

Swiss – Kosovo
Local Governance and Decentralization Support
LOGOS

Analysis and Forecasting for **Own Source Revenues** in the Municipality of

KAMENICA

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

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INTRODUCTION

This report analyzes Own Source Revenues in the Municipality of Kamenica and based on historical data and assumptions made based on the findings from field visits and discussions with municipal officials, the report forecasts the generation of Own Source Revenues for the period 2010-2015.

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 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, as well as assumptions and estimates based on observations and 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 and some support by the LOGOS project and other parties engaged with this level of governance.

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 2007-2009 period. Then, the report outlines the assumptions made in the forecasting model to conduct the forecasts for OSR generation for the period of 2010-2015. Provided that these forecast 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 into areas that municipalities could be supported by the project in order to achieve the objective of increasing own source revenues generated by the municipality.

HISTORICAL PERFORMANCE

When analyzing the historical performance of the municipality of Kamenica, the consultants have used Auditor General reports as well as extensive consultations with relevant municipal officials. There were many issues regarding the auditor reports, which caused problems and issues regarding the accurate measurement and reporting of OSRs by the municipalities. First, the auditor reports were inconsistent regarding the classification and recording of own source revenues, including the different naming of the same types of taxes and levies. Further, mostly due to the fact that the contracted audit companies were changed over time, there are discrepancies between the auditor reports for the same municipality for the different financial years, including even in cases different historical totals being reported as compared to the original reports from the particular financial year. One major issue was the changing of economic codes, especially after the introduction of the UNIREF payment system, by which the municipalities record revenues which do not coincide with how these taxes and levies are categorized in the municipal regulations. These changes in the way municipalities record and then report OSR make it difficult to extrapolate any trends for specific categories and require further detailing and discussions with municipal officials. Furthermore, auditors use their own models to present OSRs by the municipalities, which further creates lack of clarity and disaggregation of data required for good projections.

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 Kamenica municipality, presented in the table below:

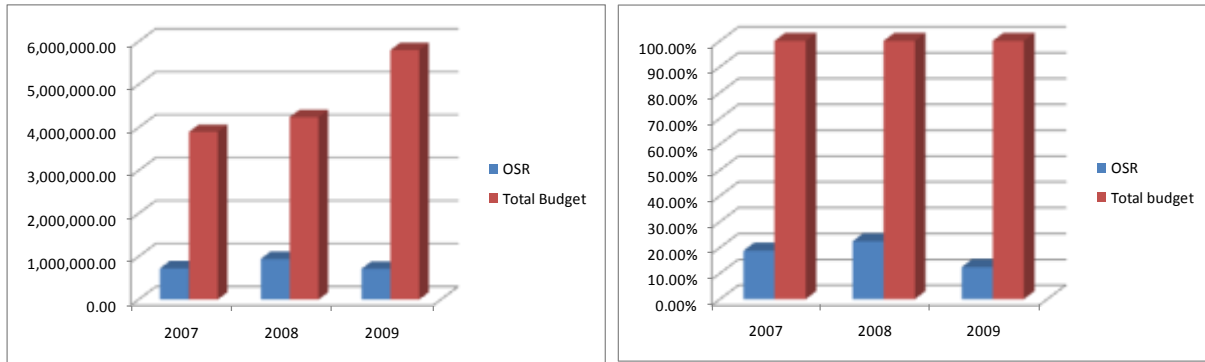
	2007	2008	2009
Revenues from property tax	125,882.46	182,500.68	160,119.44
Income from businesses			
Revenues from business tax	83,498.07	83,614.90	78,892.00
Revenues from commercial licenses	0.00	10,777.00	5,806.00
Revenues from licenses for ads	0.00	0.00	0.00
Revenues from licenses and services	0.00	0.00	0.00
Revenues from forest exploitation licenses	0.00	0.00	0.00
The use of road infrastructure	0.00	0.00	0.00
Revenues from stonebreakers and mines	40.00	17,705.02	5,764.35
Fees for prolonged working hours	7,413.00	0.00	10,090.00
Revenues from business licenses	8,435.58	8,885.00	1,270.50
Revenues from use of the municipal property			
Revenues from parking of vehicles	0.00	696.90	1,216.70
Revenues from the sale of Municipal property	0.00	0.00	3,120.00
Revenues from use of the land	6,065.60	7,168.10	5,611.20
Rent of municipal properties	1,200.00	10,300.00	2,179.00
Revenues from sales of services			
Revenues from inspections	4,435.00	10,215.00	7,471.50
Veterinary inspections	1,441.02	254.38	243.30
Inspection of food premises	0.00	0.00	0.00
Inspections for fire	0.00	135.00	0.00
Inspection of the environment	0.00	0.00	0.00
Revenues from geodesic plans	0.00	0.00	0.00
Activities in the field to measure the country - Dept. of Urban.	21,970.60	0.00	4,703.50
Inspections of urban plans - Dept. of Urbanization	0.00	0.00	0.00
Revenue from building permits	2,638.00	36,537.00	1,770.00
Payments for the change in land usage	13,075.44	0.00	740.00
Issuance of construction licenses	13,245.00	43,373.25	36,281.39
Demolition license	135.40	0.00	0.00
Other services	633.00	270.00	0.00
Revenue from court fines, police and municipality			
Fines	2,054.00	1,834.00	2,155.00
Fines - Forestry	2,513.87	5,055.80	4,123.92
Court Fees	67,152.50	73,525.96	87,411.00
Revenues from traffic fines	24,895.00	32,650.00	35,051.00
Other			
Other payments	0.00	0.00	0.00
Other Revenues	0.00	0.00	0.00
Revenues from administrative tax			

Fees from the registration of vehicles	0.00	39,401.60	43,910.48
Issuance of driving licenses	0.00	0.00	0.00
Fees from traveling documents	0.00	0.00	0.00
Tender participations	2,204.50	2,330.00	180.08
Road tax	0.00	815.00	1,103.00
Certificate of the registrar (birth, marriage, death etc.).	26,143.07	50,036.00	83,257.50
Other registrar documents	0.00	0.00	0.00
Certification of different documents	399.07	670.00	4,786.00
Tax for request forms	1,627.00	650.00	0.00
Inheritance registration fee	16,179.10	2,046.00	18,211.00
Citizen Participation (health and education)			
Revenues from culture	225.00	0.00	0.00
Revenue from health services	48,392.60	65,724.60	59,000.91
Revenues from kindergarten	0.00	0.00	0.00
Revenues from secondary Education	6,027.00	10,259.75	9,357.00
Grants and donations			
Citizen participation in projects	108,460.00	172,000.00	44,000.00
Foreign donations	134,000.00	15,667.50	0.00
Kosovo donors	0.00	63,266.41	0.00
Total OSR Generated during the financial year	730,380.88	948,364.85	717,825.77
Carried forward revenues	240,000.00	252,000.00	312,000.00
Grand Total	970,380.88	1,200,364.85	1,029,825.77

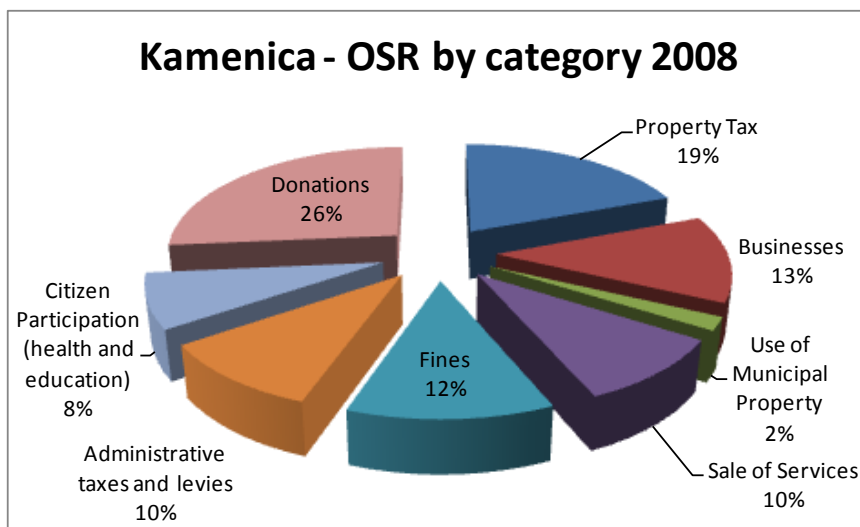
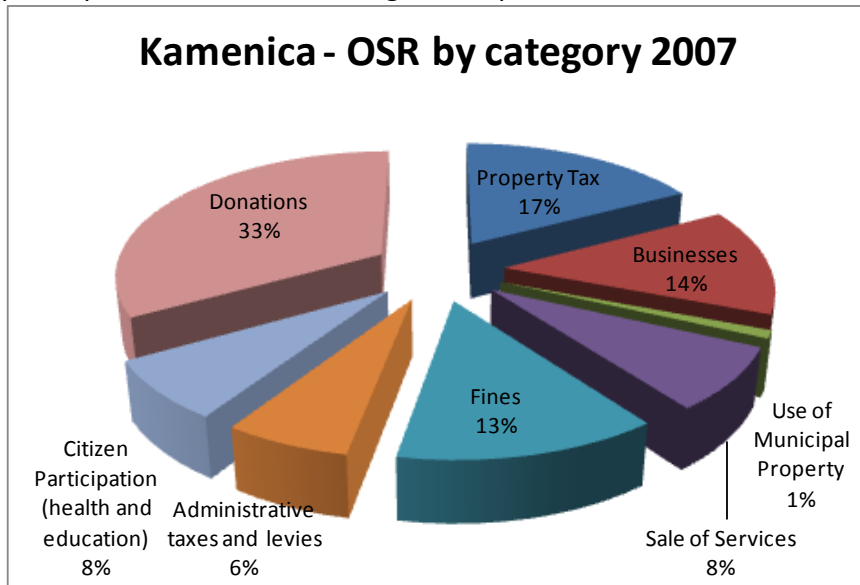
Table 1. Municipality of Kamenica - Historical Own Source Revenue Collection 2007-2009

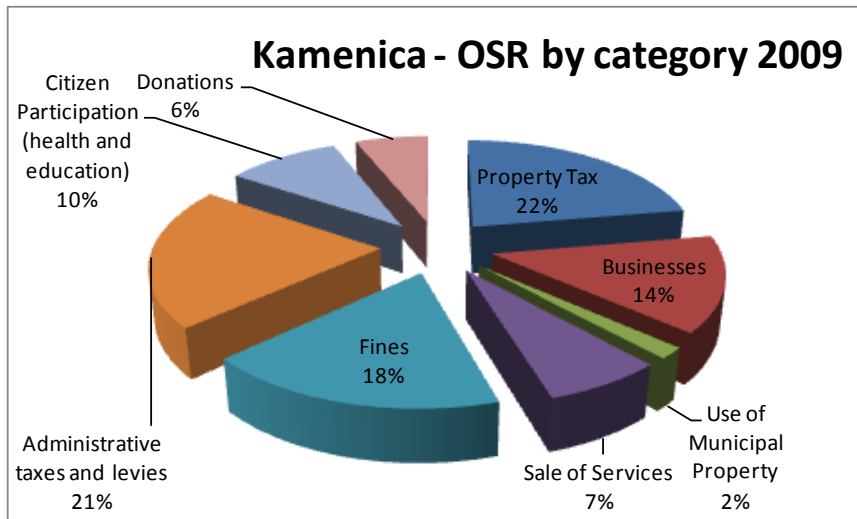
When analyzing historical trends of own source revenues in the municipality of Kamenica, one can notice the following observations for the main groups of own source revenues. As presented in the table 1, Kamenica municipality recorded an increase in the generation of OSR of just under 30% in 2008 when compared to 2007, whereas in 2009 OSRs generated during the year decreased by more than 24% as compared to 2008. The factors driving the decrease include decrease in donations from foreign donors and citizen participation in capital investment projects, decrease of revenues from municipal services and decrease of revenues from business taxes.

Own Source Revenues generated during the financial year in Kamenica were on average at 17.8% 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 property taxes, revenues from business taxes, sale of municipal services and court and traffic fines. A breakdown of the participation of different categories is presented below:





When analyzing the specific categories of own source revenues, one notices the following observations. There is an increase in revenues from property tax in 2008 in comparison to 2007. However revenues have decreased the following year (2009). The great increase in 2008 compared to 2007 was mostly due to payment of property tax liabilities from previous years. The decrease in collection in the following year (2009) was mostly due to the fact that invoices were issued late and that there were some late payments. However, the property tax collected in 2009 is at a good level and one can expect this to continue. The participation level of property tax on the overall OSR for Kamenica was 17.2%, 19.2% and 22.2% for the period 2007-2009 respectively. Thus, it is the single biggest contributor to OSR, excluding foreign donations and citizens participation in capital investment projects.

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 almost no access for municipalities to actively follow the billing process. Municipal authorities condition vehicle registration with payment of property tax and this has shown to be effective in increasing collection rates.

Revenues from businesses have been fairly consistent during the 2007-2008 periods. In 2009, revenues collected have decreased mostly as a result of politically motivated lower level of enforcement due to 2009 being a municipal election year. Thus, the increase of 21.7% in 2008 compared to 2007 was followed by a decrease of 15.8% in 2009.

Besides the main business tax levied by the municipality, which on average counts for 76.8% of total revenues from businesses during the analyzed period, there are two other sub-categories that have had a major effect on business tax and these are revenues from stonebreakers and mines, revenues for prolonged working hours (affecting HoReCa businesses and large supermarkets) and revenues from other professional business licenses. It is interesting to notice the large shifts in revenues coming from licenses for stonebreakers, which is explained with

changes in the legal regulation appropriating this revenue initially to the Ministry of Environment and Spatial Planning, then the Municipality, an issue which has still not been resolved finally. If this category is in the end appropriated to the municipalities, this could have a positive effect on OSRs as it contributed with more than 10% in the revenues generated from businesses.

Revenues from use of municipal property are mainly coming from use of municipal land and rent of municipal properties. These revenues have increased well between 2007 and 2008, however 2009 has seen a decrease in this category of OSR. The main contributor in this decrease is the sharp fall in revenues coming from rent of municipal properties, which indicates inappropriate management of available municipal assets to be used for leasing purposes.

Revenues from sale of municipal services are the fourth largest revenue generator by size in Kamenica, if we exclude revenues from court, police and municipality fines. These revenues however have had large oscillation during the period analyzed, jumping from over 57 thousand to over 90 thousand in 2008 and then back down to just above 51 thousand in 2009. The main contributors to this were the large decreases in revenues from field measurements by the department of urbanism, decrease of income from fees for change of destination of land usage and a sharp decrease in revenues from building permits and construction licenses in 2009. This can be partly reversed as there are currently initiatives to move forward with the issue of the urban regulatory plans and legalization of unlicensed buildings, thus one can expect these revenues to go back up again, however, as field measurements are being licensed to private providers, one would not expect revenues from this revenue line to increase back to their levels of 2007.

Revenues from municipal, court and traffic police fines are a major contributor to the Own Source Revenues over the 2007-09 period, participating on average with 13.6% 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.

Administration fees, levies and taxes also make up a large proportion of OSRs generated in the municipality of Kamenica, ranking in third by size after property and business taxes (excluding donations and court and police fines), providing on average 14.2% of OSE. The largest contributor here is the revenues coming from the issuance of different certificates on average 54.4% of revenues being generated by the administration fees. The fee from vehicle registration, which is the largest fee in this category, securing more than 40% of administration revenue has seen a steady growth over the analyzed period. The vehicle tax is likely to continue with this growth pattern. The inheritance registration fee has also seen some large oscillations with a sharp fall in 2008.

Revenues coming from citizen participation refer to health and education only, and on average secure about 8.3% of the total municipal budget. These revenues include co-payments by citizens when receiving medical services and for secondary school participation.

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

PROJECTIONS OF OWN SOURCE REVENUES FOR THE MUNICIPALITY OF KAMENICA

In order to perform projections for Own Source Revenue generation, the consultant faced difficulties in establishing a base for the assumptions and forecasts as data provided is not disaggregated. Although the municipalities set the levels for taxes, levies and charges in the municipality and the municipal regulations on average specify about 600 different items considered as OSR, 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 no access to the total property tax bill invoiced for the municipality as this is done centrally in the Ministry of Economy and Finance by the Department for Property Tax. Municipalities do not have access to the system the Property Tax department uses at MEF. Thus, it is very difficult to assess the amount that could be potentially collected. Further, most of the municipalities do not update the property database as required (1/3 every year) and this is a major problem in establishing the true tax base on property. However, this may change in 2010 as there are indications that a Swedish supported project will help the municipalities in conducting a complete registering of properties within their boundaries.

As municipalities report aggregate revenues in terms of categories or sub-categories, and due to lack of data in establishing the true tax base, one can not 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 raise own source revenues over the period 2010-2015. Year 2010 is also forecasted, as accurate and full data for this year was not available to the consultant at the time of performing the analysis, thus 2010 is also forecast. This will serve as a good base for assessing the accuracy of the assumptions taken once data for 2010 becomes available.

Forecasting Assumptions

The consultant has taken the following assumptions when estimating the own source revenues for the period 2010-2015:

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, assumptions were made in terms of improved collection rates and natural growth. The improvements in collection were assumed to be at 2.5% compared to the previous years over the period 2010 – 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 0.3% for the first two years, moving on to 0.4% in 2012, 0.5% in 2013, 0.6% in 2014 onwards.

Business Taxes and Levies:

In terms of the revenues from the **annual business tax**, assumptions were made on improved collection and natural growth. Improved collection was assumed at 7% compared to the previous year for the period 2010 – 2012, 6% in 2013, then a drop of 1% in 2014 due to that year being a municipal election year, then an increase of 3% in 2015. Natural growth of businesses was assumed based on a very conservative estimate of growth of the economy in Kosovo. Thus growth rates assumed were the following: 2% for 2010-2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015. This reflects the slower pace of the trickle-down effect of the economic growth in Kosovo to the municipal businesses.

Revenues from **licenses of stone breakers** were assumed to only follow a natural growth, as collection from these business is very good. However, due to issues of ownership of this revenue being moved back and forth from the municipality to the Ministry of Environment and Spatial Planning, we have taken the average revenues from these licenses as the starting basis. Then, we have assumed the same natural growth rates as stated in the business tax above.

Revenues from **other business licenses, licenses for working longer hours and service licenses** were assumed to growth due to improved collection and natural growth, and these were assumed to be the same as those for the annual business tax.

Revenues from usage of municipal property:

Revenue from **sale of municipal property** was assumed to stay at selling vehicles and other movable property and not in terms of selling real estate assets. This assumption was made due to the unclear situation between the Kosovo Privatization Agency and Municipalities in terms of who has the right to manage or sell property titled under the municipality. Thus, we have assumed a sale of vehicles in 2015 similar to the one in 2009 as these will be completely depreciated vehicles in the municipality books.

Revenues from **usage of municipal land** were assumed to grow through better utilization by the private sector and improved management by the municipality. The growth was factored on the average revenues coming from this item and were assumed to be 2% over 2010 and 2012, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015.

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 2% in 2010, 4% in 2011, 5% in 2012, 10% in 2013 and 15% in 2014, with no growth afterwards.

Revenues from **usage of municipal parking spaces** were assumed to grow both through better management and new growth in terms of new parking spaces. Improved management was assumed to result in a growth of 3% in 2010, 4% in 2011, 5% in 2012-2013, 3% in 2014 and 2% in 2015. Growth in terms of space and new vehicles registered in the municipality were assumed to be 2% in 2010-2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015, reflecting the growth of the economy.

Revenues from sale of municipal services:

Revenues from inspections were considered as being low due to lack of enforcement. Thus we have assumed a growth of 30% in 2010, 20% in 2011, 15% in 2012, 10% in 2013 and 5% in 2014 onwards. Natural growth was assumed to be the same as for new properties registered in the municipality following an increase of 0.3% in 2010-2011, 4% in 2012, 5% in 2013, 6% in 2014 and onwards.

Fire inspection revenues were considered low and an assumption was made on the current potential as a starting base in the amount of 250 Euro/year, with a growth of 5% for the subsequent years.

Revenues from issuing **Urban Permits** were assumed to grow due to improved collection and natural growth. Improved collection was assumed to be 2.5% over the 2010-2014 period, going down to 1% growth for 2015 onwards. The natural growth assumed was the same as for the new registered properties.

Revenues from requests for **Construction Permits** were assumed to grow in parallel with those from Urban permits and the same assumptions for growth were used.

Revenues from **geodesy plans and field inspections and measurements by the urbanism department** was assumed to have rapidly negative trends as new legislation foresees the possibility for the private sector to provide this service. Thus we have assumed a decrease of 50% in generated revenues in 2010, 30% in 2011, followed by a further 20% reduction in 2012 and then remaining at the same level from 2012 onwards, reflecting that some of this business will still flow through the municipality.

Fees for change of land destination were assumed to grow under the same assumptions as the building and construction permits presented above.

Fees for determining plot borders, etc. were assumed to decrease by 5% each year compared to the previous year, again due to the licensing of private providers.

Registering ownership and ownership inheritance fees were assumed to grow with a natural growth of the municipal economy and to follow a growth of 2% for 2010-2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015 and onwards.

Other contributions and fees were assumed to grow at 5% per year over the average collected in 2007-2009.

Fees for veterinary inspections were assumed to follow a growth pattern of 3% in 2010, 4% in 2011, 5% in 2012-2013, and then 3% in 2014 and 4% onwards, again partly reflecting the assumptions of growth of the municipal economy.

Revenues from court, police and municipal fines:

Municipal fines were assumed to grow by 2% in 2010-2011, and then by 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015 onwards, due to population growth and better targeting and enforcement.

Forestry fines were assumed to grow due to better enforcement, targeting and economic growth. Assumed growth due to enforcement was 5% in 2010-2011, 4% in 2012, 3% in 2013-2014, and 2% after 2015. Growth due to the growth of the municipal economy is assumed to be the same as for the municipal fines above.

Court and Traffic fines were also assumed to grow reflecting the growth of the municipal economy with growth rates being the same as above.

Revenues from Administration Taxes and Levies:

As a basis for forecasting **Vehicle registration tax** revenues the average of the revenues from 2007-2009 was taken. Then a growth of 7% for 2010 was assumed, 6% in 2011, going down to 4% for 2012-2013, increasing again to 5% for 2014 and 7% for 2015. This growth was assumed to come from increased number of registered vehicles and also increased tax amount for the future years.

When forecasting revenues from **tender participation**, we have assumed a growth due to increased transparency in the municipality and the effects of increased municipal budgets due to economic growth in Kosovo. As a result, we have assumed a growth of 3% in 2010-2011, 5% in 2012, 6% in 2013, 7% in 2014, 8% in 2015 onwards.

Road tax revenues were assumed to grow at the same pace as vehicle registration tax, thus the same assumptions were applied.

Revenues from issuing **other certificates** were calculated taking as a base the average of the historical revenues from this item and then applying a decreasing growth rate so as to achieve revenues as witnessed in the past. Thus the growth rate starts with 14% in 2010, going down by 1% per year and ending with 8% in 2015 onwards.

Revenues from **verification of documents** were assumed to grow with a similar pattern to issuing other certificates. The growth rates assumed here were 16% for 2010-2011, 14% in 2012, 12% in 2013, 11% in 2014, and ending at 10% for 2015 onwards.

Revenues from **birth, marriage and death certificates** were assumed to grow with population increase. Having in mind the young population and the larger need for such documentation by this category of citizens we have assumed a growth rate of 5% for 2010-2012, 4% for 2013, 3% for 2014 and 2% in 2015 and onwards.

Citizen participation in health and education:

Revenues from **health services participation, participation for kindergarden expenses and revenues from secondary education** were assumed to grow due to population increase, with assumed growth rates being the same as those for birth, marriage and other certificates above.

Grants and donations:

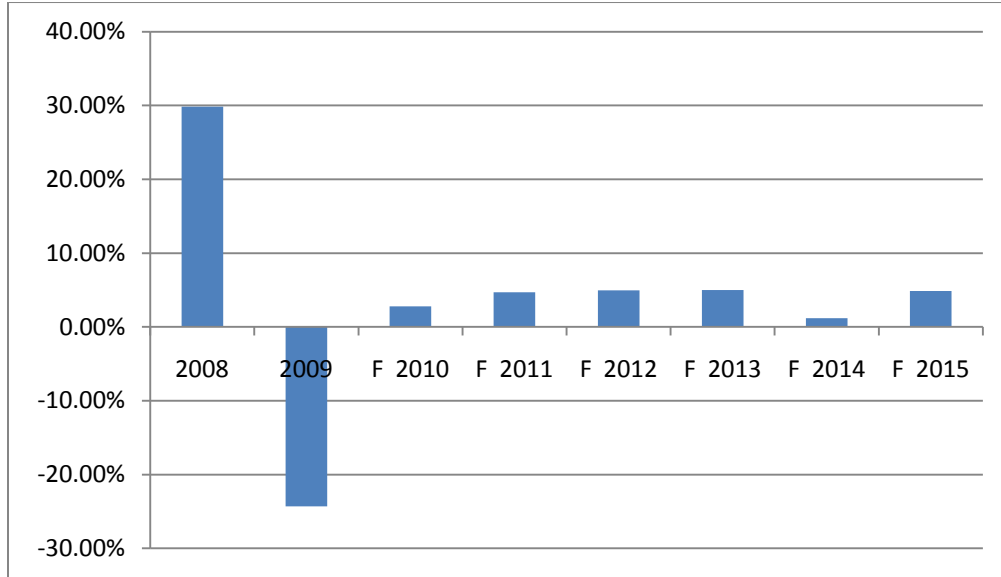
The consultants have not made any assumptions regarding forecasted income from foreign and Kosovan donations nor citizens participation in capital investment projects. This is because it is difficult to estimate the number or size of future donor support in the municipality. In terms of citizens' participation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

OWN SOURCE REVENUE TYPE	2007	2008	2009	F 2010	F 2011	F 2012	F 2013	F 2014	F 2015
PROPERTY TAX	125,882.46	182,500.68	160,119.44	164,602.78	169,211.66	174,118.80	179,342.36	184,901.98	187,860.41
BUSINESS TAXES AND LEVIES	99,386.65	120,981.92	101,822.85	128,652.11	139,455.35	152,483.61	166,733.69	148,794.28	161,132.38
REVENUES FROM USAGE OF MUNICIPAL PROPERTY	7,265.60	18,165.00	12,126.90	18,190.80	18,815.84	19,666.55	21,214.69	23,585.23	29,164.01
REVENUES FROM THE SALE OF SERVICES	73,752.56	92,830.63	69,420.69	79,409.84	83,045.77	86,731.34	90,298.23	93,544.90	96,439.48
REVENUES FROM COURT, POLICE AND MUNICIPAL F	96,615.37	113,065.76	128,740.92	132,519.05	135,439.91	139,734.65	145,509.84	152,984.14	162,306.34
OTHER REVENUES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
REVENUE FROM ADMINISTRATION TAXES AND LEVIE	30,373.64	93,902.60	133,237.06	142,619.93	150,943.39	158,662.28	165,715.10	172,584.90	179,799.83
CITIZEN PARTICIPATION (HEALTH AND EDUCATION)	54,644.60	75,984.35	68,357.91	71,775.81	75,364.60	79,132.83	82,298.14	84,767.08	86,462.42
GRANTS AND DONATIONS	242,460.00	250,933.91	44,000.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL :	730,380.88	948,364.85	717,825.77	737,770.32	772,276.52	810,530.06	851,112.05	861,162.52	903,164.87
Year on year percentage change in generated OSR		29.85%	-24.31%	2.78%	4.68%	4.95%	5.01%	1.18%	4.88%
Carried Forward	240,000.00	252,000.00	312,000.00	184,442.58	191,900.83	137,790.11	127,666.81	103,339.50	90,316.49
GRAND TOTAL AVAILABLE TO MUNICIPALITY	970,380.88	1,200,364.85	1,029,825.77	922,212.92	1,064,177.53	948,320.09	978,778.91	964,502.03	993,481.41

As can be seen from the forecasted Own Source Revenues table, OSR for the municipality of Kamenica go up to 903,164.87 Euro at the end of 2015. There is clearly a positive trend when looking at the overall OSRs. As compared to the previous year, OSRs increase in all years as shown in the table below.

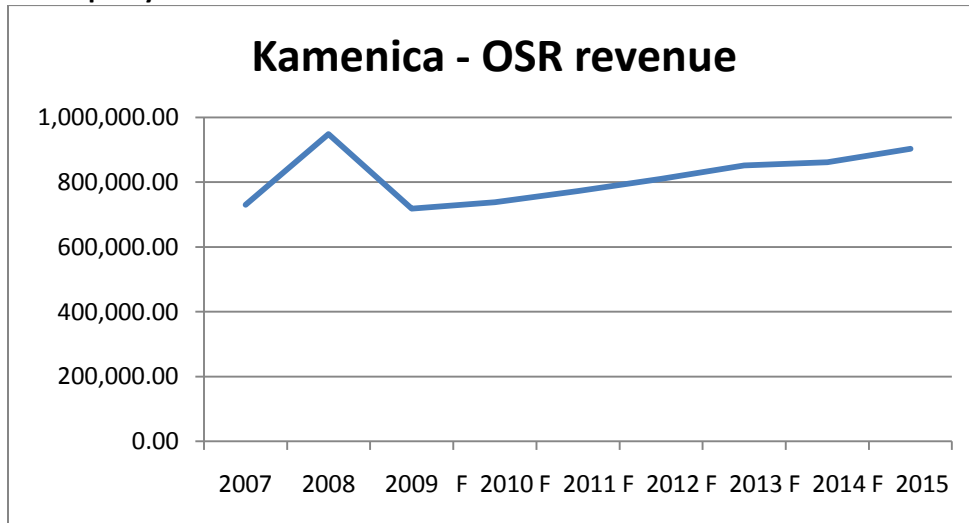
Municipality of Kamenica – Historical and Forecasted Year to Year OSR in percentage change



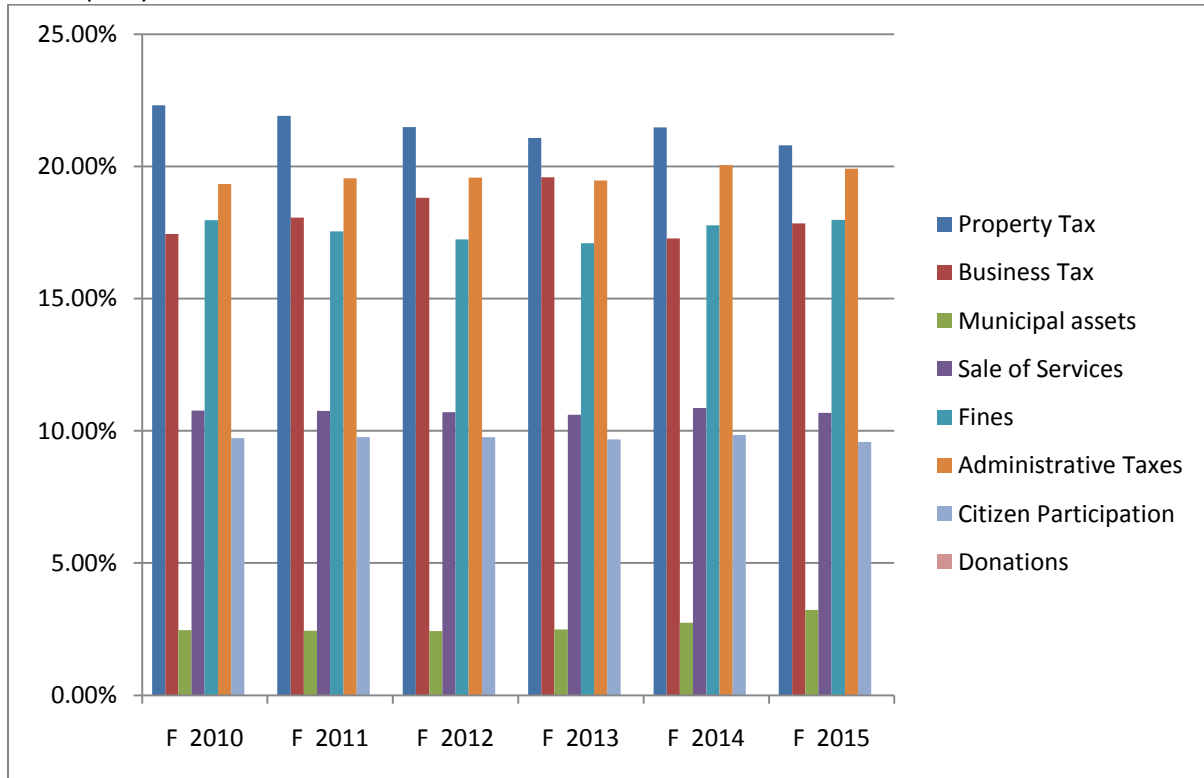
Although year 2008 was a high point, the main driver there were grants and donations, which if included at that level in the forecasted years would provide a much higher level of total OSRs. However, when not taking into assumption Grants and Donations, the municipality according to the forecasts can achieve to generate up to 34% more annually compared to OSR generated in 2009. 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 2015:

Municipality of Kamenica – Historical and Forecasted Own Source Revenues

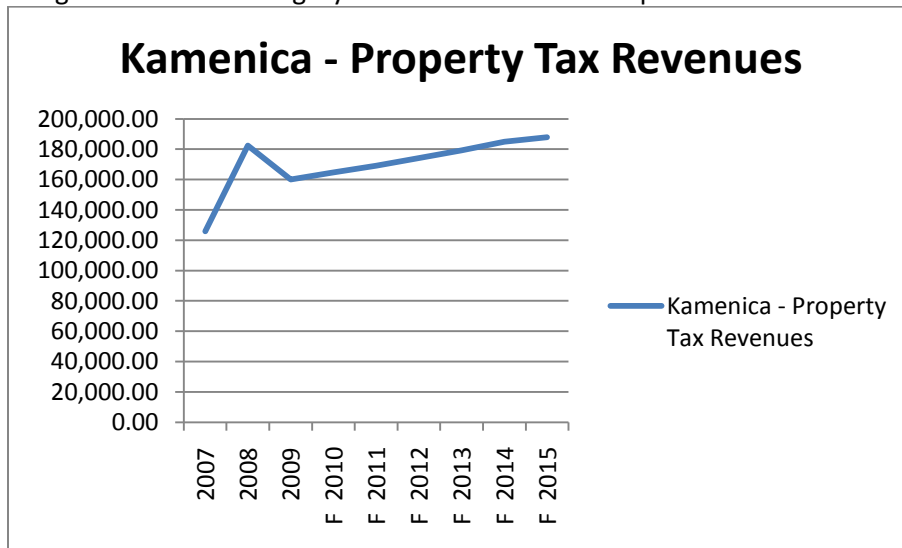


The table below presents the participation of each OSR category in the total forecasted OSRs for the Municipality of Kamenica:

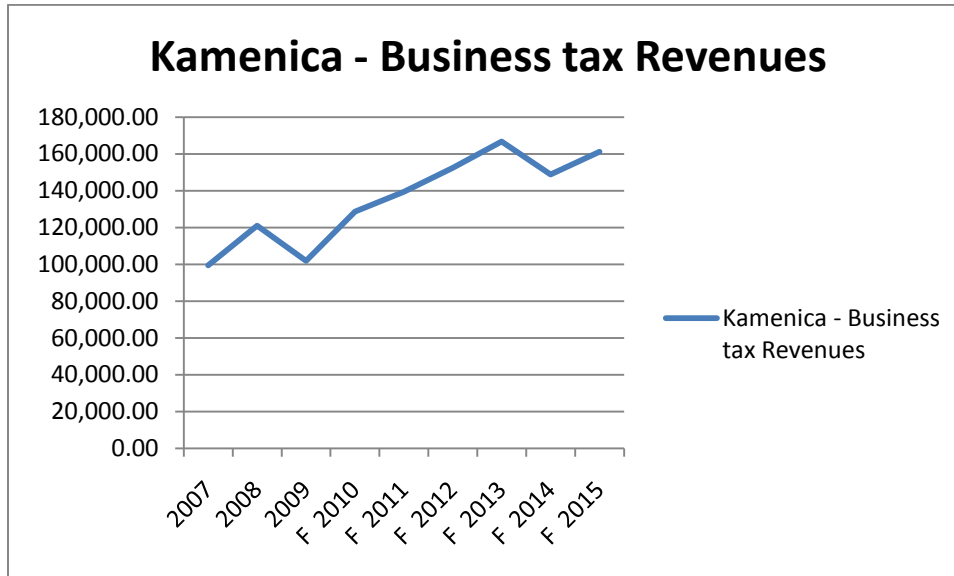


As can be seen from the chart above, the main drivers of OSR over the coming period remain to be the property tax, business taxes and levies, Municipal services, Administrative taxes and fees and Fines issued by the courts, traffic police and the municipality. These are the areas where municipalities should try to achieve increases in terms of OSR through increased efficiency in their financial management and enforcement.

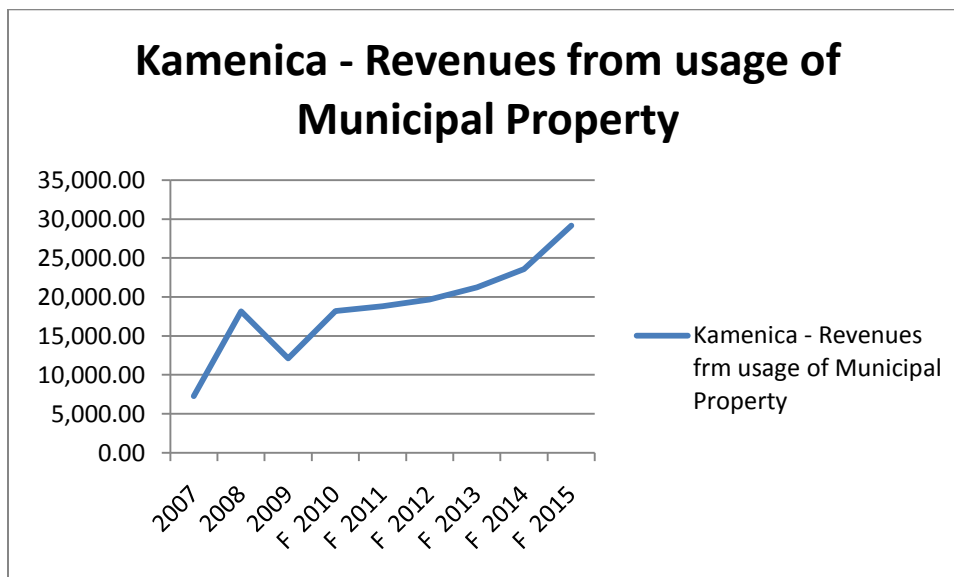
The growth of each category of OSRs forecasted is as presented in the charts below:



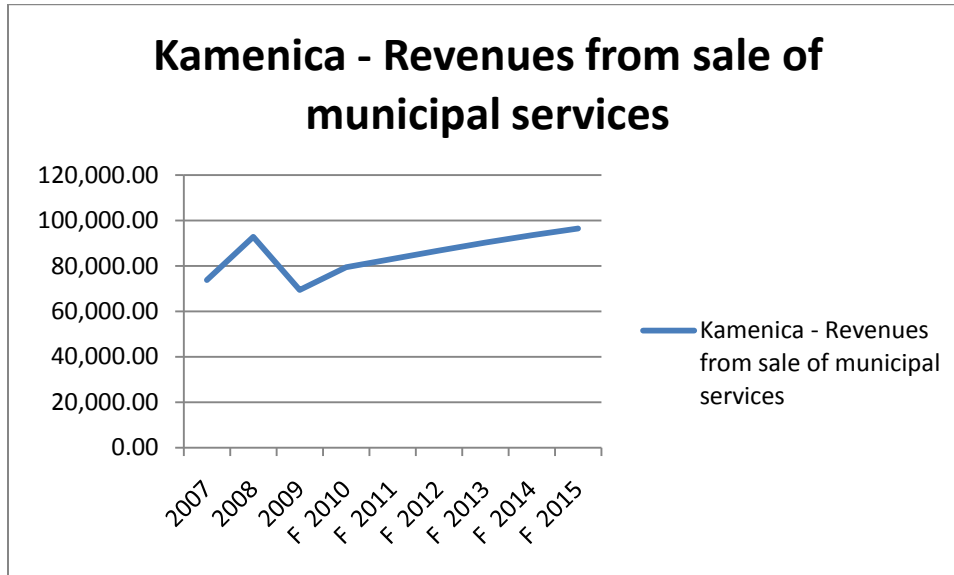
Revenues from Property tax continue to increase due to improved registering, database management, improved invoicing and better enforcement. Revenues from this tax will also increase due to natural growth of the municipality as well as growth of the economy. Finally, one can also count on revenue collection 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.



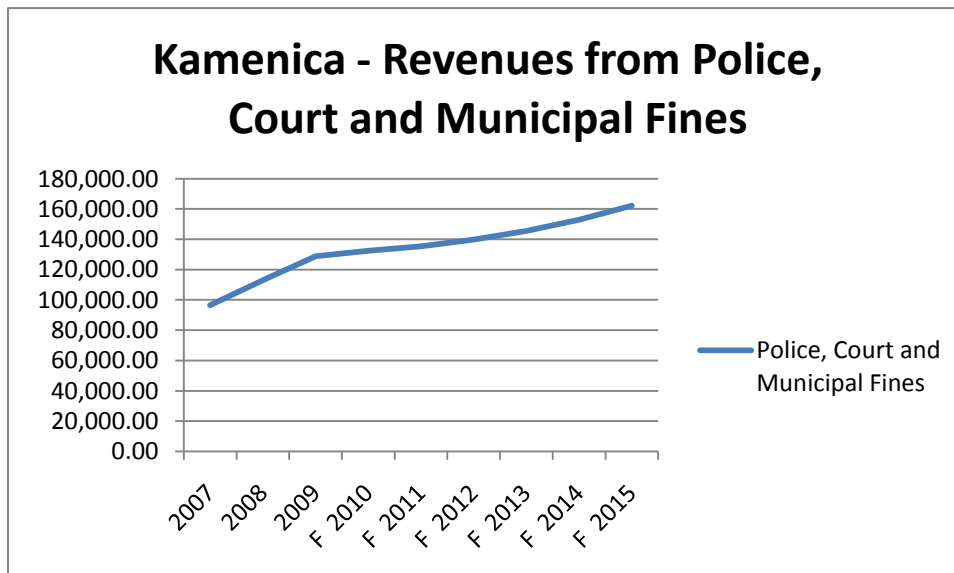
Business taxes have a high growth potential due to the growth of the economy, better registering and servicing of businesses and improved enforcement. Increased collection of business taxes can also be achieved through better cooperation between the municipalities and the Ministry of Trade and Industry (business registry unit). Finally, improved presence of municipal officials within the business community and better enforcement of municipal regulations can help improve revenues from businesses. Forecasted growth compared to 2009 is 58.24% by 2015.



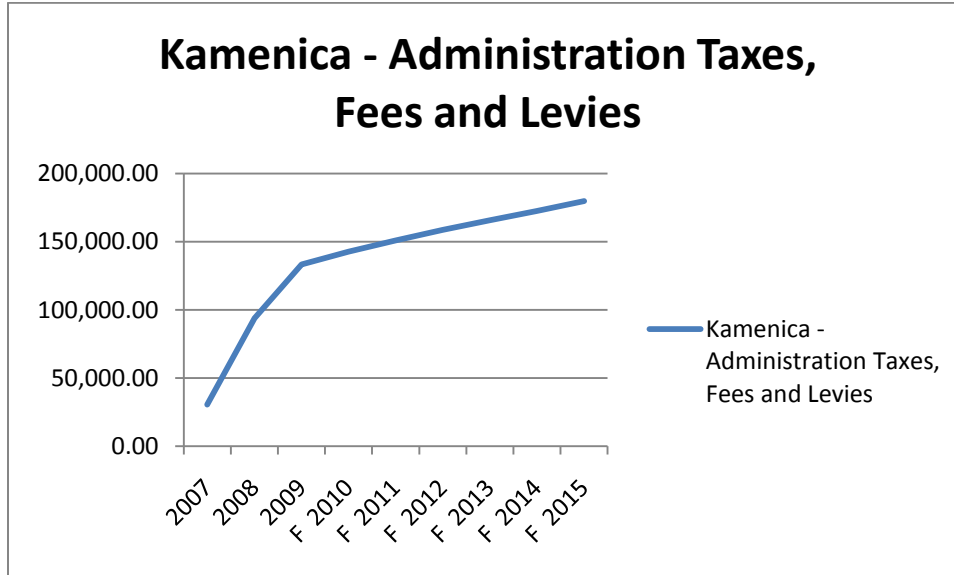
Revenues from use of municipal property do not make up a large percentage of total OSR, however, by improved management of municipal assets, the increase in revenues from this category can be almost 3 times compared to 2009, and by then comprise about 3.23% of total OSR.



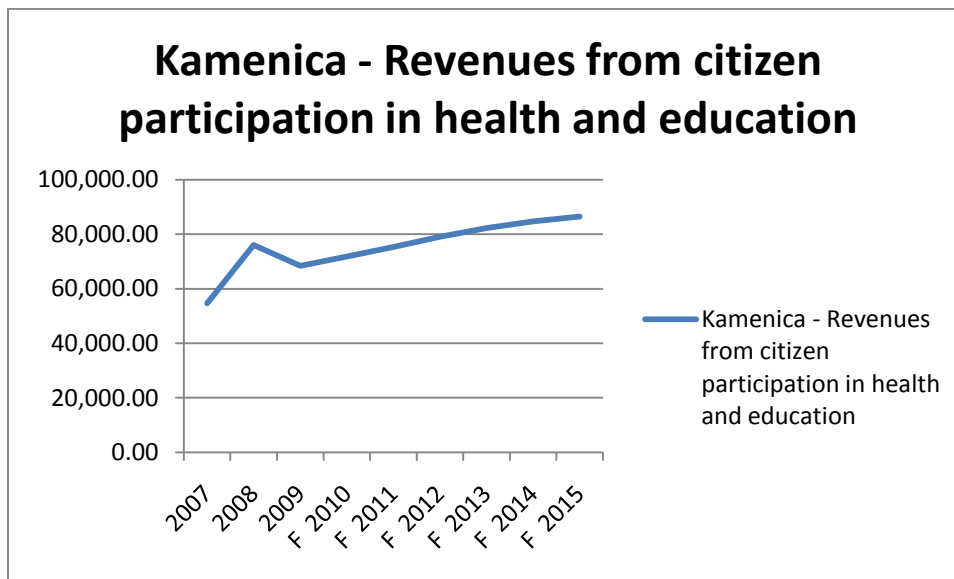
Revenues from sale of municipal services are an important contributor to OSR in the municipality, comprising on average 10.73% of forecasted revenues. Forecasts are that if there is increase efficiency and better provision of municipal services, the municipality of Kamenica can achieve a 38.92% increase in generating income from provision of municipal services.



Revenues from fines issued by courts, police and the municipality are and continue to be a large contributor to municipal OSR, on average contributing 17.60% to revenues generated by the municipality in the years up to 2015. Municipality should try to increase the participation in these fees by increasing the contribution to this category coming from municipal fines through improving the efficiency of its municipal inspection services.



Administration fees, levies and taxes are expected to contribute on average 19.65% to the OSRs generated by the municipality. The increase in revenues generated from this category will result in an increase of 34.94% in revenues generated compared to 2009.



Forecasted revenues coming from citizen's participation in education and health payments contribute on average by 9.72% of OSRs generated during the period 2010 – 2015. This will result in an increase of 26.48% of revenues generated from this category compared to those generated in 2009.

POTENTIAL AREAS FOR INTERVENTION AND SUPPORT

Potential areas for LOGOS project support to the municipality of Kamenica in increasing the level of generated Own Source Revenues should focus on OSR categories that can be affected by actions of municipal authorities and where there can be clear benefits in improving municipal performance.

Property tax, being one of the biggest contributors, is an area that one should look at supporting. 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. There are reports that a Swedish funded project will support the municipalities in updating their property database during 2011. This will enable municipalities to have a better picture of the taxable tax base and improving taxing policies they apply, as well as improving efficiency in enforcement and the response of the municipality in delivering capital investment projects to respective paying cadastre zones. 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.

The municipality can also be supported in terms of generating revenues from businesses. This can be done in two directions. One is to help them improve business registering and classification and as a result produce better taxing policies for businesses. Also, the project could try to improve the links between the municipalities and the Ministry of Trade and industry in sharing information on registered businesses and their current functioning. A database of uncollected taxes could be created in the municipality and updated on a yearly basis, thus eliminating businesses that have closed, gone bankrupt or are not active, while at the same time enabling better targeting of existing, functional and successful businesses. Policies of conditioning municipal services to businesses that have due and unpaid taxes and levies.

Further, the municipality of Kamenica currently does not collect any revenues from licenses for the use of advertisement space. One recommendation is that the municipality starts applying the set fees in the municipal regulation and enforces them on an equal basis on all the businesses and providers of advertisement space. 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 result in a good revenues source for the municipality.

Municipal leasing of land, buildings and space is another potential good revenue source is managed properly. The municipality currently enjoys inconsistent revenue from this category and this is mostly due to improper management. The utilization of municipal assets could be made more attractive through strategic investments, decisions and stimulating policies.

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.

The project could also provide support to the municipality in identifying potential donors and areas that could benefit from grants and other forms of donor support. This support could further include assistance and training in project planning, proposal writing, fundraising and monitoring and evaluation techniques. This would enable the municipality to tap into available and potential grants thus helping it increase available own source revenues.

These proposed areas of LOGOS project support should be discussed with municipal officials and areas where the support could be most optimal should be selected in cooperation with the municipality.

This report is prepared with information covering financial performance up to the financial year 2009. The consultant suggests that this analysis be updated on a regular annual basis during the LOGOS project life and the model and its findings fine tuned as new and more detailed information becomes available.

**ANNEX 1 – OWN SOURCE REVENUES 2007-2009 AND OSR FORECASTS
2010-2015 (EXCEL DOCUMENT)**