

Swiss – Kosovo
Local Governance and Decentralization Support
LOGOS

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

RANILUG

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

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Table of contents

INTRODUCTION.....	3
MEDIUM TERM PLANNED BUDGET	4
PROJECTIONS OF OWN SOURCE REVENUES FOR THE MUNICIPALITY OF RANILUG	9
Forecasting Assumptions.....	9
Forecasted Own Source Revenues – Municipality of Ranilug	13
POTENTIAL AREAS FOR INTERVENTION AND SUPPORT	19
ANNEX 1 – OWN SOURCE REVENUES 2007-2009 AND OSR FORECASTS 2010-2015 (EXCEL DOCUMENT).....	21

INTRODUCTION

This report is the analysis of the Own Source Revenues for the Municipality of Ranilug, a new Municipality that has gained the status of municipality in January 2010 as a result of the decentralization process in the Republic of Kosovo. Therefore, with the newly formed territory of the Municipality of Ranilug, during the year 2010 conditions were formed where a Memorandum of Understanding was signed with the Municipality of Kamenica about the transfer of revenue sources to the new municipality.

Because there is no historical data for OSRs in the new Municipality, the report does not contain any analysis of historical performance, as it is impossible to extrapolate the effect of the territory of the new Ranilug municipality on historical OSR in the mother municipality of Kamenica. Thus, it is also difficult to make reliable assumptions about the OSRs of the municipality in the upcoming years. Assumptions for this report come from field visits and discussions with municipal officials taking into consideration their OSRs forecasts projections for the upcoming years 2011-2013, as well as making assumptions based on the mother municipality of Kamenica and the municipality of Shterpce/Strpce as a similar case in terms of political situation.

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. A note of caution is that as all forecasts, one should be careful in interpreting them as expectations rather than guaranteed results. This is especially poignant in the case of the Municipality of Ranilug, as a new municipality with a majority Kosovan Serb population and unresolved political issues within the community. Nevertheless, it is the assessment of the consultant and the feedback from municipal officials that these issues are less prevalent today and there is a positive trend of accepting Kosovo municipal structures by all citizens and businesses operating in the municipality. To achieve the 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 planned revenues from own sources for the next three years, as outlined in the medium term budget. Then, the report outlines the assumptions made in the forecasting model to conduct the forecasts for OSR generation for the period of 2012-2015, using the forecasted revenues for 2011 as a basis. 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 the municipality could be supported by the LOGOS project in order to achieve the objective of increasing own source revenues generated by the municipality.

MEDIUM TERM PLANNED BUDGET

Due to the fact that the formation of the Municipality of Ranilug was a result the decentralization process in 2010, there are no previous records of OSRs for the consultants to base their analysis on. Based on an internal study by the municipality of Ranilug, the consultants have in turn been provided with forecast projections of OSRs for the years 2011-2013. Based on these results the consultants have based their further analysis for this report.

The planned medium term budget for the municipality of Ranilug is analyzed under this section, so as to analyze where municipal officials see the main revenue generating sources and the development of these over the coming years.

A detailed discussion of the planned Own Source Revenues and trends for the different categories of OSRs is presented in the table below:

	2011	2012	2013
Revenues from property tax	9,000.00	10,000.00	12,000.00
Income from businesses			
Revenues from business tax	500.00	2,000.00	2,000.00
Revenues from commercial licenses			
Revenues from licenses for ads	200.00	500.00	500.00
Revenues from licenses and services			
Revenues from forest exploitation licenses			
The use of road infrastructure			
Revenues from stonebreakers and mines	200.00	1,000.00	1,000.00
Fees for prolonged working hours			
Revenues from business licenses			
Revenues from use of the municipal property			
Revenues from parking of vehicles			
Revenues from the sale of Municipal property			
Revenues from use of the land			
Rent of municipal properties			
Revenues from sales of services			
Revenues from inspections			
Veterinary inspections			
Inspection of food premises	200.00	200.00	200.00
Inspections for fire			
Inspection of the environment	500.00	500.00	500.00
Revenues from geodesic plans			

Activities in the field to measure the country - Dept. of Urbanization	1,600.00	2,000.00	2,000.00
Inspections of urban plans - Dept. of Urbanization	500.00	500.00	500.00
Revenue from building permits			
Payments for the change in land usage	500.00	2,000.00	2,000.00
Issuance of construction licenses	1,000.00	3,000.00	3,000.00
Demolition license			
Other services			
Revenue from court fines, police and municipality			
Fines			
Fines - Forestry			
Court Fees			
Revenues from traffic fines	3,000.00	3,000.00	3,000.00
Other			
Other payments			
Other Revenues			
Revenues from administrative tax			
Fees from the registration of vehicles	1,000.00	1,000.00	1,000.00
Issuance of driving licenses			
Fees from traveling documents			
Tender participations			
Road tax			
Certificate of the registrar (birth, marriage, death etc.).	5,000.00	5,000.00	6,000.00
Other registrar documents			
Certification of different documents			
Tax for request forms	8,800.00	9,000.00	9,000.00
Inheritance registration fee	5,000.00	5,000.00	5,000.00
Citizen Participation (health and education)			
Revenues from culture			
Revenue from health services	2,000.00	0.00	0.00
Revenues from kindergarten	1,000.00	1,000.00	1,000.00
Revenues from secondary Education			
Grants and donations			
Citizen participation in projects			
Foreign donations			
Kosovo donors			

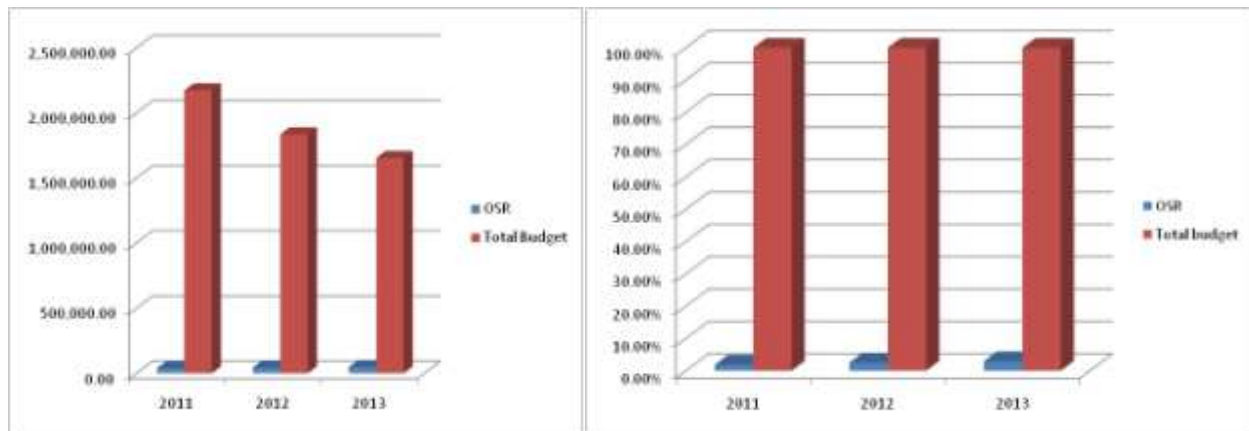
Total OSR Generated during the financial year	40,000.00	45,700.00	48,700.00
		14.25%	6.56%
Carried forward revenues	0.00	0.00	0.00
Grand Total	40,000.00	45,700.00	48,700.00

Table 1. Municipality of Ranilug – Planned OSR Collection 2011-2013

When analyzing planned trends of own source revenues in the municipality of Ranilug, one can notice the following observations for the main groups of own source revenues. As presented in the table 1, Ranilug municipality plans an increase in the generation of OSR by 14.25% in 2012 when compared to 2011, whereas in 213 OSRs generated during the year are planned to increase by 6.56% as compared to the plan in 2012.

Own Source Revenues planned to be generated by Ranilug will on average comprise 2.42% of the total annual budgets planned for the municipality for the period 2011-2013, which is clearly low compared to other municipalities, indicating expected political problems in the citizens accepting the new municipal structures and being willing to pay due liabilities. This is also indicating possibilities for further increase in OSRs for the municipality of Ranilug. The planned OSR compared to the planned budget are presented in the two figures below:

Figure 1 – OSR compared to total municipal budget



The main planned own sources of revenues for the Municipality of Ranilug shift over the years. Although most of the planned revenue comes from administration taxes and levies, comprising around half of all planned OSR, over the years we see an increased participation of property tax moving from 22% to 25% in 2013, revenues from municipal services moving up from 11% to 18% and 17% in 2012 and 2013 respectively, and also revenues from businesses increasing their contribution from 2% in 2011 to 8% in 2012 and 7% in 2013.

A breakdown of the participation of different categories is presented below:

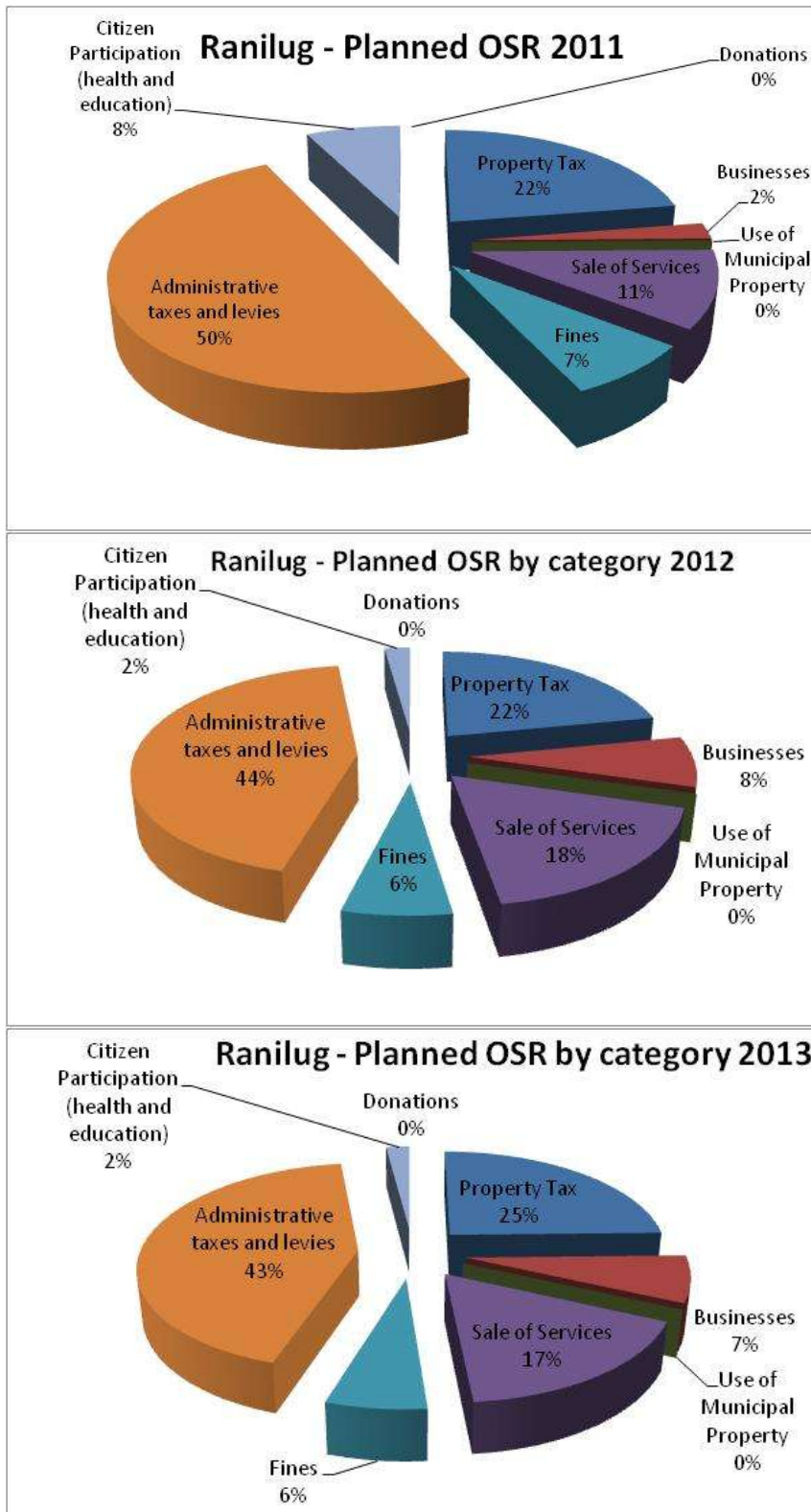


Figure 2 – Breakdown of Planned OSR into the main categories 2011-2013

The analysis of the planned own source revenues for the period 2011-2013 for the municipality of Ranilug thus shows a lot of potential, especially in terms of revenue that can be generated from businesses, citizen's participation in education and health as well as municipal services, with an opportunity for the revenues from fines increasing as well, due to the geographical position of the municipality in a highly frequented road.

PROJECTIONS OF OWN SOURCE REVENUES FOR THE MUNICIPALITY OF RANILUG

In order to perform projections for Own Source Revenue generation for the forecast period 2011-2015, the consultant used the planned figures for 2011 as a baseline for projections. Then, based on assumptions made in terms of increased efficiency in collection, natural growth and having in mind the current political situation and expected developments in this front.

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 and allocated based on OSR codes, which very often put one type of revenue under one category in a particular financial year, while recording the same item in a different category in the following year. This creates problems of comparison of revenues collected from specific sources.

Further, as municipalities report aggregate revenues in terms of categories or sub-categories, and due to lack of data in establishing the true tax base, one cannot use the units and price per unit of the specific items of OSR in conducting forecasts. Thus, to conduct the forecasts, the consultant has conducted wide consultations with municipal officials in terms of getting a clear picture of planned revenues and the financial, practical and political considerations made when performing these forecasts.

Forecasts are mostly done based on two factors, increased collection rates assumptions and natural growth assumptions.

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 2012-2015. The baseline for the forecasts was taken from the planned revenues for the financial year 2011, as it was considered to be the most accurate estimate by the municipality. This will serve as a good base for assessing the accuracy of the assumptions taken once data for 2011 becomes available.

Forecasting Assumptions

The consultant has taken the following assumptions when estimating the own source revenues for the period 2012-2015:

Property tax:

As there is no updated and clear database or property register in terms of cadastre taxable zones, inherited from the Municipality of Kamenica, when making assumptions about property tax in Ranilug, the following assumptions were made in terms of improved collection rates and natural growth.

When making the assumptions on property tax, improvements in collection were assumed to be at 20% when compared to the planned revenues for 2011, 35% increase for 2013 compared to the previous year, and then continue at an increasing rate of 2.5% for 2014, and then ending at 1% for 2015 onwards. Natural growth rate for new taxable properties was estimated to follow the natural growth of registered properties and was assumed to be 0.3% for 2012-2013, moving on to 0.4% in 2014, 0.5% in 2015.

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 to come from the current ongoing process of reviewing existing businesses in the municipality, including improvements in the political situation. The municipality of Ranilug, through the process of decentralization, has been transferred some of the biggest and highest tax paying businesses from the municipality of Kamenica. The forecasted levels for 2011 are thus considered low. With this in mind, the assumed growth in 2012 compared to the planned revenues in 2011 is triple the amount. The growth in 2013 is then assumed to be at 30% over the revenues in 2012, 20% growth in 2014 and 15% in 2015. Natural growth of businesses was assumed based on a very conservative estimate of growth of the economy in Kosovo, and assumed growth rates are as follows: 2% for 2012-2013, 3% in 2014, 4% in 2015.

Revenues from **stone breakers and mining licenses, and advertisement space** were assumed to growth due to improved collection and natural growth as those for the annual business tax.

Revenues from sale of municipal services:

Planned revenues from inspections in 2011 were estimated at low levels, and include general, food and fire. The assumed growth of the company is very similar to assumptions made for the business growth, without the triple effect in terms of increasing revenues. Thus we have assumed a growth in collection of revenues, where compared to 2011, revenues generated in

2012 -2015 were projected. We assume to increase OSR due to better collection and is at 30% over the period 2012-2013 as compared to the planned revenues for 2010. Then, a 20% growth in 2014, followed by a 15% in 2015. Natural growth of businesses was assumed based on a very conservative estimate of growth of the economy in Kosovo, and assumed growth rates are as follows: 2% for 2012-2013, 3% in 2014, 4% in 2015.

Revenues from requests for **Construction Permits** were assumed to grow as a consequence of the development of the municipality, mainly by the private sector. Here, we have assumed a similar growth due to new construction requests. The baseline is assumed to be the planned revenues for 2011, then growth is due to an assumed growth in collection of 30% in 2012-2013, 20% in 2014, and finally 15% in 2015. The natural growth was assumed to reflect the growth of the economy and follow a pattern on 2% in 2012-2013, 3% in 2014, 4% in 2015.

Revenues from **geodesy plans and field inspections and measurements by the urbanism department** were assumed to increase due to increased demand for the service as a consequence of the developments presented above. As the municipality is small, there is no indication that these services will be demanded and served by private providers, but will be mostly directly managed and provided by the municipality.

Revenues from court, police and municipal fines:

Planned Court and Traffic fines were also considered low, having in mind the geographical position of the municipality, covering a very frequented road, especially affecting the revenues from traffic fines. Revenues from fines in 2012 increase by 1.5 times the planned revenues for 2011. The increase due to improved collection in 2013 is assumed at 10%, while the growth for 2014 is assumed at 5%, ending up with an increase of 3% in 2015. Increases due to natural growth of traffic on the main road leading to Serbia as well as the number of registered vehicles travelling the roads was accounted for through an increase of revenues by 2% for 2012-2013, 3% for 2014 and 4% for 2015.

Revenues from Administration Taxes and Levies:

As a basis for forecasting **Vehicle registration tax** revenues we have assumed that the vehicle registration tax will start to be applied from 2011 at the level planned by the municipality. With the Kosovan Serb population also registering their vehicles as part of the resolution of the political tensions we have assumed a growth of 7% for 2012, 6% in 2013, going down to 4% for 2014, increasing again to 5% for 2015.

Revenues from **birth, marriage and death certificates** were assumed to grow with population increase as well as the increased number of Kosovan Serb citizens of the municipality asking for Kosovan documents. Having these two conditions in mind, we have assumed a growth rate of 10% for 2012, 20% for 2013-2014, 40% for 2015.

Revenues from **fees (levies) for administration request forms as well as revenues from inheritance registration fees** was assumed to grow with the same pattern as those from certificates above.

Citizen participation in health and education:

Revenues from **health and education services participation** were assumed to grow due to the same assumptions made above for the revenues from certificates, 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 are no expectations that this will start to be implemented, not least due to political sensitivities. However, donor support remains a large potential for contributions 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.

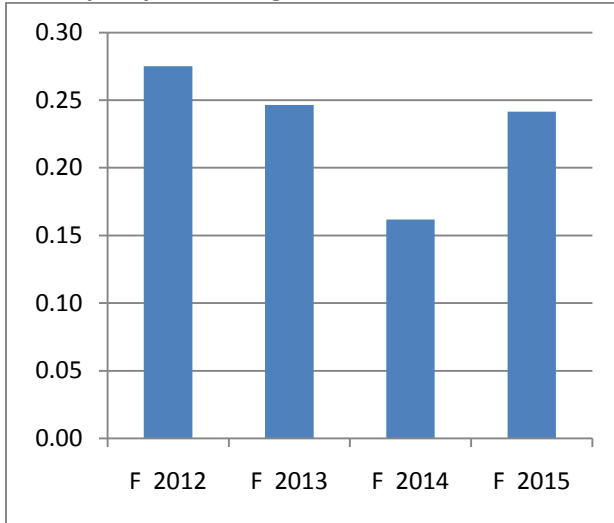
Forecasted Own Source Revenues – Municipality of Ranilug

OWN SOURCE REVENUE TYPE	Planned 2011	F 2012	F 2013	F 2014	F 2015
PROPERTY TAX	9,000.00	10,827.00	14,648.93	15,073.75	15,299.86
BUSINESS TAXES AND LEVIES	900.00	3,618.00	4,775.76	5,874.18	6,990.28
REVENUES FROM USAGE OF MUNICIPAL PROPERTY	0.00	0.00	0.00	0.00	0.00
REVENUES FROM THE SALE OF SERVICES	4,300.00	6,952.00	9,581.44	12,442.97	15,462.47
REVENUES FROM COURT, POLICE AND MUNICIPAL OFFICIALS	3,000.00	4,560.00	5,107.20	5,515.78	5,901.88
OTHER REVENUES	0.00	0.00	0.00	0.00	0.00
REVENUE FROM ADMINISTRATION TAXES	19,800.00	21,750.00	25,950.20	30,958.77	42,929.43
CITIZEN PARTICIPATION (HEALTH AND EDUCATION)	3,000.00	3,300.00	3,520.00	4,004.00	5,121.60
GRANTS AND DONATIONS	0.00	0.00	0.00	0.00	0.00
TOTAL :	40,000.00	51,007.00	63,583.53	73,869.45	91,705.51
Year on year percentage change in generated OSR		27.52%	24.66%	16.18%	24.15%
Carried Forward	0.00	0.00	0.00	0.00	0.00
GRAND TOTAL AVAILABLE TO MUNICIPAL GOVERNMENT	40,000.00	51,007.28	63,583.78	73,869.61	91,705.76

Table 2 – Projected OSR of the Municipality of Ranilug 2011-2015

As can be seen from the forecasted Own Source Revenues table, OSR for the municipality of Ranilug can go up to 91,705.76 Euro at the end of 2015, compared to the planned figure of 40,000 Euro for 2010. There is clearly a positive trend when looking at the overall OSRs. As compared to the previous year, OSRs increase in all forecasted years, as shown in the table below.

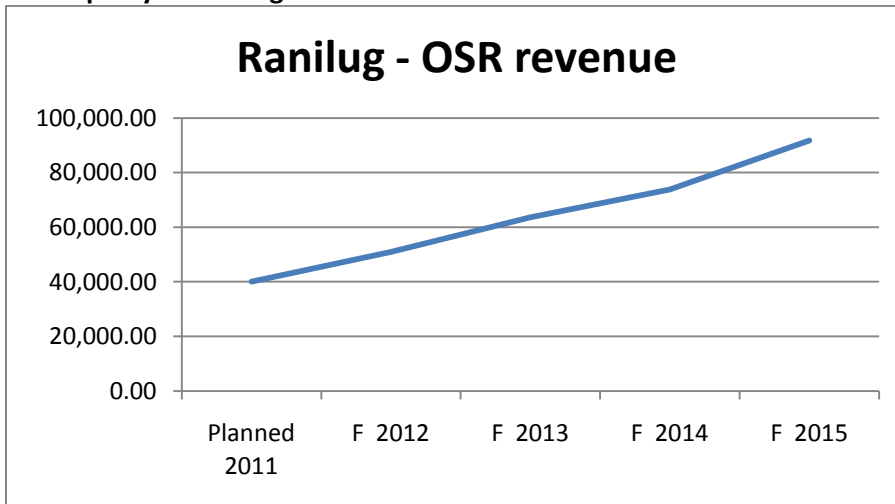
Municipality of Ranilug – Historical and Forecasted Year to Year OSR in percentage change



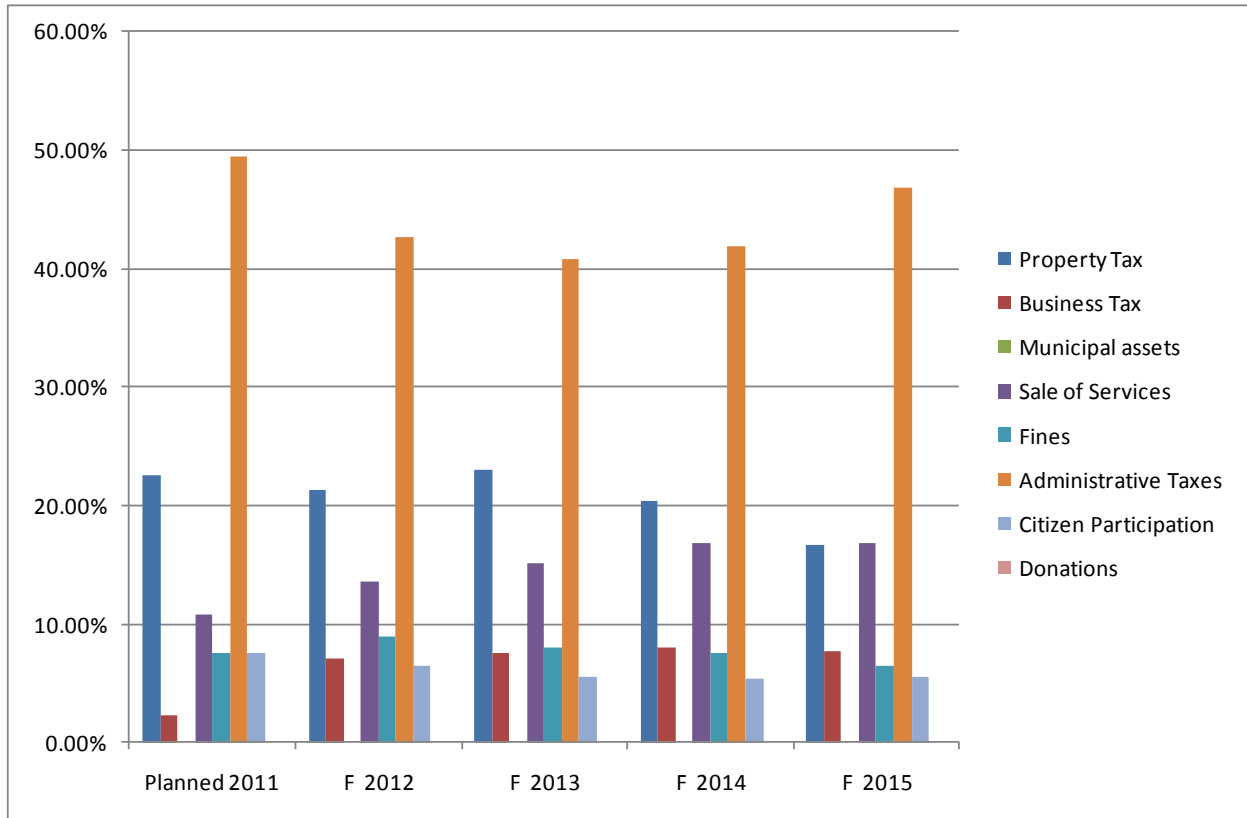
The municipality according to the forecasts can achieve to generate up to 129% more annually compared to OSR planned for 2011. This can be achieved through improved political situation and the inclusion of the Serb population of the municipality, better management and utilization of municipal resources and services, as well as through more efficient oversight, inspections and enforcement.

The graph below shows historical and projected OSRs up to 2015:

Municipality of Ranilug – Historical and Forecasted Own Source Revenues

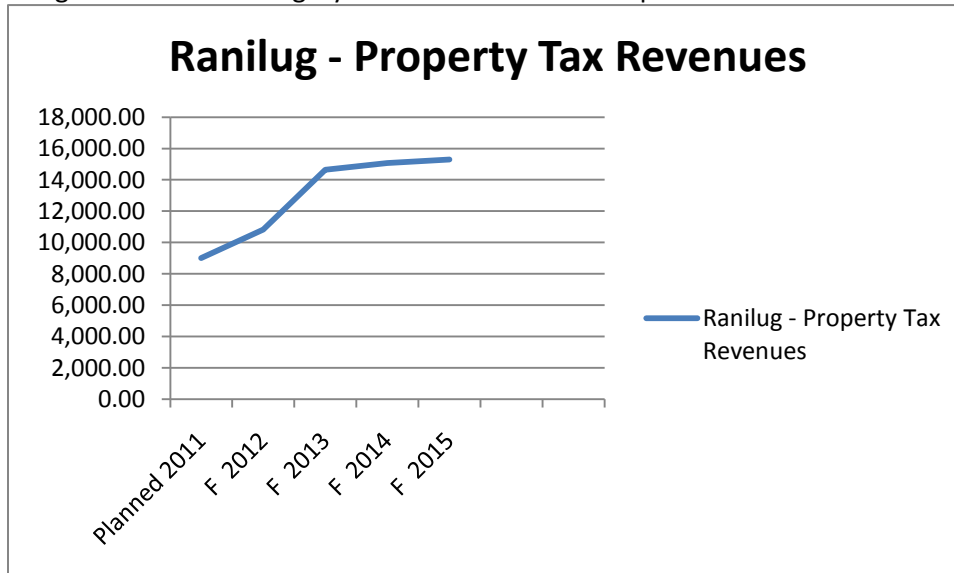


The table below presents the forecasted participation of each OSR category in the total forecasted OSRs for the Municipality of Ranilug:

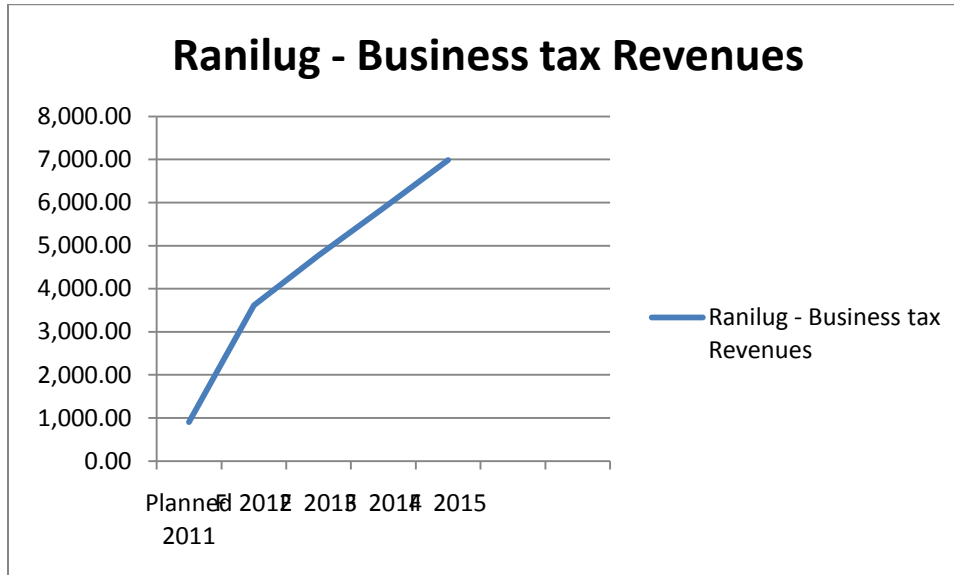


As can be seen from the chart above, the main forecasted drivers of OSR over the coming period are administrative fees and levies, property tax, Municipal services and business taxes and levies. These are the areas where municipality of Ranilug should try to achieve increases in terms of OSR through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

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

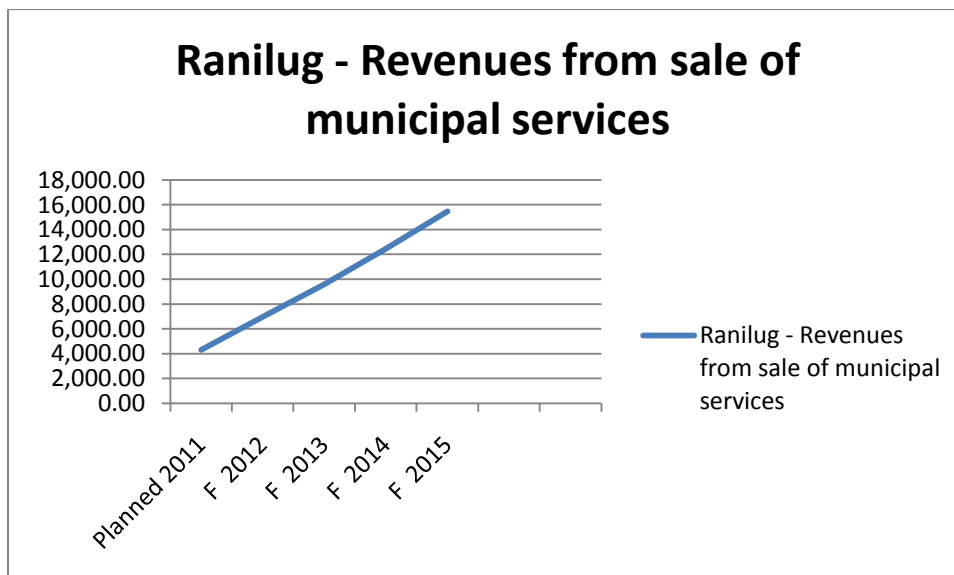


Revenues from Property tax continue to increase due to improved political situation, increase and improved registering, database management, improved invoicing and better enforcement, with a forecasted increase of just under 70% in generated property tax compared to the 2011 planned level.

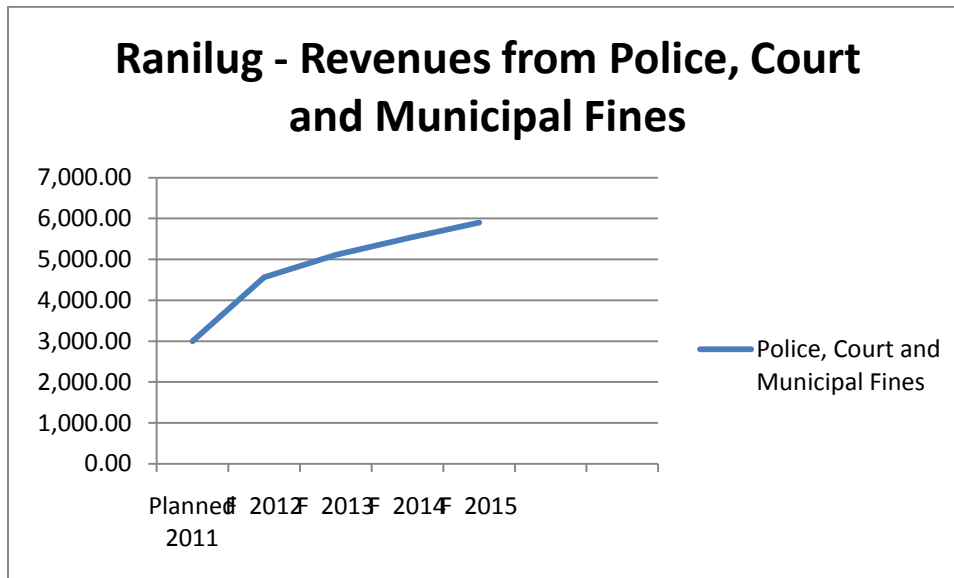


Business taxes have a high growth potential due to the geographical position of the municipality, growth of the economy, better registering and servicing of businesses and improved enforcement. Increased collection of business taxes can also be achieved through better cooperation between the municipality and the Ministry of Trade and Industry (business registry unit) and the mother municipality of Kamenica. Finally, improved presence of municipal officials within the business community and better enforcement of municipal regulations can help improve revenues from businesses. Forecasted growth by 2015 compared to those planned for 2011 is 6.76 times.

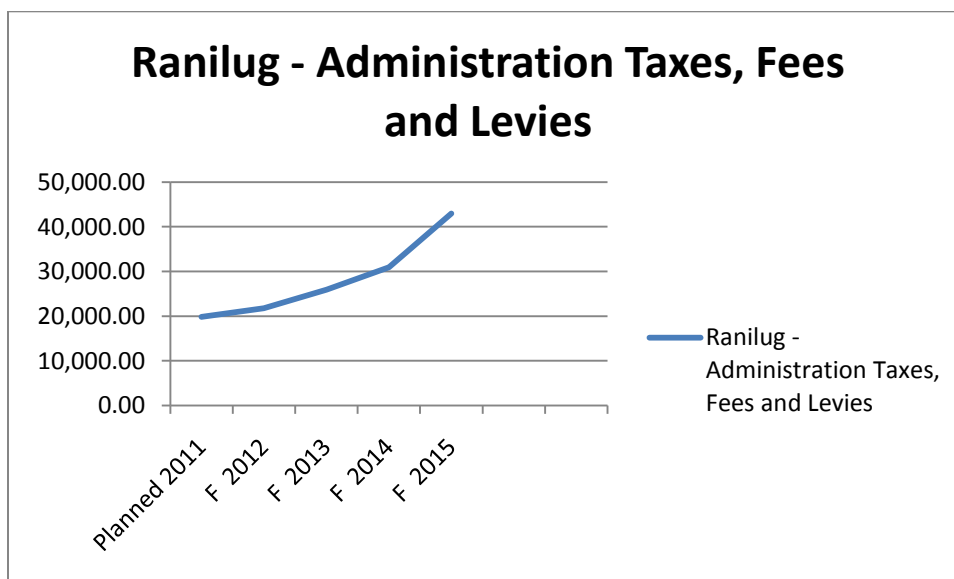
There are no forecasted or planned revenues from Municipality owned assets for the analyzed period.



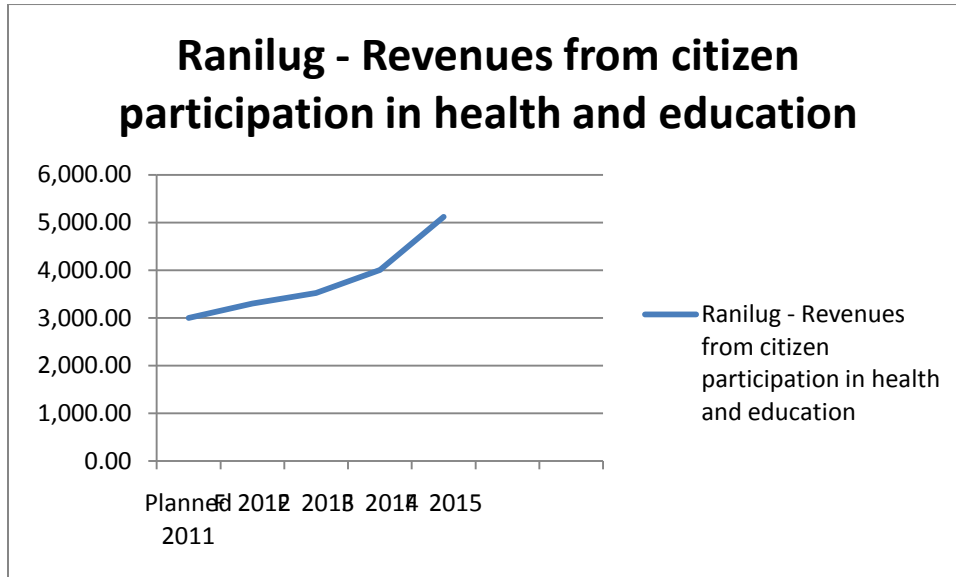
Revenues from sale of municipal services are an important projected contributor to OSR in the municipality, especially with the calming down of the political situation and the integration of the majority Serb population. Forecasts are that the municipality can achieve an increase of over 2.59 times compared to planned revenues for 2011.



Revenues from fines issued by courts, police and the municipality are mainly coming from the assumed increase in traffic passing through the municipal territory, due to its geographical position, and constitute a good forecasted contributor to municipal OSR. Municipality should try to increase the participation in these fees by increasing the contribution to this category coming from municipal fines through improving the efficiency of its municipal inspection services. Forecasted growth compared to the planned level for 2011 is 96.72%.



Administration fees, levies and taxes are expected to be the largest contributor to forecasted OSR, contributing on average 44.34% to the OSRs expected to be generated by the municipality. The increase in revenues generated from this category by 2015 will result in an increase of over 1.16 times when compared to planned levels for 2011.



Forecasted revenues coming from citizen’s participation in health and education participation payments contribute on average over 6% of OSRs forecasted for the period 2011 – 2015, reflecting the political situation and the provision of totally free healthcare. Thus, the expected increase is over 70%.

POTENTIAL AREAS FOR INTERVENTION AND SUPPORT

Potential areas for LOGOS project support to the municipality of Ranilug in increasing the level of generated Own Source Revenues, in the opinion of the consultant, has major areas for improvement. The current level of OSR generation compared to the municipal capacities is low. However, one should keep in mind political sensitivities, which again may stir up tensions and affect the performance of the municipality in improving its performance in terms of OSR.

Property tax, being one of the large contributors, is an area that one should look at supporting. Currently, the municipality does not have a full property database and does not regularly update it. If reports of a Swedish funded project supporting the municipalities in updating their property database during 2011 are true, then this will go some way in improving the situation. 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. Another 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 project should also look at supporting the municipality in collecting revenues from businesses by improving collection of current taxes and introducing new sub-categories currently not utilized. Improving current collection rates, one can support the municipality in improving its business register and classification so as to achieve better results in business tax collection. The municipality could also start issuing licenses for working longer hours, and also introducing advertisement space tax, thus securing a more steady revenue stream. Further, 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. This could then be promoted through municipal policies of conditioning municipal services to businesses that have due and unpaid taxes and levies. Collection of fees for forest utilization and improved enforcement of these fees, coupled with higher level political lobbying resulting in the municipality managing the fees and levies coming from forest utilization, can also result in a steady revenues source for the municipality, especially having in mind the geography and topography of the municipality of Ranilug.

Although the municipality of Ranilug does not really have any space assets it can lease out, it can use its land assets in supporting the economic development of the municipality, especially supporting private initiatives. This is an area where the LOGOS project can try to provide some support.

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

The municipality, in the opinion of the consultant, should start charging tender participation fee, and also start issuing other certificates and verification of the submitted documentation.

Ranilug, being a very small ethnically mixed municipality, with a strategic position in terms of nature and tourism, is a very attractive destination for donor supported projects as well. Thus, the project should look at providing 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 forecasted financial performance indicators. 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)**