes on businesses	40050				
Presumptive tax	40010				

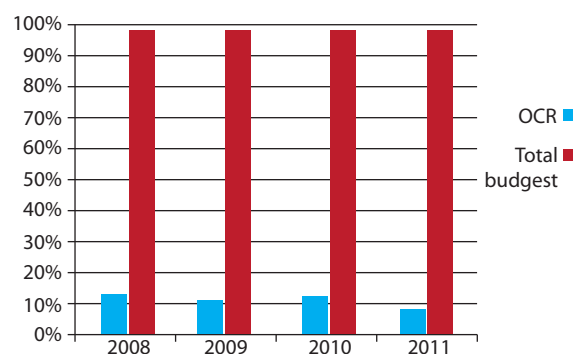
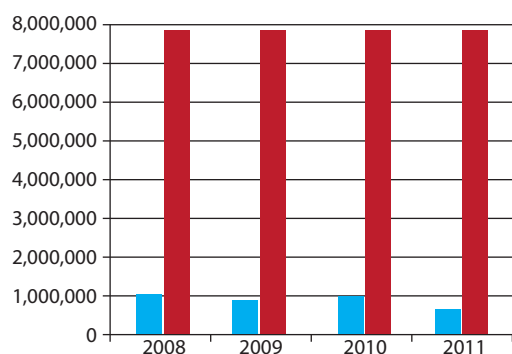
Revenues from use of the municipal property		12,237.00	53,979.74	17,303.29	41,178.42
Revenues from parking of vehicles	50008				600.00
Revenues from the sale of Municipal property	50413	4,706.00	20,705.00		
Revenues from use of the land	50405	241.00	454.00		4,208.00
Rent of municipal properties	50408	7,290.00	32,820.74	17,303.29	27,170.12
Revenues from the sale of goods	50403				9,200.30
Sale of official gazette	50404				
Use of public property for open market	50406				
Rent from leasing to trading companies	50407				
Revenues from concessions	50417				
Revenues from rent on residential property	50418				
Revenues from sales of services		45,706.14	63,676.75	157,078.12	88,581.55
Revenues from inspections			710.00	1,360.00	
Veterinary inspections	50505	470.00			
Inspection of food premises	50501			7,960.12	1,000.00
Inspections for fire					20.00
Inspection of the environment					
Revenues from geodesic plans		5,237.00	8,092.00	15,945.00	
Activities in the field to measure the country - Dept. of Urbanization	50504	13,496.84	4,400.00	35,520.00	11,385.10
Inspections of urban plans - Dept. of Urbanization	50503				13,767.00
Revenue from building permits				6,817.00	
Payments for the change in land usage	50012	15.00	1,293.00	5,885.00	7,445.00
Issuance of construction licenses	50009	26,487.30	49,181.75	81,037.00	48,529.45
Demolition license	50010				
Other services				2,554.00	
Technical check of buildings	50205				6,415.00
Sale of services	50401				
Inspection - sanitary hygienic	50507				20.00
Inspections of weighting equipment	50508				
Inspection og measurement units at petrol stations	50509				
Tax for legalization	50026				
Revenue from court fines, police and municipality		130,558.78	123,001.80	115,312.61	67,730.00
Fines		2,215.00	2,385.00		
Fines - Forestry		7,446.66	5,875.80	4,191.18	
Court Fees		68,734.97	63,945.00	66,160.43	34,255.00
Revenues from traffic fines	50101	52,162.15	50,796.00	44,961.00	33,405.00
Inspectorate Fines	50104				70.00
Other fines	50107				
Removal and Deposition of vehicles	50103				
Other		2,542.00	3,167.00	0.00	0.00
Other payments	55300				
Other Revenues	55300	2,542.00	3,167.00		
Revenues from administrative tax		153,309.50	172,821.50	153,715.00	178,510.00

Fees from the registration of vehicles	50001	55,710.00	63,130.50	65,190.00	69,690.00
Issuance of driving licenses	50005	8,794.00	6,372.00		
Fees from traveling documents	50003				
Tender participations	50020	3,955.00	7,325.00	7,850.00	6,400.00
Road tax	50002				
Certificate of the registrar (birth, marriage, death etc.).	50013, 50014, 50015	35,744.00	61,456.00	3,221.50	15,965.00
Other registrar documents		3,517.00	4,365.00	13,964.00	52,709.00
Certification of different documents	50017	1,049.00	1,573.00	1,202.00	1,797.00
Tax for request forms					
Inheritance registration fee	50011	44,540.50	28,600.00	62,287.50	29,105.00
Health certificates for driving licenses	50024				
Tax on ID Cards	50004				
Other administrative taxes	50019				2,724.00
Tax other certificates	50016				
Tax on photocopy of various docs	50018				120.00
Citizenship certificate tax	50025				
Product stamps	50412				
Citizen Participation (health and education)		61,967.85	84,133.50	59,052.10	63,946.35
Revenues from culture	50409	192.00		564.00	
Revenue from health services	50409	44,045.85	68,413.50	42,308.10	63,946.35
Revenues from kindergarten	50409	17,730.00	15,720.00	16,180.00	
Revenues from secondary Education	50409				
Grants and donations		176,598.16	159,080.00	66,646.75	91,295.26
Citizen participation in projects		159,002.00	159,080.00	55,800.00	52,735.00
Foreign donations		17,596.16		10,846.75	38,560.26
Kosovo donors					
Total OSR Generated during the financial year		828,881.27	909,489.69	869,107.48	827,302.90
		47.81%	9.72%	-4.44%	-4.81%
Carried forward revenues from previous years		209,509.31	280,793.00	207,200.00	191,589.70
Grand Total		1,038,390.58	1,190,282.69	1,076,307.48	1,018,892.60

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

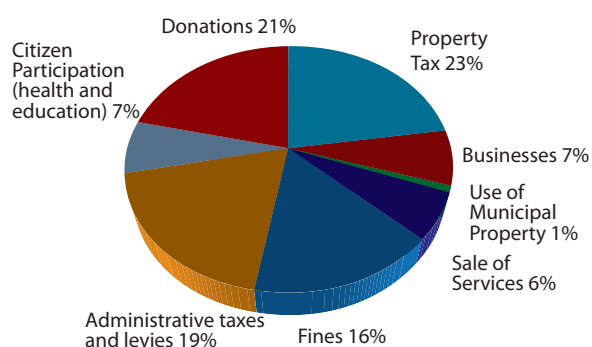
When analyzing historical trends of own source revenues in the municipality of Vitia, one can notice the following observations for the main groups of own source revenues. As presented in the table 1, Vitia municipality recorded an increase in the generation of OSR of 9.72% in 2009 when compared to 2008, whereas in 2010 OSRs generated during the year decreased by 4.44% as compared to 2009. Similarly, during 2011, OSR generation has decreased by 4.81% as compared to 2010.

Own Source Revenues generated during the financial year in Vitia were on average at 13.48% of the total annual budget set for the municipality at the beginning of the year. This is presented in the two figures below:

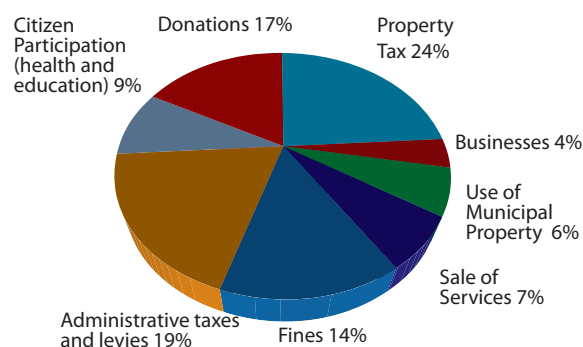


The majority of the income for this municipality was generated by the property taxes, court and traffic fines, administrative taxes and sale of municipal services. A breakdown of the participation of different categories is presented below:

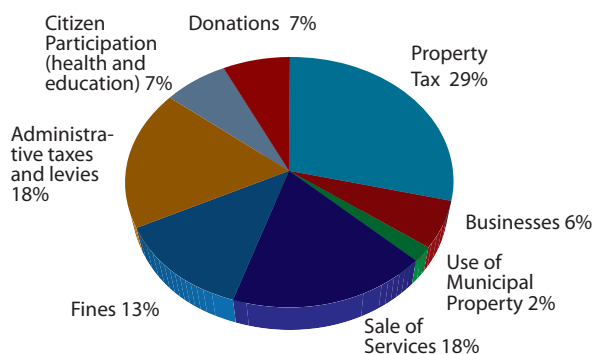
Vitia - OSR by category 2008



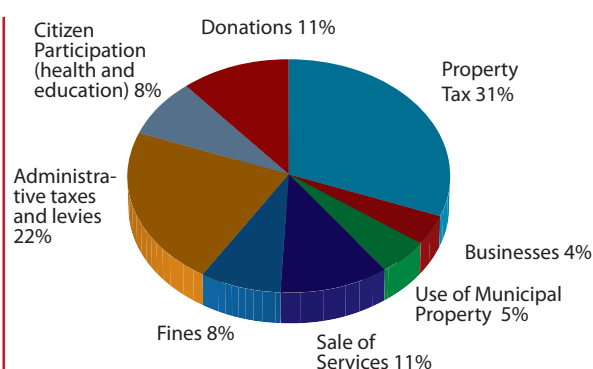
Vitia - OSR by category 2009



Vitia - THV-të sipas kategoriva 2010



Vitia - THV-të sipas kategoriva 2011



When analyzing the specific categories of own source revenues, one notices the following observations. There is a steady increase in revenues from property tax throughout the period 2008-2011 with an average of 11.14%. The participation level of property tax on the overall OSR for Vitia was 22.95%, 23.73%, 28.73% and 31.49% for the period 2008-2011 respectively. Thus, it is the single biggest contributor to OSR, even if foreign donations and citizens' participation in capital investment projects are not excluded.

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 Viti with the registration of over 1,200 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 been fairly consistent though volatile during the 2008-2011 periods. In 2009, revenues collected have decreased by 39.2% mostly as a result of politically motivated lower level of enforcement due to 2009 being a municipal election year. Further, in 2010 revenues increased by 48.87% only to decrease again by 29.34% during 2011. This large decrease so far has mainly been caused by the lack of contribution from revenues from commercial licenses and revenues from licenses and services.

Revenues from the use of municipal property are mainly coming from the rent of municipal properties and revenues from the sale of municipal vehicles. Revenues from the use of municipal land also add to the revenues from the use of municipal property, however, its contribution is very low. In addition, during 2011, revenues from parking of vehicles have also added to this group of OSRs. In general, this category's contribution towards total OSRs generated by the municipality is 4%.

Revenues from sale of municipal services contribute with an average of 10% to total generation of OSRs. Revenues increased in 2009 in comparison to 2008 by almost 40% and increased again by almost 150% in 2010. In 2011 however, revenues decreased by almost 50%. The main contributors to the great increase of 2010 are increased revenues from geodesic plans, activities in the field from Department of Urbanization, and increased demand for construction licenses, which alone comprise an average of 60.39% of the revenues generated from the sale of municipal services. The second largest contributor to these revenues is the collections from the activities in the field to measure the country by the Department of Urbanisation. The same accounts shrank and caused the decrease in 2011.

Revenues from municipal, court and traffic police fines are a major contributor to the Own Source Revenues over the 2008-11 periods, participating on average with 14.19% in total OSRs collected. The highest contributors to this category are court and traffic fines, which together make up more than 90% of revenues generated from fines. During 2011, however, data on traffic and court fines were recorded only until October 2011 and may not reflect the real total for the year.

Administration fees, levies and taxes also make up a large proportion of OSRs generated in the municipality of Viti, ranking third by size after property and business taxes (excluding donations and court and police fines), providing on average 19% of OSR. The largest contributors here are the revenues coming from the registration of vehicles which contributes with 38.58% to the group.

Revenues coming from citizens' participation refer to health, education and culture, and on average secure about 7.81% of the total OSR generated. These revenues include co-payments by citizens when receiving medical services, for secondary school participation, kindergarten and services related to culture.

Finally, citizens' contributions to public works make up a large proportion of OSRs in Viti, with some contribution from foreign donations. 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 Viti

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 Viti, in registering these properties on the system. The newly registered properties, over 1,200 in Viti, will now be issued invoices on property tax for the first time in 2012, thus increasing both the taxable base for the municipality as well as consequently collection rates. In terms of rates and valuations set by municipalities, rates set by the municipality do not change every year and the valuations of properties remain unchanged, thus the property tax revenues do not follow any changes in property values nor does it have any inflation index linked to the levels charged. Further, the valuations, in most cases, are usually below the actual market prices, consequently keeping the amount of the property tax low. Recently, the Government of Kosovo has decided to amend the minimum rates on property tax and increase the level from 0.05% to 0.15% of the property value annually. As the current average property tax rate in Kosovo municipalities stands at around 0.1%, this increase in the rate will result with a roughly 50% increase in the property tax bill, which may also influence collection levels. As municipalities report aggregate own source revenues in terms of categories or sub-categories, and due to lack of data in establishing the true tax base, one cannot use the units and price per unit of the specific items of OSR in conducting forecasts. Thus, to conduct the forecasts, the consultants have consulted widely municipal officials in terms of getting as accurate as possible picture of historical performance and the reasons for the larger oscillations over the years. Discussions with the relevant municipal officials in charge of collecting the respective revenues were held in order to get their input into potential future trends. Forecasts are mostly done based on two factors, increased collection rates assumptions and natural growth assumptions. In cases where a historical trend could not be established due to fluctuations in revenues, outlier years are excluded or averages are taken. Following are descriptions of assumptions taken for specific categories and sub-categories of OSR and the estimated potential of the municipality to rise own source revenues over the period 2012-2016.

Forecasting Assumptions

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

Property tax:

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

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

However, due to the change in policy from the central level of Government, revenues from businesses fees will stop completely at the municipal level from 201, as part of the initiative of improving the business environment. Thus, we expect revenues from businesses license fees to stop completely from 2012 and that previous debts will not be collected at all.

Revenues from usage of municipal property:

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

Revenues from sale of municipal services:

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

Revenues from court, police and municipal fines:

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

Revenues from Administration Taxes and Levies:

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

Citizen participation in health and education:

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

Grants and donations:

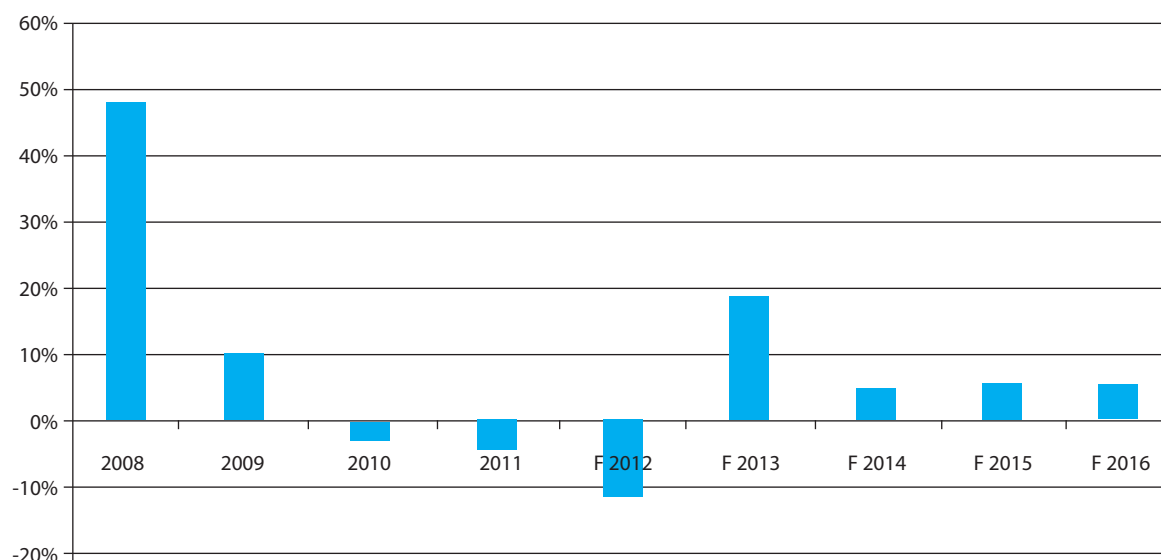
The consultant has not made any assumptions regarding forecasted income from foreign and Kosovo donations, nor citizens participation in capital investment projects. This is because it is difficult to estimate the number or size of future donor support in the municipality. Assistance could be provided to the municipality in terms of identifying potential donors and support programmes, and then supporting the municipality in getting access to this type of support.

Forecasted Own Source Revenues – Municipality of Viti

Own Source Revenue Type	2007	2008	2009	2010	2011	F 2012	F 2013	F 2014	F 2015	F 2016
Property tax	79,302,01	190,306,84	215,839,30	249,696,61	260,518,07	268,073,09	383,344,52	395,228,20	422,894,18	452,496,72
Business taxes and levies	31,699,33	55,655,00	33,790,10	50,303,00	35,543,25	0,00	0,00	0,00	0,00	0,00
Revenues from usage of municipal property	4,196,18	12,237,00	53,979,74	17,303,29	41,178,42	43,237,34	47,561,08	54,695,24	54,695,24	54,695,24
Revenues from the sale of services	51,081,30	45,706,14	63,676,75	157,078,12	88,581,55	94,339,35	101,414,80	110,035,06	117,737,51	125,979,14
Revenues from court, police and municipal fines	113,267,00	130,558,78	123,001,80	115,312,61	67,730,00	69,761,90	72,552,38	76,179,99	80,750,79	85,595,84
Other revenues	20,246,00	2,542,00	3,167,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Revenues from administration taxes and levies	109,360,00	153,309,50	172,821,50	153,715,00	178,510,00	191,005,70	204,376,10	218,682,43	236,177,02	255,071,04
Citizen participation (health and education)	51,644,70	61,967,85	84,133,50	59,052,10	63,946,35	66,504,20	68,499,33	69,869,32	71,266,70	72,692,04
Grants and Donations	99,995,00	176,598,16	159,080,00	66,646,75	91,295,26	0,00	0,00	0,00	0,00	0,00
Total:	560,791,52	828,881,27	909,489,69	869,107,48	827,302,90	732,921,59	877,748,21	924,690,24	983,521,45	1,046,530,21
Year on year percentage change in generated OSR		47.81%	9.72%	-4.44%	-4.81%	-11.41%	19.76%	5.35%	6.36%	6.41%

As can be seen from the forecasted Own Source Revenues table, OSR for the municipality of Viti go up to 1,406,530.21 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 2010, 2011, and 2012 as shown in the table below.

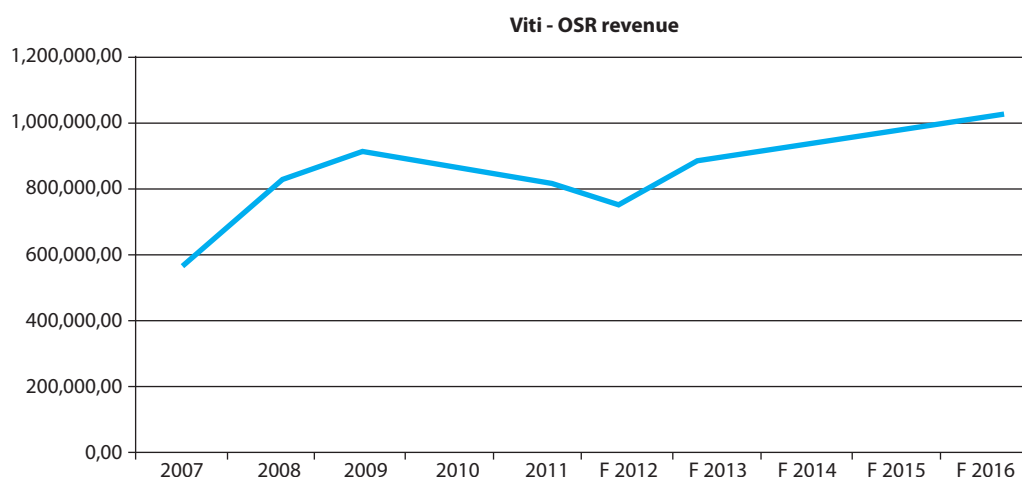
Municipality of Viti – Historical and Forecasted Year to Year OSR in percentage change



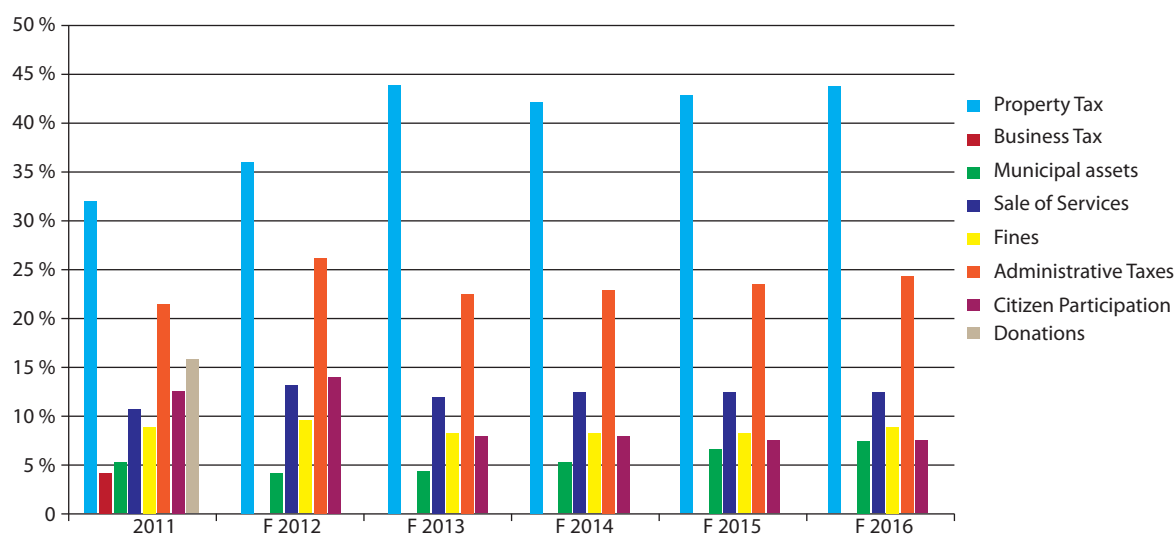
The main driver of increases there was the increase in payments of property tax, followed by administration fees and taxes and sale of municipal services. According to the forecasts based on stated assumptions, by 2016 the municipality of Viti can achieve to generate up to 26.5% more annually compared to OSR generated in 2011. This can be achieved through better management and utilization of municipal resources and services, as well as through more efficient oversight, inspections and enforcement.

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

Municipality of Viti – Historical and Forecasted Own Source Revenues

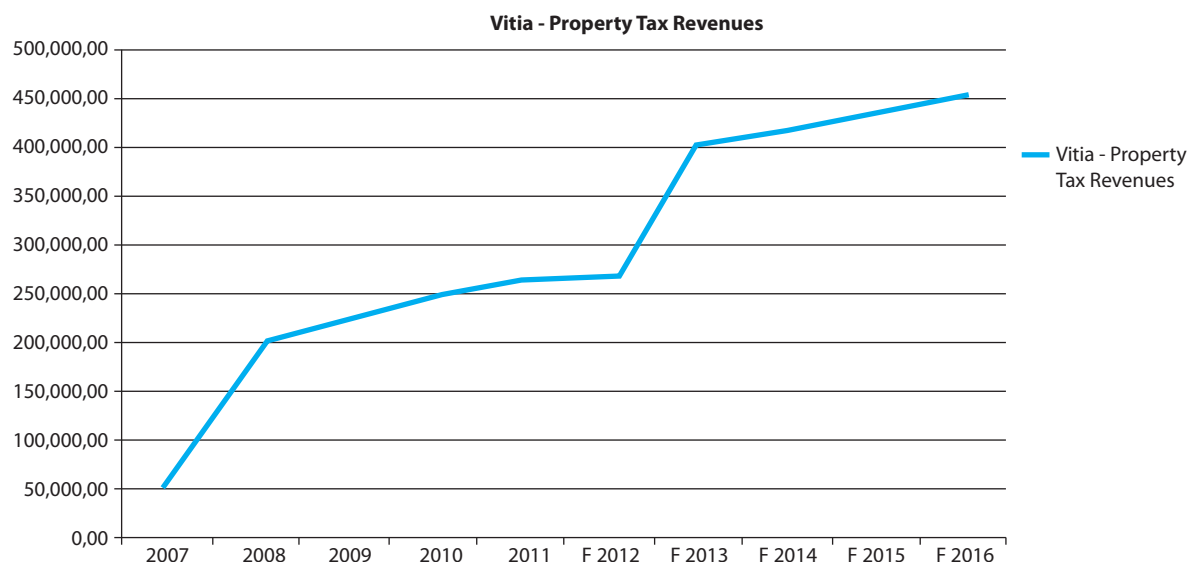


The table below presents the participation of each OSR category in the total forecasted OSRs for the Municipality of Viti:



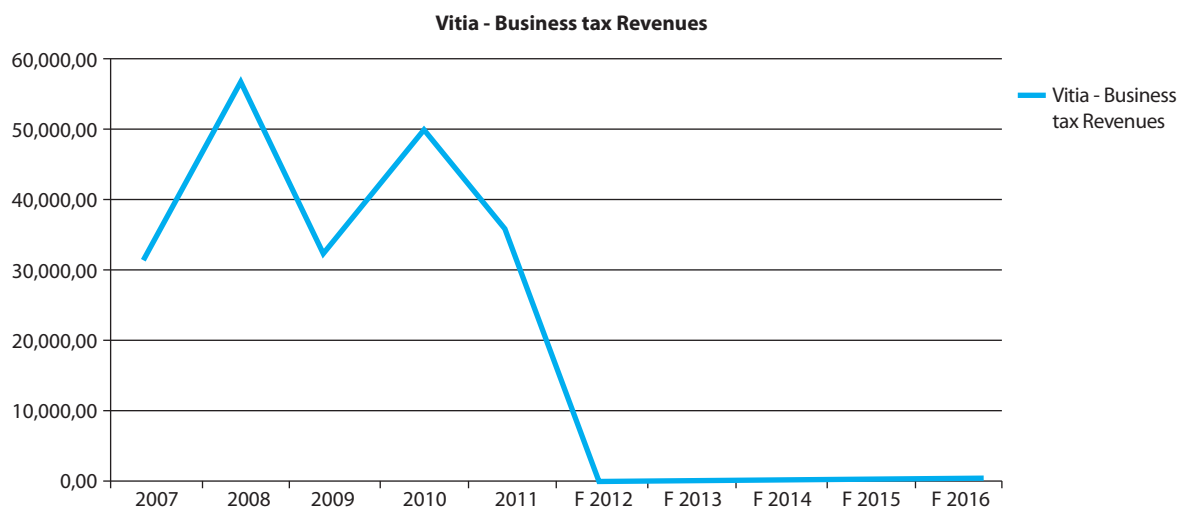
As can be seen from the chart above, the main drivers of OSR over the coming period remain to be the property tax (on average contributing by 41.85% to total generated OSR); Municipal Administration taxes and levies (24.28% of OSR on average over the forecasted years); Sale of services (12.07%), and Fines issued by the courts, traffic police and the municipality (comprising on average 8.48% of generated OSR).

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

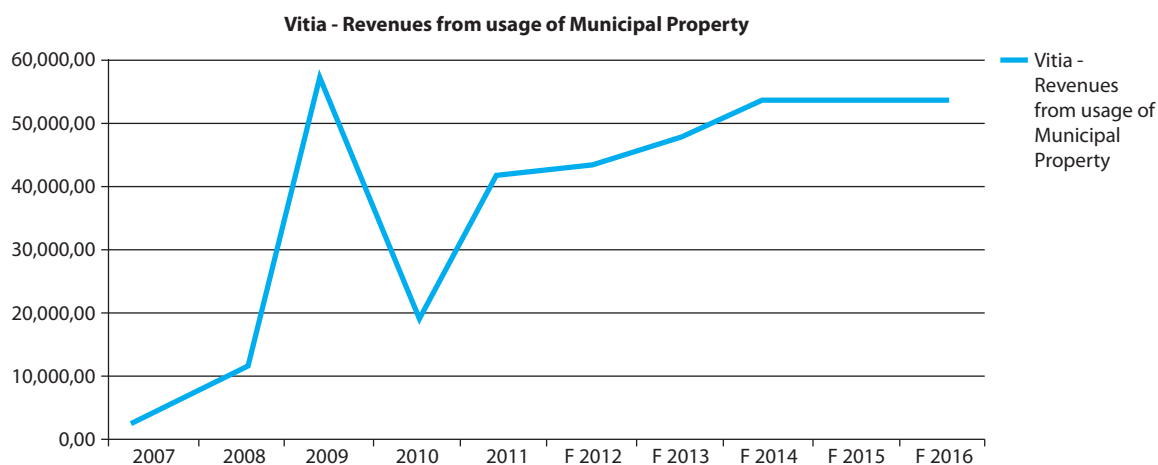


Revenues from Property tax continue to increase due to improved registering, database management, improved invoicing and better enforcement. Revenues from this tax will also increase due to natural growth of the municipality as well as growth of the economy. Finally, one can also count on revenue collection of tax liabilities from previous years, which should be done in close cooperation with the

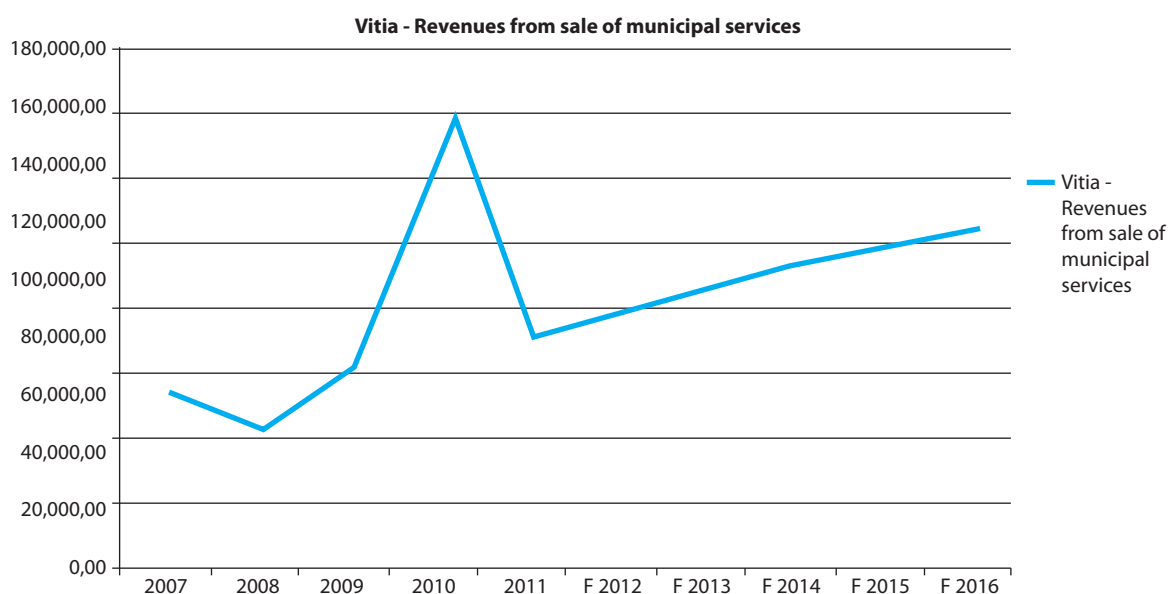
property tax department at the Ministry of Finance and Economy. Compared to 2011, the forecasted revenues from property tax in 2016 increase by 73.69%.



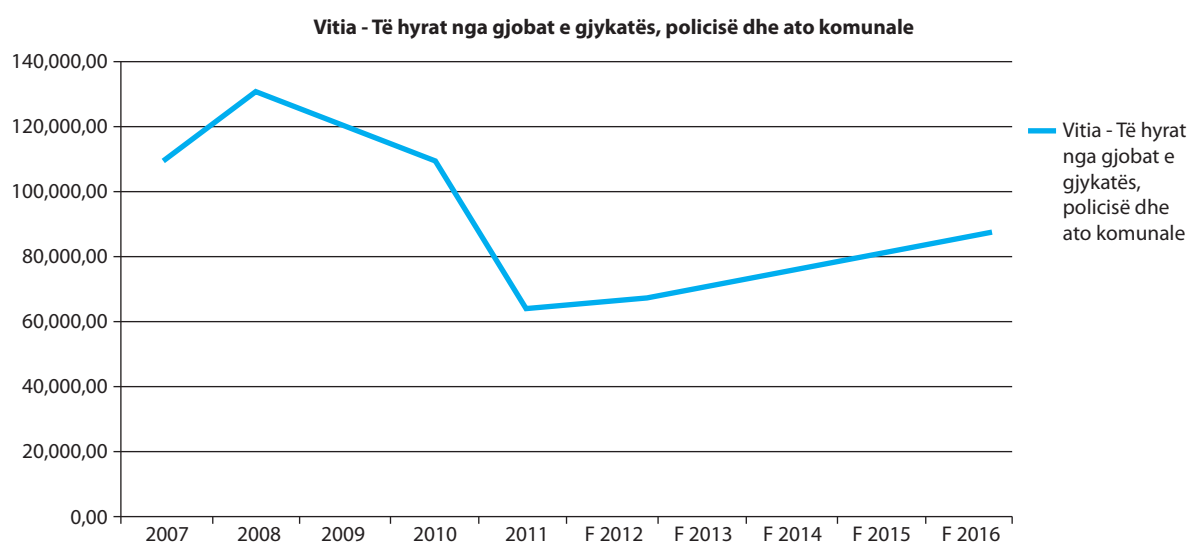
Business taxes will be decreasing in importance over the coming years due to changes in regulation and policy from the central government, which will not allow any business fees at the municipal level as part of a drive to improve the business environment in Kosovo. Therefore, from 2012 this category will drop to zero.



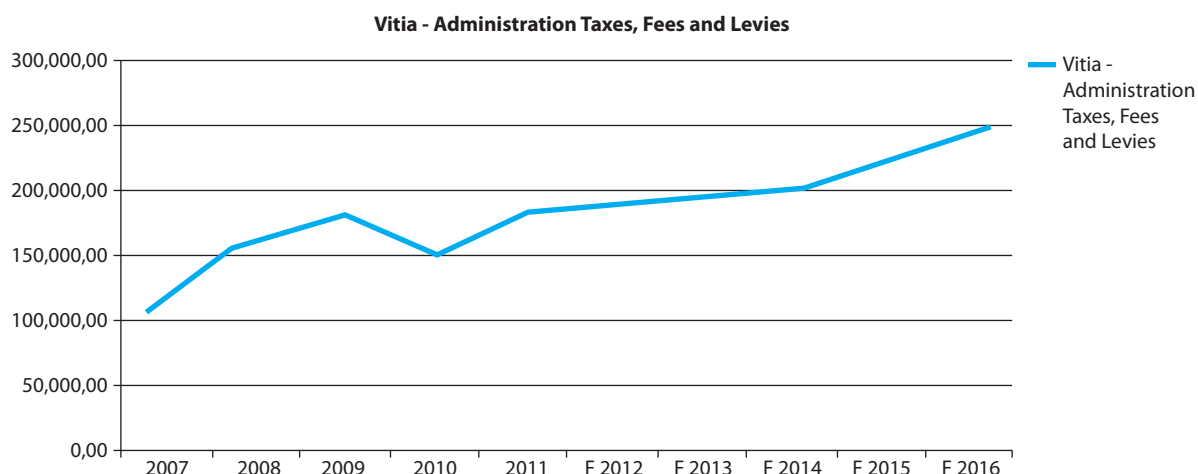
Revenues from use of municipal property do not make up a large percentage of total OSR, however, by improved management of municipal assets, the increase in revenues from this category can be almost 50% compared to revenues generated in 2011, and by then comprise about 5% of total OSR. The municipality of Vitia should try to improve on this category as there is higher potential for revenues.



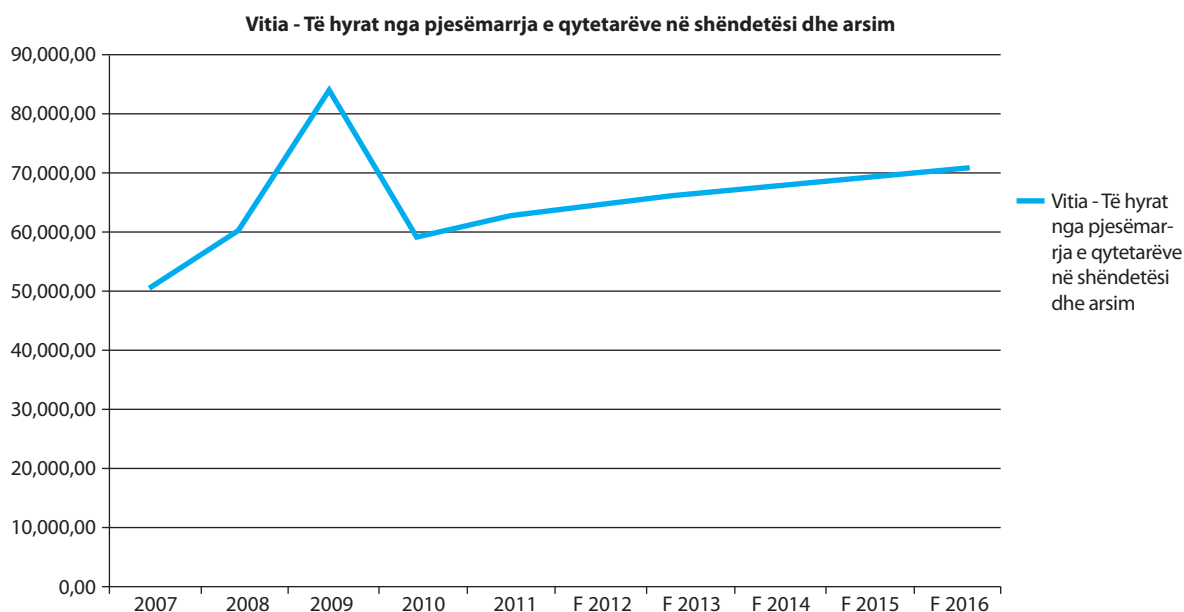
Revenues from sale of municipal services are an important contributor to OSR in the municipality, comprising on average 12.07% of forecasted revenues. Forecasts are that if there is increase efficiency and better provision of municipal services, the municipality of Vitia can achieve similar levels to those achieved in 2010.



Revenues from fines issued by courts, police and the municipality are and continue to be a large contributor to municipal OSR, on average contributing 8.48% to expected revenues generated by the municipality in the years up to 2016. Vitia, is forecasted to continue to generate similar levels of revenues in this category as in 2011.



Administration fees, levies and taxes are expected to contribute on average 24.28% to the OSRs generated by the municipality over the forecasted period. The increase in revenues generated from this category will result in an increase of about 43% in revenues generated when compared to 2011.



Forecasted revenues coming from citizen's participation in education and health payments contribute on average by 7.73% of OSRs generated during the period 2012 – 2016, which makes it the fifth largest contributor. This will result in an increase of 13% of revenues generated from this category compared to those generated in 2011.

RECOMMENDATIONS FOR IMPROVEMENTS IN OWN SOURCE REVENUE GENERATION

General recommendations

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

In the official website of the 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 Viti

Property tax, is one of the major sources of revenue in Viti. 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 Viti 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, Viti should do analysis of how to compensate for the potential revenue losses as a consequence of the abolishment of this category of revenues.

Municipal leasing of land, buildings and space is another potential good revenue source is managed properly. The municipality has managed to increase the revenues coming from utilization of municipal owned space. However, the municipality does not apply a parking fee system and is recommended to introduce one for specific strategic and frequented areas of the town.

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

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