

Swiss – Kosovo
Local Governance and Decentralization Support
LOGOS

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

HANI I ELEZIT

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 Hani i Elezit 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 periods. 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 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 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 Hani i Elezit, 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. Also, there was no auditor report produced for Hani I Elezit for the financial year 2007, and brief reports on 2007 from the auditor report 2008 were used.

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 Hani i Elezit municipality, presented in the table below:

	2007	2008	2009
Revenues from property tax	31,000.00	53,000.00	65,000.00
Income from businesses			
Revenues from business tax	0.00	0.00	0.00
Revenues from commercial licenses	8,000.00	10,000.00	84,000.00
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	0.00	0.00	0.00
Fees for prolonged working hours	0.00	0.00	0.00
Revenues from business licenses	0.00	0.00	3,000.00
Revenues from use of the municipal property			
Revenues from parking of vehicles	0.00	0.00	0.00

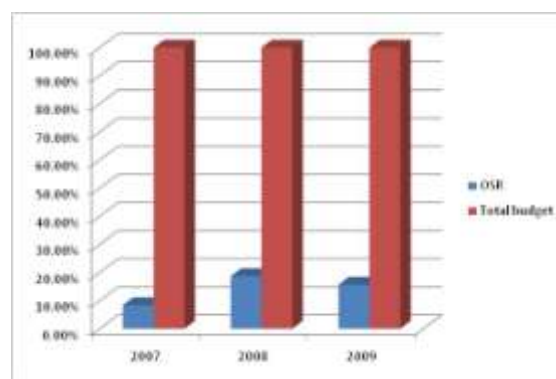
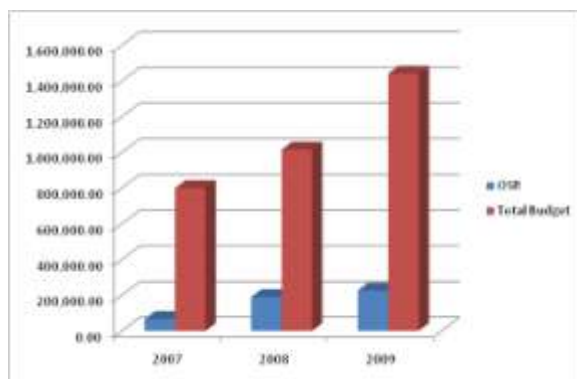
Revenues from the sale of Municipal property	0.00	0.00	0.00
Revenues from use of the land	0.00	0.00	0.00
Rent of municipal properties	1,000.00	2,000.00	1,000.00
Revenues from sales of services			
Revenues from inspections	0.00	1,000.00	0.00
Veterinary inspections	0.00	0.00	0.00
Inspection of food premises	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	0.00	0.00	0.00
Activities in the field to measure the country - Dept. of Urbanization	0.00	0.00	0.00
Inspections of urban plans - Dept. of Urbanization	0.00	0.00	0.00
Revenue from building permits	0.00	0.00	0.00
Payments for the change in land usage	0.00	0.00	1,000.00
Issuance of construction licenses	0.00	12,000.00	15,000.00
Demolition license	0.00	0.00	0.00
Other services	0.00	0.00	0.00
Revenue from court fines, police and municipality			
Fines	0.00	0.00	0.00
Fines - Forestry	0.00	0.00	0.00
Court Fees	0.00	5,000.00	2,000.00
Revenues from traffic fines	20,000.00	13,000.00	14,000.00
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	10,000.00	14,000.00
Issuance of driving licenses	0.00	0.00	1,000.00
Fees from traveling documents	0.00	0.00	0.00
Tender participations	0.00	1,000.00	1,000.00
Road tax	0.00	0.00	0.00
Certificate of the registrar (birth, marriage, death etc.).	1,000.00	4,000.00	10,000.00
Other registrar documents	4,000.00	5,000.00	0.00
Certification of different documents	0.00	0.00	1,000.00
Tax for request forms	0.00	1,000.00	1,000.00
Inheritance registration fee	0.00	0.00	0.00

Citizen Participation (health and education)			
Revenues from culture	0.00	0.00	0.00
Revenue from health services	2,000.00	3,000.00	3,000.00
Revenues from kindergarten	0.00	0.00	0.00
Revenues from secondary Education	0.00	0.00	0.00
Grants and donations			
Citizen participation in projects	0.00	70,000.00	10,000.00
Foreign donations	0.00	0.00	0.00
Kosovo donors	0.00	0.00	0.00
Total OSR Generated during the financial year	67,000.00	190,000.00	226,000.00
		183.58%	18.95%
Carried forward revenues from previous years	33,000.00	58,004.00	112,000.00
Grand Total	100,000.00	248,004.00	338,000.00

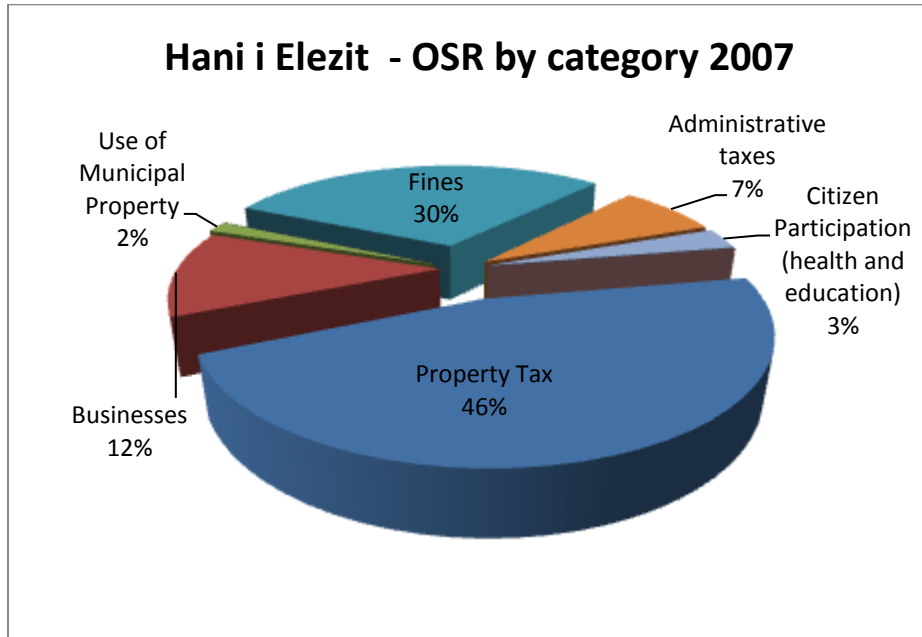
Table 1. Municipality of Hani i Elezit - Historical Own Source Revenue Collection 2007-2009

When analyzing historical trends of own source revenues in the municipality of Hani i Elezit, one can notice the following observations for the main groups of own source revenues. As presented in the table 1, Hani i Elezit municipality recorded a major increase in the generation of OSR by 183.58% in 2008 when compared to 2007, whereas in 2009 OSRs generated during the year increased by 18.95% as compared to 2008. The major factors that contributed to the significant increase from 2007 to 2008, were the revenues from property taxes, Municipal services, administration taxes and levies, and finally a major contribution from citizen participation in capital investment projects.

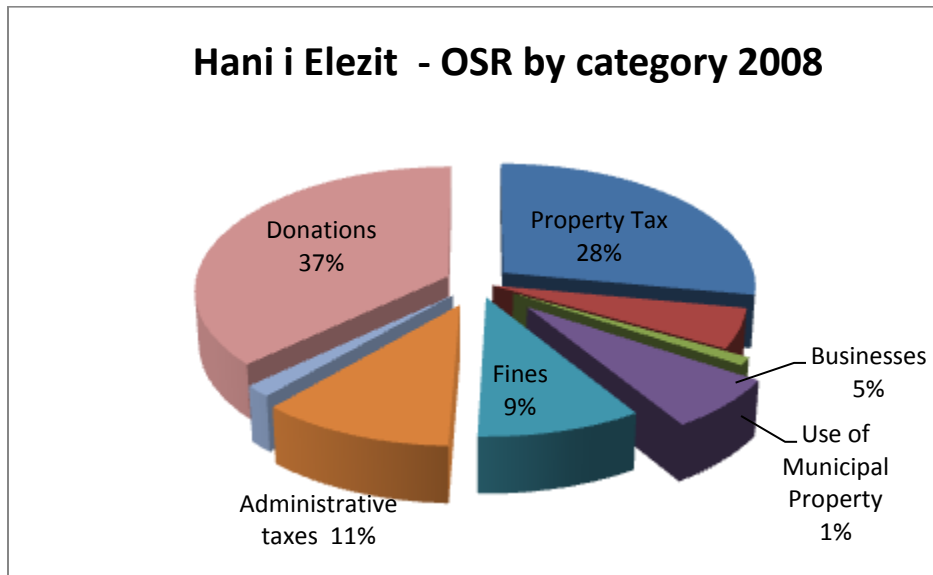
Own Source Revenues generated during the financial year in Hani i Elezit were on average at 15.68% of the total annual budget set for the municipality at the beginning of the year. This is presented in the two figures below:



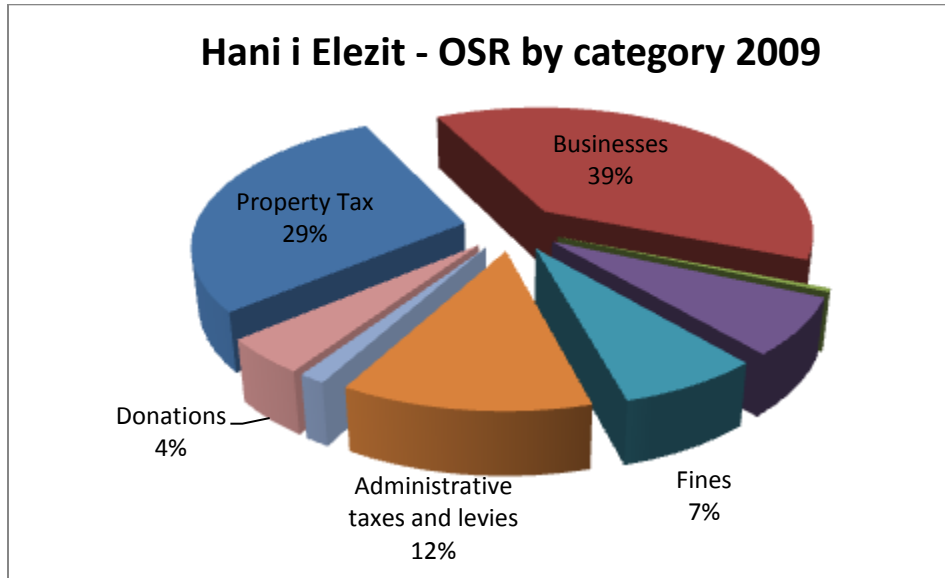
The majority of the income for this municipality was generated by the property taxes, fines and administration taxes and levies. A breakdown of the participation of different categories is presented below:



In 2008, the nature of revenues changes a bit with donations and grants composing 37% of generated OSR. Further, property tax and administrative fees were the largest revenue generators.



When looking at 2009, the nature of revenues for the municipality of Hani i Elezit becomes more similar to OSR categories generated by other partner municipalities. The lead in 2009 was taken by the Business Taxes, comprising 39% of generated OSR; followed by property tax (29%), administrative taxes and fees (12%).



When analyzing the specific categories of own source revenues, one notices the following observations. There is a continuous increase in revenues from property tax throughout the years, with noticeable increase in 2008 in comparison to 2007. The collections of the property taxes increased by 71% in 2008 in comparison to 2007 and by 23% in 2009 when compared to 2008. The participation level of property tax on the overall OSR for Hani i Elezit was 46.26%, 27.89% and 28.76% for the period 2007-2009 respectively. The noticeable decrease in percentage was due to the significant increases in other categories, specifically in revenues from commercial licences in 2009 and citizens' participations in capital projects in 2008. Nonetheless, collections of the property tax have had a steady upward trend throughout the years.

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 increased significantly throughout the years, going 8,000 Euro in 2007 to 87,000 Euro in 2009. Revenues from businesses comprised 11.9% in 2007, 5.4% in

2008, while in 2009, business revenues accounted for 38.49% of the total generated OSRs in the municipality of Hani i Elezit.

Revenues from the use of municipal assets have a low contribution to the generated own source revenues comprising on average just under 1% of the total OSRs.

Revenues from municipal, court and traffic police fines are the third main contributor to the Own Source Revenues over the 2007-09 periods, participating on average with 15.46% in total OSRs collected. These revenues have stayed at almost the same level with a decreasing trend.

Administration fees, levies and taxes also make up a large proportion of OSRs generated in the municipality of Hani i Elezit, ranking in fourth by size after property taxes, business taxes and penalties (excluding donations), providing on average 10.3% of total generated OSRs over the 2007-2009 period. The largest contributors here are the revenues coming from the issuance of different certificates and the fees from the registration of vehicles.

Revenues coming from citizen participation refer to health, education and culture, and on average secure about 2% of the total OSR generated.

Finally, citizens' contributions to capital investment projects were significantly high in 2008 with 70,000 Euro being secured through citizen participation, in 2009 this level was at 10,000 Euro. There have not been any reported foreign donations to the municipality of Hani i Elezit over the entire analyzed period.

PROJECTIONS OF OWN SOURCE REVENUES FOR THE MUNICIPALITY OF HANI I ELEZIT

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**, reported under **revenues from commercial licenses**, 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 4% increase for 2014 due to that year being a municipal election year, and finally an increase of 5% 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. Hani i Elezit has a large cement producer within its municipal boundaries, thus explaining the large spike in 2009 as a result of the municipality receiving revenues from this particular company. The municipality should make an effort at registering all active businesses and creating a long term partnership with them so as to enable their growth at the same time as sharing in the successes of these businesses.

Revenues from **other business licenses, 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:

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.

The municipality does not collect any revenues from **usage of municipal parking spaces, leasing of municipal owned land, parking space, or any other form of utilizing municipal property**. The consultant strongly suggests looking into possibilities of introducing revenue generating taxes, fees and levies in these categories, especially utilizing its geographical position as a border municipality.

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 2010-2014 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 3% in 2010-2011, 4% in 2012, 5% in 2013, 6% in 2014 and onwards.

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. This growth is calculated on the baseline amount from inspection revenues achieved in 2008. Natural growth was assumed to be the same as for the growth of the economy in the municipality following an increase of 2% in 2010-2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015 onwards.

Fees for change of land destination were assumed to grow under the same assumptions as the building and construction permits presented above, with the baseline being the collected amount in 2009.

There are no other items that currently are reported by the municipality as generating revenues from own assets

Revenues from court, police and municipal fines:

Court and Traffic fines were assumed to grow due to the general growth of the municipal economy and trade and exchanges between Kosovo and Macedonia, with growth rates reflecting economic growth of 2% in 2010-2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015.

Revenues from Administration Taxes and Levies:

Vehicle registration tax revenues were assumed to grow by 7% in 2010, 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 projecting **revenues from issuing health certificates for driving licenses**, the economic growth assumptions were used, thus 2% in 2010-2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015.

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.

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.

Revenues from issuing **other certificates** were calculated taking as a base the average of the historical revenues from this item and then applying the same growth assumptions as for birth, marriage and death certificates. The same assumptions were made for the revenues from **verification of documents** and **revenues from administration request forms**.

Citizen participation in health and education:

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

Grants and donations:

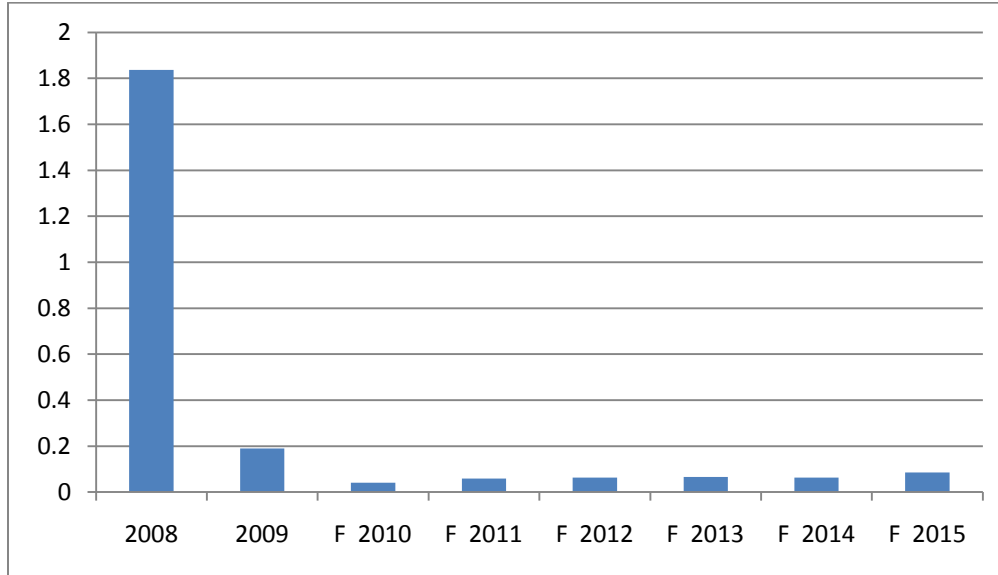
The consultant has not made any assumptions regarding forecasted income from foreign and Kosovan donations nor citizens participation in capital investment projects. This is because it is difficult to estimate the number or size of future donor support in the municipality. In terms of citizens' participation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

OWN SOURCE REVENUE TYPE	2007	2008	2009	F 2010	F 2011	F 2012	F 2013	F 2014	F 2015
PROPERTY TAX	31,000.00	53,000.00	65,000.00	66,820.00	68,690.96	70,683.00	72,803.49	75,060.40	76,261.36
BUSINESS TAXES AND LEVIES	8,000.00	10,000.00	87,000.00	94,830.00	103,364.70	113,701.17	125,071.29	136,327.70	151,323.75
REVENUES FROM USAGE OF MUNICIPAL PROPERTY	1,000.00	2,000.00	1,000.00	2,040.00	2,121.60	2,227.68	2,450.45	2,818.02	7,818.02
REVENUES FROM THE SALE OF SERVICES	0.00	13,000.00	16,000.00	17,740.00	18,769.30	19,842.24	21,106.61	22,566.63	24,052.97
REVENUES FROM COURT, POLICE AND MUNICIPAL FINES	20,000.00	18,000.00	16,000.00	16,320.00	16,646.40	17,145.79	17,831.62	18,723.20	19,846.60
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 LEVIES	5,000.00	21,000.00	28,000.00	34,355.00	36,171.35	37,800.32	39,334.61	40,927.66	42,770.49
CITIZEN PARTICIPATION (HEALTH AND EDUCATION)	2,000.00	3,000.00	3,000.00	3,150.00	3,307.50	3,472.88	3,611.79	3,720.14	3,794.55
GRANTS AND DONATIONS	0.00	70,000.00	10,000.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL :	67,000.00	190,000.00	226,000.00	235,255.00	249,071.81	264,873.08	282,209.86	300,143.76	325,867.73
Year on year percentage change in generated OSR		183.58%	18.95%	4.10%	5.87%	6.34%	6.55%	6.35%	8.57%
Carried Forward	33,000.00	58,004.00	112,000.00	58,813.75	54,795.80	45,028.42	42,331.48	36,017.25	32,586.77
GRAND TOTAL AVAILABLE TO MUNICIPALITY	100,000.00	248,004.00	338,000.00	294,068.79	303,867.67	309,901.57	324,541.40	336,161.07	358,454.59

As can be seen from the forecasted Own Source Revenues table, OSR for the municipality of Hani i Elezit go up to 325,867.73 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 except for 2012, as shown in the table below, and that is just the effect of the foreseen donations from the LOGOS project forecasted to be delivered in 2011.

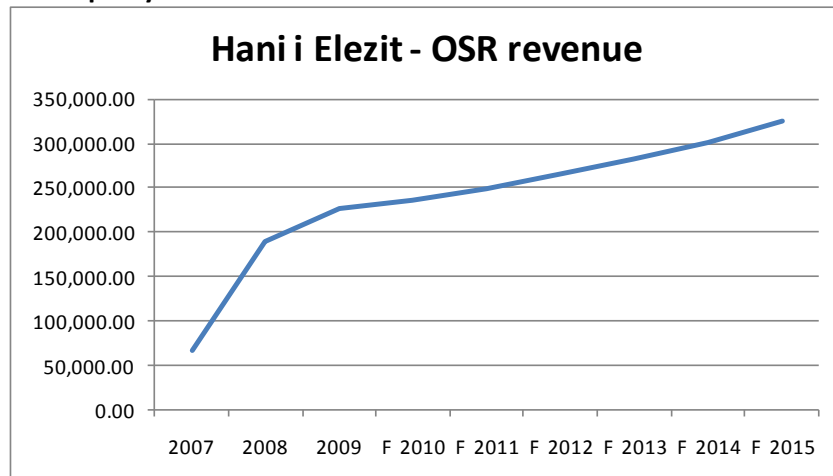
Municipality of Hani i Elezit – Historical and Forecasted Year to Year OSR in percentage change



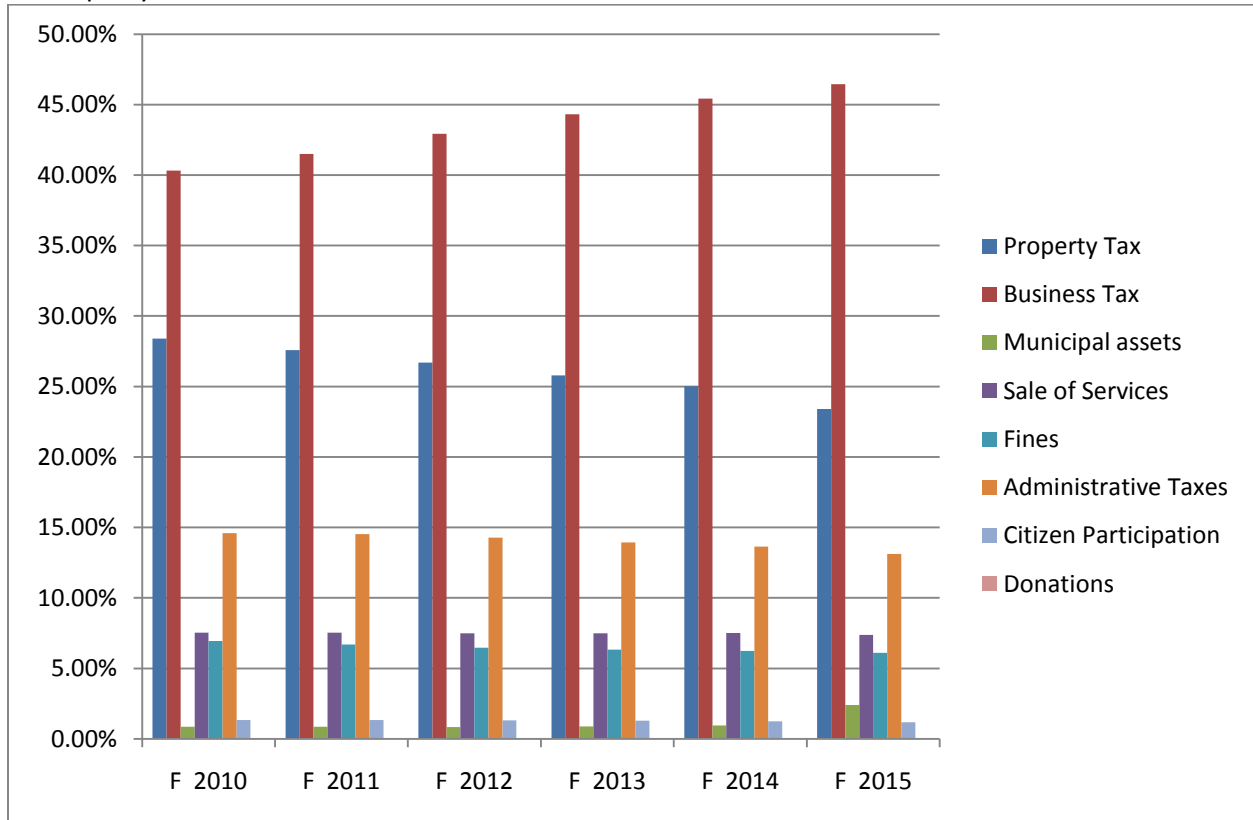
Although year 2008 was a high point, the main driver there was the starting up of the functioning of the new municipality of Hani i Elezit and increased revenues from property tax and donations. When excluding grants and donations, the municipality according to the forecasts by 2015 can achieve to generate up to 44.18% more OSR 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 Hani i Elezit– Historical and Forecasted Own Source Revenues

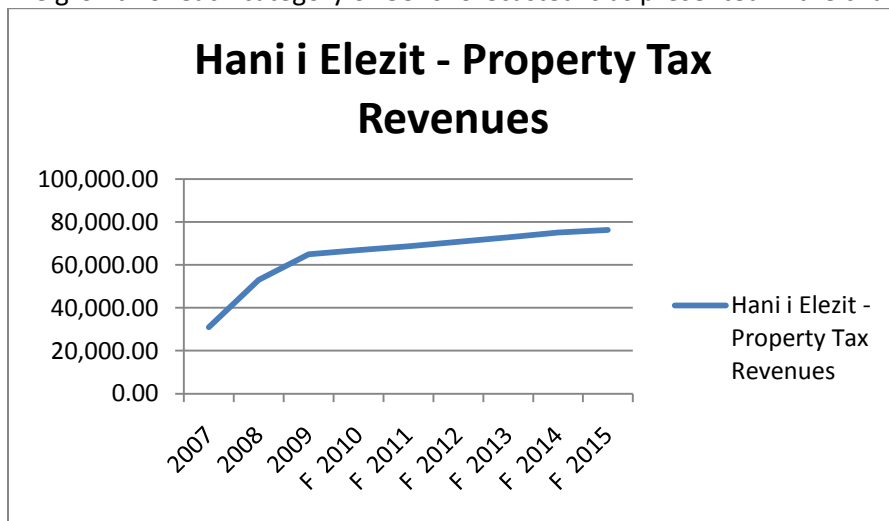


The table below presents the participation of each OSR category in the total forecasted OSRs for the Municipality of Hani i Elezit:

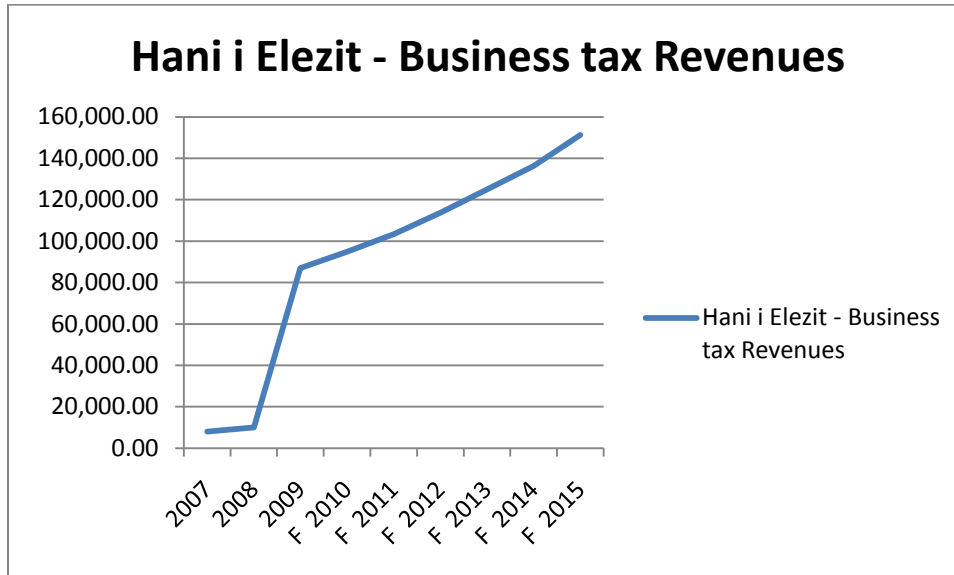


As can be seen from the chart above, for a difference from other partner municipalities, the main forecasted driver of OSR in the municipality of Hani i Elezit are business taxes, with an average contribution of 43.49% over the forecasted years. Next come, property tax with 26.15% and administrative taxes and levies with 14.02%. Sale of services and revenues from fines take up the next two forecasted OSR drivers for Hani i Elezit.

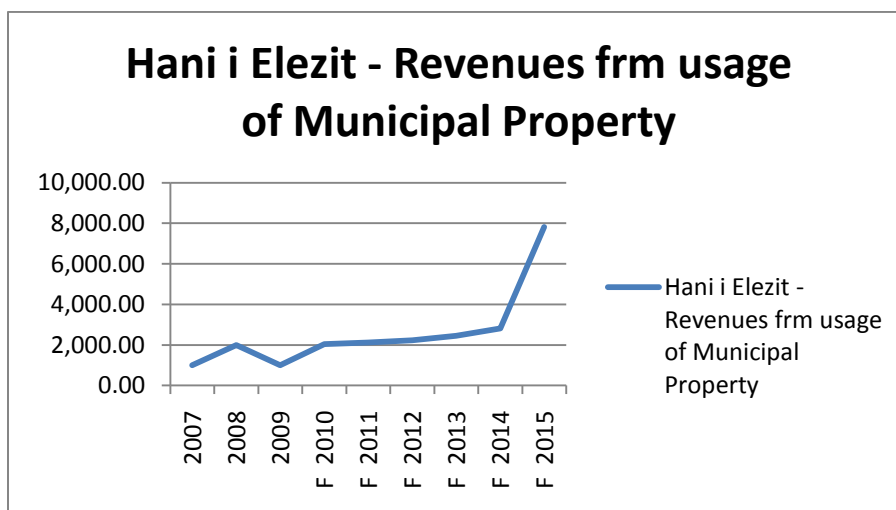
The growth of each category of OSRs forecasted is as presented in the charts below:



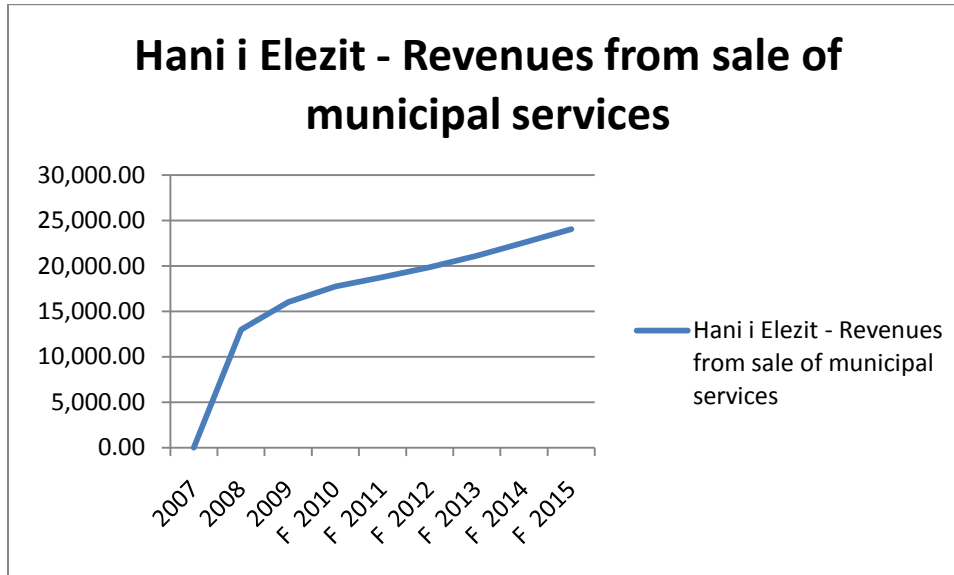
Revenues from Property tax continue to increase and reach a level 17.32% higher when compared to 2009. This is due to improved registering, database management, improved invoicing and better enforcement. Revenues from this tax will also increase due to natural growth of the municipality as well as growth 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.



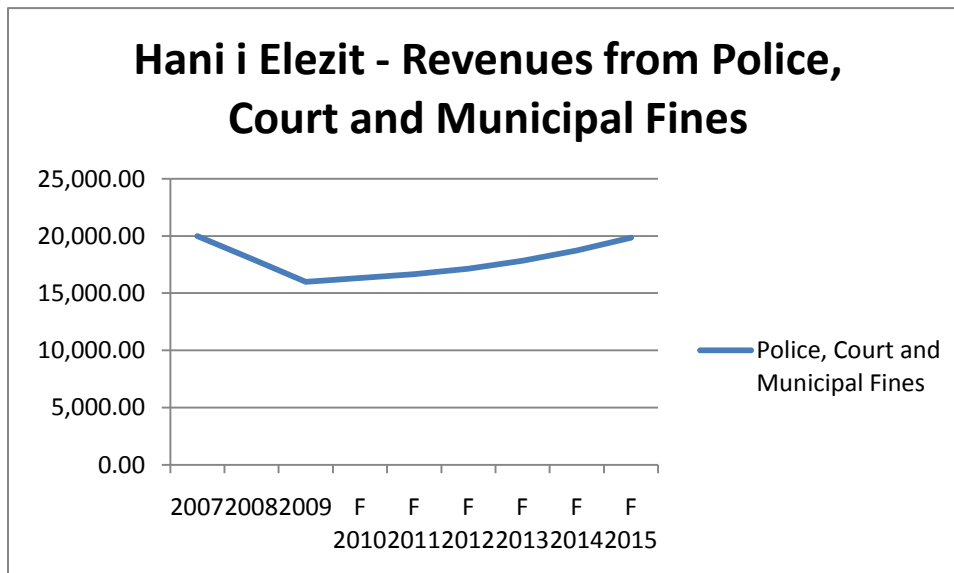
Business taxes have a high growth potential due to the presence of a large industrial producer (cement factory), growth of the economy, better registering and servicing of businesses and improved enforcement. Increased collection of business taxes can also be achieved through better cooperation between 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 73.93% by 2015.



Forecasted revenues from use of municipal property by 2015 increase by almost 7 times compared to 2009, which can be achieved through improved management of municipal assets and in the opinion of the consultant has an even higher potential for increase.

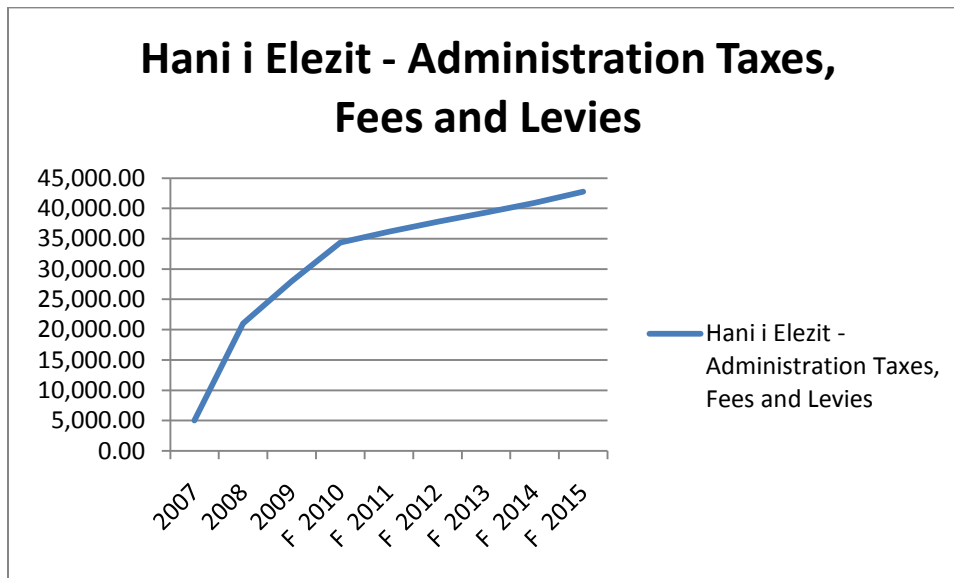


Revenues from sale of municipal services are an important contributor to OSR in the municipality, comprising on average 7.49% of forecasted revenues. Forecasts are that if there is increase efficiency and better provision of municipal services, the municipality of Hani i Elezit can achieve an increase of over 50% in generating income from the provision of municipal services.

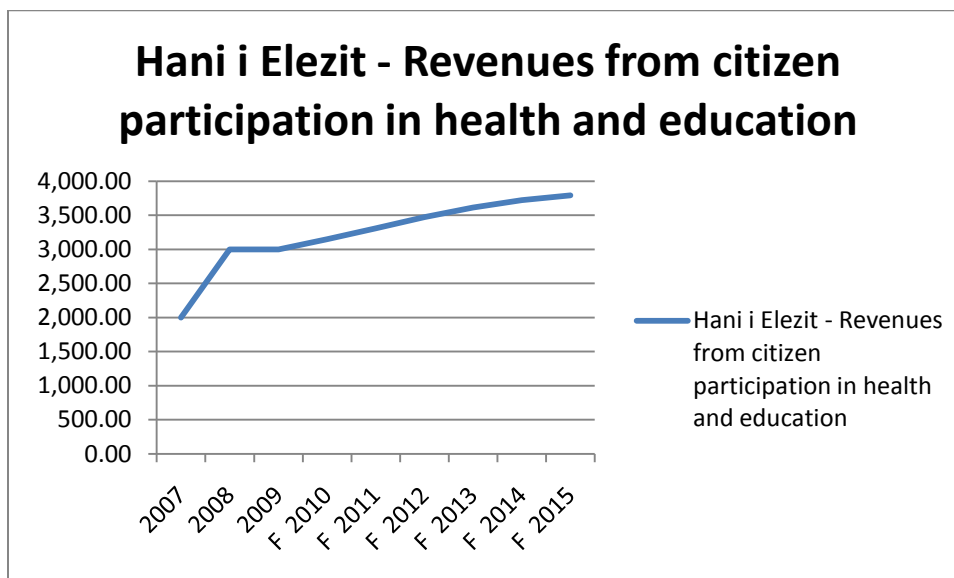


Revenues from fines issued by courts, police and the municipality are the fifth largest contributor to municipal OSR, and have a smaller effect of generated OSR with over 6% on average contribution to revenues generated by the municipality in the years up to 2015. Municipality should try to increase 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. Forecasted improvements over revenues collected in 2009 are 24.04%.



Administration fees, levies and taxes are expected to be the third largest contributor to projected OSR on average accounting for 14.02% to generated OSRs by Hani i Elezit. The increase in revenues generated from this category will result in an increase of 52.75% in revenues generated compared to 2009.



Forecasted revenues coming from citizen's participation in education and health payments contribute on average 1.28% of OSRs generated during the period 2010 – 2015, thus being an insignificant contributor.

POTENTIAL AREAS FOR INTERVENTION AND SUPPORT

Potential areas for LOGOS project support to the municipality of Hani i Elezit 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 Hani i Elezit 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 businesses and providers of advertisement space. This is particularly relevant for Hani i Elezit being a border municipality and situated on the main road to Macedonia and on the border post itself. The municipality should further try to stimulate border related businesses by introducing policies that encourage the introduction of service and retail businesses at the border point.

Municipal leasing of land, buildings and space is another potential good revenue source is managed properly, and made more attractive through strategic investments, decisions and stimulating policies. The municipality currently does not collect any revenues from usage of municipal parking spaces, leasing of municipal owned land, parking space, The consultant strongly suggests at looking into possibilities of introducing revenue generating taxes, fees and levies in these categories, especially utilizing its geographical position as a border municipality. One possible idea is to invest and develop parking facilities for passenger and transportation vehicles at the border for those travellers that do not want to cross the border with their vehicles.

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. Further, the municipality could try to introduce more inspection services, including veterinary and food business inspections. Further, the municipality should look into introducing and generating revenues from geodesy and urbanism departments.

The municipality could also look at introducing fees for inheritance registration as well as fees for road and infrastructure usage by businesses.

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)**