

**Swiss – Kosovo**  
**Local Governance and Decentralization Support**  
**LOGOS**

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

## SHTERPCE/STRPCE

---

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

**October 2010**

RECURA Financials

Address: Nëna Terezë 28/1, 10000 Prishtina, Kosovo  
tel: +381 (0)38 777 800, Fax: +381 (0) 38 22 14 14 ; cel: +386(0)49 160 049; 777 800  
info@recura.biz - www.recura.biz

## Table of contents

INTRODUCTION .....	3
HISTORICAL PERFORMANCE .....	4
PROJECTIONS OF OWN SOURCE REVENUES FOR THE MUNICIPALITY OF KAMENICA .....	11
Forecasting Assumptions .....	12
Forecasted Own Source Revenues – Municipality of Kamenica.....	17
POTENTIAL AREAS FOR INTERVENTION AND SUPPORT .....	23
ANNEX 1 – OWN SOURCE REVENUES 2007-2009 AND OSR FORECASTS 2010-2015 (EXCEL DOCUMENT).....	25

## INTRODUCTION

This report analyzes Own Source Revenues in the Municipality of Shterpce/Strpce 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. This is especially poignant in the case of the Municipality of Shterpce/Strpce, as there have been political problems and interethnic issues affecting directly the performance of the municipality. 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 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 LOGOS 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 Shterpce/Strpce, the consultants have used Auditor General reports, Municipal Financial 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. An example of this in Shterpce/Strpce is that for 2007 the auditor refused to give an opinion and only presented the Municipal Financial report regarding OSR, while the auditor report in 2009 summarizes OSR for 2008 and 2007 and the numbers for 2007 are different from the municipal report. Another 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 the Shterpce/Strpce municipality, presented in the table below:

	2007	2008	2009
<b>Revenues from property tax</b>	8,568.00	2,817.30	24,630.63
<b>Income from businesses</b>			
Revenues from business tax	0.00	116.91	4,440.00
Revenues from commercial licenses	2,118.00	0.00	157.00
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	4,690.17	2,597.94
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	0.00
<b>Revenues from use of the municipal property</b>			
Revenues from parking of vehicles	5,400.00	0.00	145.00
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	0.00	0.00	0.00
<b>Revenues from sales of services</b>			
Revenues from inspections	0.00	0.00	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	15,013.00	4,378.00	12,723.90
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
Payments for the change in land usage	0.00	0.00	0.00
Issuance of construction licenses	2,774.00	955.79	419.27
Demolition license	0.00	0.00	0.00
Other services	0.00	0.00	0.00
<b>Revenue from court fines, police and municipality</b>			
Fines	0.00	0.00	0.00
Fines - Forestry	0.00	0.00	0.00
Court Fees	0.00	8,039.44	15,510.00
Revenues from traffic fines	1,315.00	4,515.00	6,025.00

<b>Other</b>			
Other payments	0.00	0.00	0.00
Other Revenues	0.00	-78.00	0.00
<b>Revenues from administrative tax</b>			
Fees from the registration of vehicles	0.00	0.00	0.00
Issuance of driving licenses	0.00	0.00	0.00
Fees from traveling documents	0.00	0.00	0.00
Tender participations	1,130.00	570.00	2,190.00
Road tax	0.00	0.00	0.00
Certificate of the registrar (birth, marriage, death etc.).	1,630.00	940.00	3,807.00
Other registrar documents	0.00	0.00	29.00
Certification of different documents	0.00	0.00	84.00
Tax for request forms	490.00	840.00	1,007.34
Inheritance registration fee	0.00	0.00	0.00
<b>Citizen Participation (health and education)</b>			
Revenues from culture	0.00	0.00	0.00
Revenue from health services	256.00	292.90	708.20
Revenues from kindergarten	0.00	0.00	0.00
Revenues from secondary Education	0.00	0.00	0.00
<b>Grants and donations</b>			
Citizen participation in projects	0.00	0.00	0.00
Foreign donations	391.00	0.00	0.00
Kosovo donors	0.00	0.00	0.00
<b>Total OSR Generated during the financial year</b>	<b>39,085.00</b>	<b>28,077.51</b>	<b>74,474.28</b>
<b>Carried forward revenues</b>	<b>33,632.24</b>	<b>25,274.72</b>	<b>14,962.17</b>
<b>Grand Total</b>	<b>72,717.24</b>	<b>53,352.23</b>	<b>89,436.45</b>

**Table 1. Municipality of Shterpce/Strpce - Historical OSR Collection 2007-2009**

When analyzing historical trends of own source revenues in the municipality of Shterpce/Strpce, one can notice the following observations for the main groups of own source revenues. As presented in the table 1, Shterpce/Strpce municipality recorded a decrease in the generation of OSR by over 28% in 2008 when compared to 2007, whereas in 2009 OSRs generated during the year increased by more than 165% as compared to 2008. The factors driving the decrease in 2008 are purely political as after the declaration of independence by the Republic of Kosovo, parallel structures took over the Municipality in Shterpce/Strpce and were controlling most of the municipal functions, inciting dissent by the citizens of the municipality.

In 2009, after the Kosovo municipal elections, where the majority Serb population of the municipality turned out to vote in the elections of 2009 and there was a clear shift in allegiance of the local population to locally elected and sourced politicians and political parties created by Kosovan Serbs. This, in addition to the weakening of the institutions supported by the Government in Serbia, caused an increase in response to municipal obligations, resulting in an increase of over twofold in OSR collection by the municipality. This was driven by a large increase in revenues from property tax, revenues from business tax, revenues from geodesic plans and court fines. Increased spending by the municipality, leading to an increased number of published tenders also affected the increase in tender participation fees. At the same time there was also an increase in demand for municipality issued personal documentation.

Own Source Revenues generated during a financial year in Shterpce/Strpce were on average at 3.63% of the total annual budget set for the municipality at the beginning of the year, which is clearly low compared to other municipalities, indicating possibilities for further increase. This is presented in the two figures below:

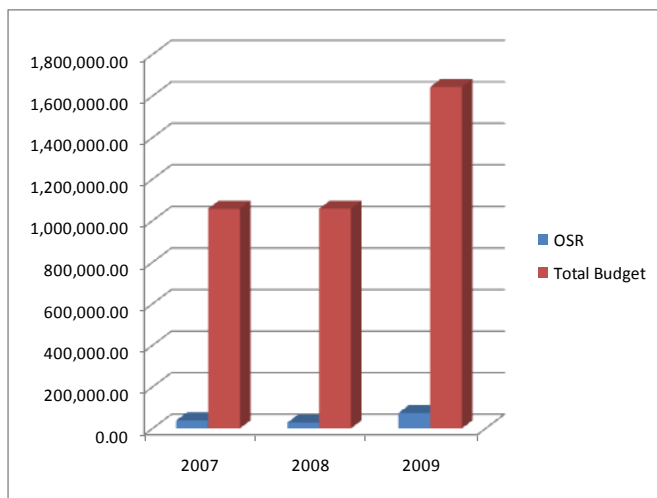
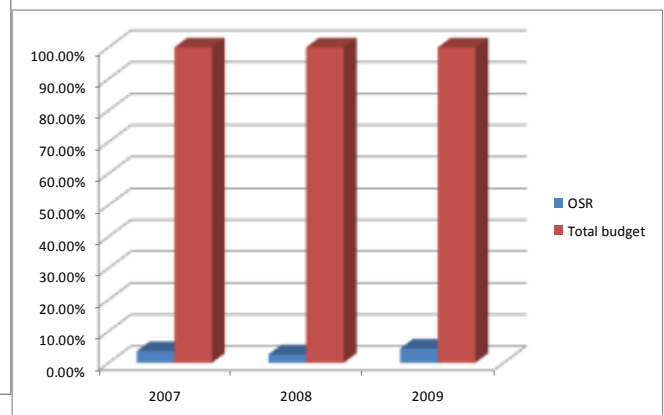


Figure 1 – OSR compared to total municipal budget



The main sources of own revenues for the Municipality of Shterpce/Strpce have shifted over the years, reflecting the developing political situation in the municipality. Where as in 2007 the majority of revenues was generated by sale of municipal services, followed by property tax and revenues coming from use of municipal property; in 2008 this had a major shift and coupled with a decrease in total generated OSR the main driver were fines issued by the police and the courts, as no other municipal function was generating revenues to their potential due to their inability to be active in the field. Sale of municipal services continued to be an important factor in 2008, followed by business taxes and property tax. Financial year 2009 resembles more the typical Kosovan municipality in terms of OSR, with property tax leading in terms of revenue generation, followed by court and police fines, sale of services, business tax and administrative taxes. A breakdown of the participation of different categories is presented below:

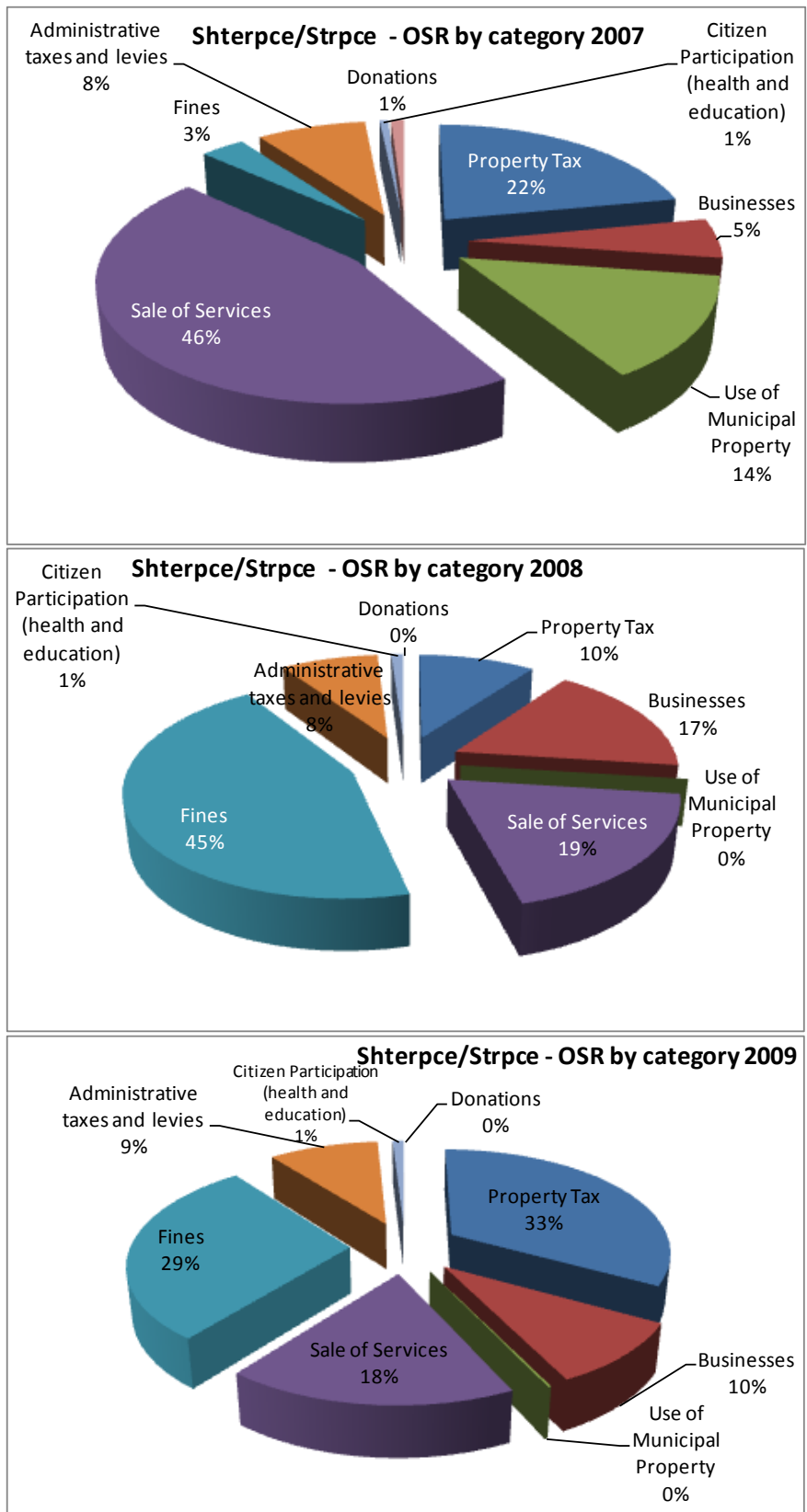


Figure 2 – Breakdown of OSR into the main categories 2007-2009



When analyzing the specific categories of own source revenues, one notices the following observations. There is an decrease in revenues from property tax in 2008 in comparison to 2007. However revenues from property tax record a jump in the following year (2009), recording an increase of 7.74 times compared to 2008 and 1.87 times compared to the more regular year in 2007. This large oscillations, as stated above, reflect political changes in the municipality and should not be considered very strange. However, the figure collected in 2009 is still much below the level of property tax invoices issued and there is space for improvement. If we also take into account the new urban plan for the touristic zone in Brezovica, this will increased the taxable base for the municipality that, if managed properly, should result in an increase of property tax collected.

The participation level of property tax on the overall OSR for the Shterpce/Strpce municipality was 21.9%, 10% and 33% for the period 2007-2009 respectively. Thus, it is one of the biggest contributors to OSR in the municipality.

The property tax collection levels in this municipality also relate to issues of management, whereby the property database is not full and has not been updated for a very long time. 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. The conditioning of vehicle registration with the payment of property tax has not shown to be very successful in this municipality as most of the citizens still drive vehicles with Serbian issued license plates.

Revenues from businesses have seen a steady growth during the 2007-2008 periods, recording and increase of 1.27 times in 2008 and just under 50% in 2009, as compared to the previous financial year.

Besides the main business tax levied by the municipality, which recorded a major increase in 2009, another driver of business tax collection are the licenses for forest exploitation. Revenues from commercial licenses, issued to small vendors have however recorded a large drop since 2007, falling to 0 in 2008 and generating only 157 Euros in 2009. This indicates a potential for increasing revenues from this category of fees.

Revenues from use of municipal property are exclusively coming from fees levied for parking of vehicles, respectively from levies charged for entering the ski centre of Brezovica by vehicle. Although revenues from this category have seen a sharp drop since 2007, this is potentially a very good source as this levy has been collected by the parallel structures in 2008 and 2009. This figure could realistically be much higher in the coming years as the levy starts being collected by the municipality and as the ski centre develops further.

Revenues from sale of municipal services comprise a large portion of OSR generated by the Municipality of Shterpce/Strpce. Reflecting oscillations in other categories, revenues generated from sale of services decreased in 2008 and increased again in 2009. The effect of this category on the total OSR has seen a decrease over the years, as the distribution of revenues to different categories has become more similar to the other municipalities, thus decreasing from almost 46% of total OSR in 2007, to just under 19% in 2008 and 17.6% in 2009. The main driver in this

category have been revenues from geodesic plans, with construction licenses having only a minor effect.

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 25.6% in total OSRs collected over the period. There has been a steady increase in revenues generated from this category in terms of amounts, whereas, in a similar fashion to other categories, the proportion of these fines to total OSR collected has decreased in 2009 to 29% from 45% in 2008.

Administration fees, levies and taxes have seen a steady increased, however they still make up only a small proportion of OSRs generated in the municipality of Shterpce/Strpce, providing on average 8.7% of OSR. The largest contributor here is the revenues coming from the issuance of different certificates, which on average generate 47.8% of revenues from administration fees and taxes. There are no fees generated from vehicle registration, which is a major difference from other municipalities

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

Finally, there have been no major foreign donations and citizens' contributions to public works recorded in the financial statements of the municipality of Shterpce/Strpce. Although considered as OSR by law, the consultant thinks that, due to the nature of donations (especially fluctuations and problems in forecasting donations), that these sub-categories are not analyzed further in this report.

## **PROJECTIONS OF OWN SOURCE REVENUES FOR THE MUNICIPALITY OF SHTERPCE/STRPCE**

In order to perform projections for Own Source Revenue generation, the consultant faced difficulties in establishing a base for the assumptions and forecasts as data provided is not disaggregated. Although the municipalities set the levels for taxes, levies and charges in the municipality and the municipal regulations on average specify 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.

For Shterpce/Strpce municipality, the case is even more complicated as there is no true baseline to make assumptions from, due to political changes and pressures over the years. Thus one has to base the assumptions either on the maximum levels achieved historically, an average collection rate and on concrete feedback from municipal officials.

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 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, either feedback from the municipality or the highest ever collected amount are taken as a baseline.

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 a 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 there is no updated and clear database or property register in the Municipality of Shterpce/Strpce, and 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.

When making the assumptions on property tax two exemptions here were assumed for 2011 and 2012 due to the ongoing process of property registration by the municipality, the expected Swedish support project and due to the work currently being carried out in preparing the urban and regulatory plans for the touristic zone of Brezovica, expected to be completed by the end of 2010, which will allow the municipality to register most of the existing facilities, update the property database and finally be able to invoice (through MEF) the entire tax base. Thus improvements in collection were assumed to be at 2.5% for 2010 as compared to 2009, and then have a jump of 20% for 2011 and 35% for 2012 compared to the previous years, and then again continue at the increased rate of 2.5% over the period 2013– 2014, and then ending at 1% for 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 to come from the current ongoing process of reviewing existing businesses in the municipality, including the improving political situation, as well as the development of a modern touristic ski centre, which will stimulate businesses and the economy. Thus the assumed growth in 2010 was 30% compared to 2009 and 40% in 2011. The growth in 2012 is assumed to come with a boost due to the developments around the ski centre (after privatization and the urban and regulatory plan) and start at 30% over an assumed figure 4 times as large as 2009 (due to new businesses coming in) and then continue with a drop at 15% in 2013, followed by a boost of 30% in 2014 and 20% in 2015 as the effects of the ski centre start to kick in properly. Natural growth of businesses was assumed based on a very conservative estimate of growth of the economy in Kosovo, however the economic potential of the development of the ski centre has been integrated in the assumptions above on increased collection. The natural growth rates assuming that the ski centre is not developed, were assumed as 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 general economic growth in Kosovo to the municipal businesses.

Revenues from **other business and commercial licenses, including potential 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 **Forest usage fees** show a great potential as this fee was being collected by the national forestry agency and only 20% of the revenues were transferred to the municipality. However, from 2010 30% of the fees collected will be transferred to the municipality and we assume that in the foreseeable future this will continue to be the case legally. Thus in terms of improved collection, , with the growth in collection assuming a growth of 2% for 2010-2012, and then 3% in 2013, 4% after 2014. Natural growth assumed was 3% in 2010, 4% in 2011, 5% in 2012 onwards, due to better management of forests by the municipality.

**Revenues from usage of municipal property:**

Revenue from **sale of municipal property**, was assumed not to affect projected OSRs for the municipality of Shterpce/Strpce, based on the existing legislation and provisions. However,

there is a possibility that the municipality would benefit from the privatization of the Ski Centre Brezovice, but the consultant due to current legal provisions and restrictions did not anticipate this privatization process to have an effect on municipal revenues directly as a share of the proceeds from the sale.

Revenues coming from **leasing of municipal assets (space)** were assumed to continue to be at level zero for the foreseeable future, as the municipality currently does not possess any assets of value that it could use in terms of leasing to external parties.

Revenues from **usage of municipal parking spaces** were assumed to grow both through better management and new growth in terms of visitors to the ski centre. Further, as the vehicle tax to drive to the ski centre so far has been collected either by the parallel structures or was split between them and 1/3 to the Kosovo municipal structures, this issue has now been resolved so that all this revenue will end up with the municipality. The assumed baseline level for this revenue is 24,000 Euro per year. Further increases on this are then planned due to improved management resulting in a growth of 3% in 2010, 10% in 2011, then an increase of 30% in 2012 due to the developments around the ski centre, with an increase of 15% in 2013, and a further growth of 30% in 2014 and 20% in 2015, as foreign investments and new visitors start using the ski centre. Growth in terms of natural growth was 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 at zero level historically, however with the registration of new businesses and the development of the ski centre they were assumed to grow greatly. Initially, the base line was assumed to be somewhere at the level of a larger average municipality in Kosovo due to the touristic potential, and then to grow under the same assumptions as for the business growth. Thus we have assumed a growth of 40% in 2011, 30% in 2012, 15% in 2013, 30% in 2014 and 20% in 2015. Natural growth was assumed to be the same as for business taxes following an increase of 2% in 2010-2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015.

Revenues from requests for **Construction Permits** were assumed to grow as a consequence of the development of the touristic zone, the privatization of the Ski Centre and the follow-on effects on the wider community in the municipality. We have assumed a similar growth due to new construction requests as with the growth of the municipal profile as a modern and attractive touristic destination and similar to the growth in the business sector. The baseline is assumed to be much higher than the historical performance, thus reflecting the regulation of

the construction market. This is assumed to be at the level of 10,000 Euro per annum. Further, we have assumed a growth in collection of 30% in 2010, 40% in 2011, 30% in 2012, 15% in 2013, and then again 30% in 2014 and 20% in 2015. The natural growth was assumed to reflect the growth of the economy and follow a pattern of 2% in 2010-2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015.

Revenues from **geodesy plans and field inspections and measurements by the urbanism department** was assumed to increase due to increased demand for the service as a consequence of the ski centre development. However, as this service may also be provided by private providers we assume a slower growth rate on this point. Thus we have assumed a growth in demand of 5% in 2010, 10% in 2011 and then 15% from 2012 to 2015. The natural growth rate is the same as for the construction permits.

#### **Revenues from court, police and municipal fines:**

**Court and Traffic fines** were also assumed to grow reflecting the growth of visitors to the municipality and the growth of the municipal economy. Growth as a result of increased number of visitors is assumed to start having an effect in 2013 by 10%, continuing to 20% in 2014 and 30% in 2015. The growth due to the development of the municipal economy was assumed at 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.

#### **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, with the Kosovan Serb population also registering their vehicles as part of the resolution of the political tensions. We have assumed on average a vehicle for every 10 citizens, thus the baseline for this tax was assumed to be 13,000 (10 Euro per vehicle). 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.

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 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 2010, 20% for 2011-2012, 40% for 2013, 30% for 2014 and then 5% in 2015 and onwards. This is also based on MEF estimates on the number of blank certificate documents needed by the municipality per annum based on the population size.

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

#### **Citizen participation in health and education:**

Revenues from **health 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 were no such practices in the past and 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.



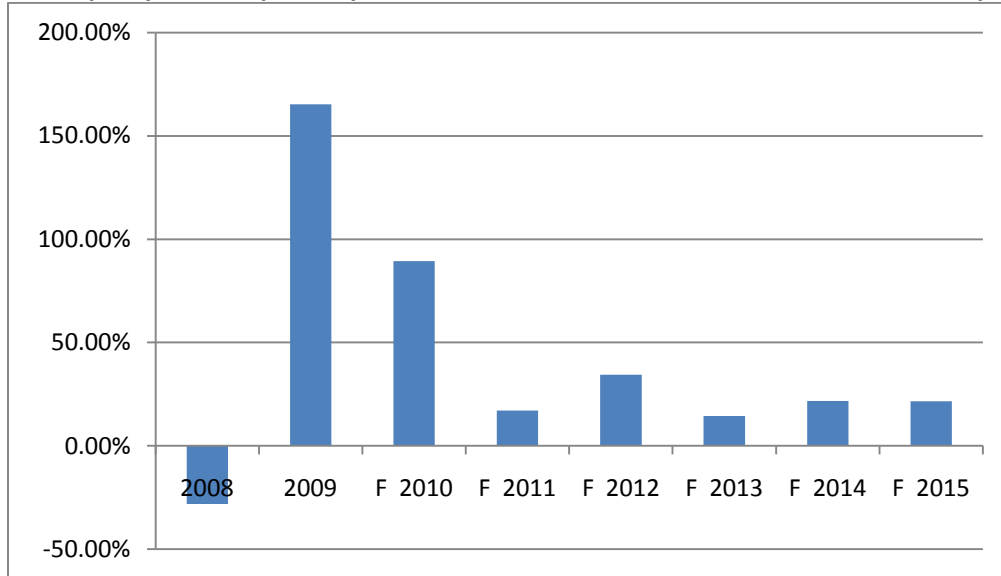
## Forecasted Own Source Revenues – Municipality of Shterpce/Strpce

OWN SOURCE REVENUE TYPE	2007	2008	2009	F 2010	F 2011	F 2012	F 2013	F 2014	F 2015
<b>PROPERTY TAX</b>	<b>8,568.00</b>	<b>2,817.30</b>	<b>24,630.63</b>	25,320.29	30,460.31	41,243.25	42,480.55	43,797.45	44,498.21
<b>BUSINESS TAXES AND LEVIES</b>	<b>2,118.00</b>	<b>4,807.08</b>	<b>7,194.94</b>	13,581.24	17,512.47	40,474.13	47,549.80	57,002.05	70,704.78
<b>REVENUES FROM USAGE OF MUNICIPAL PROPERTY</b>	<b>5,400.00</b>	<b>0.00</b>	<b>145.00</b>	25,200.00	28,224.00	37,537.92	44,670.12	60,304.67	80,983.88
<b>REVENUES FROM THE SALE OF SERVICES</b>	<b>17,787.00</b>	<b>5,333.79</b>	<b>13,143.17</b>	32,660.10	42,102.10	53,165.90	62,347.73	79,994.78	97,949.53
<b>REVENUES FROM COURT, POLICE AND MUNICIPAL FINES</b>	<b>1,315.00</b>	<b>12,554.44</b>	<b>21,535.00</b>	21,965.70	22,405.01	23,077.16	26,307.97	32,884.96	44,723.54
<b>OTHER REVENUES</b>	<b>0.00</b>	<b>-78.00</b>	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>REVENUE FROM ADMINISTRATION TAXES AND LEVIES</b>	<b>3,250.00</b>	<b>2,350.00</b>	<b>7,117.34</b>	21,591.97	23,573.29	25,570.53	29,400.71	33,602.52	35,710.10
<b>GRANTS AND DONATIONS</b>	<b>391.00</b>	<b>0.00</b>	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL :</b>	<b>39,085.00</b>	<b>28,077.51</b>	<b>74,474.28</b>	<b>141,098.32</b>	<b>165,212.01</b>	<b>222,190.69</b>	<b>254,327.39</b>	<b>309,628.09</b>	<b>376,713.78</b>
Year on year percentage change in generated OSR		-28.16%	165.25%	89.46%	17.09%	34.49%	14.46%	21.74%	21.67%
Carried Forward	33,632.24	25,274.72	14,962.17	35,274.58	58,346.64	37,772.42	38,149.11	37,155.37	37,671.38
<b>GRAND TOTAL AVAILABLE TO MUNICIPALITY</b>	<b>72,717.24</b>	<b>53,352.23</b>	<b>89,436.45</b>	176,373.79	323,559.53	259,962.95	292,476.64	346,783.67	414,385.37

Table 2 – Projected OSR of the Municipality of Shterpce/Strpce 2010-2015

As can be seen from the forecasted Own Source Revenues table, OSR for the municipality of Shterpce/Strpce go up to 376,713.78 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 due to the assumed dynamics of the development of the Ski Centre, as shown in the table below.

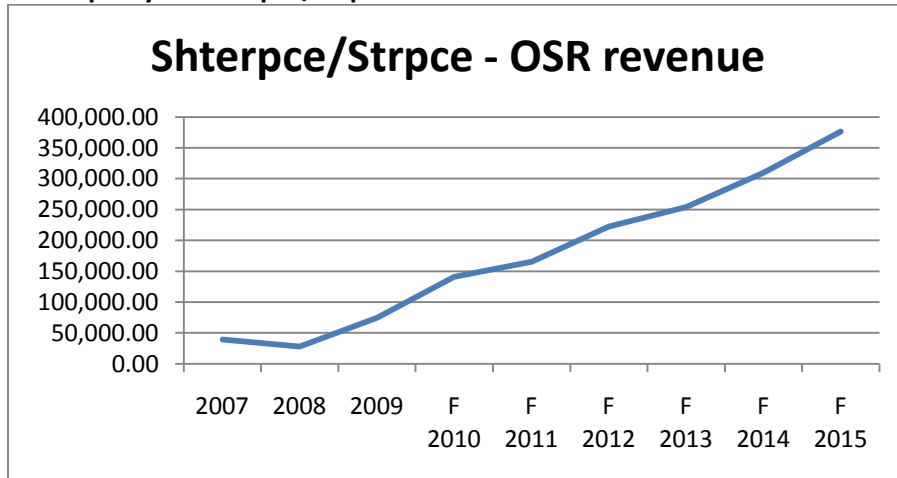
**Municipality of Shterpce/Strpce – Historical and Forecasted Year to Year OSR in percentage change**



The municipality according to the forecasts can achieve to generate over 4 times more annually compared to OSR generated in 2009. 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. After 2010, the growth is forecasted to level at about 21.89% until 2015.

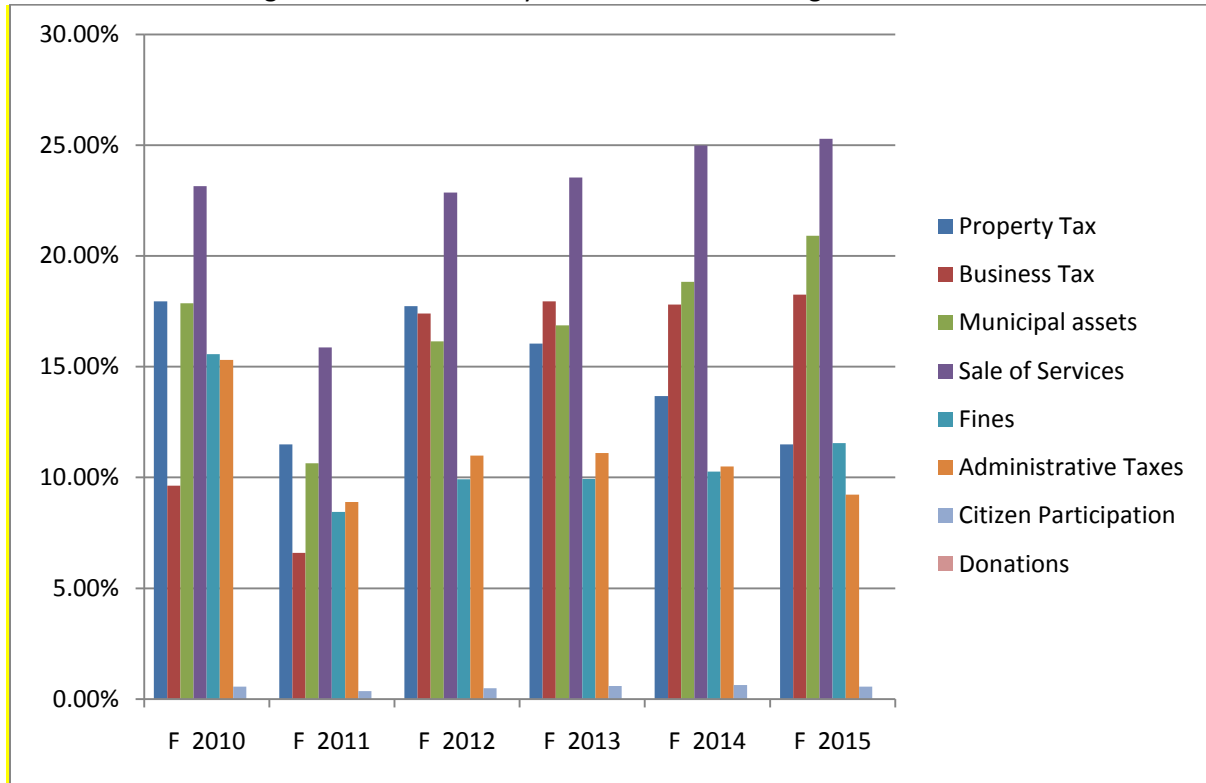
The graph below shows historical and projected OSRs up to 2015:

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

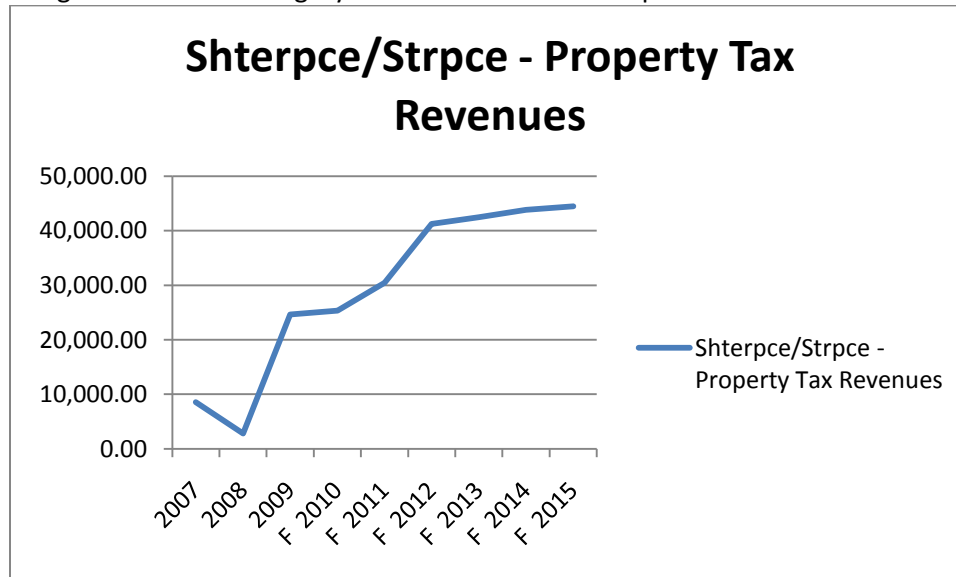


The table below presents the participation of each OSR category in the total forecasted OSRs for the Municipality of Shterpce/Strpce:

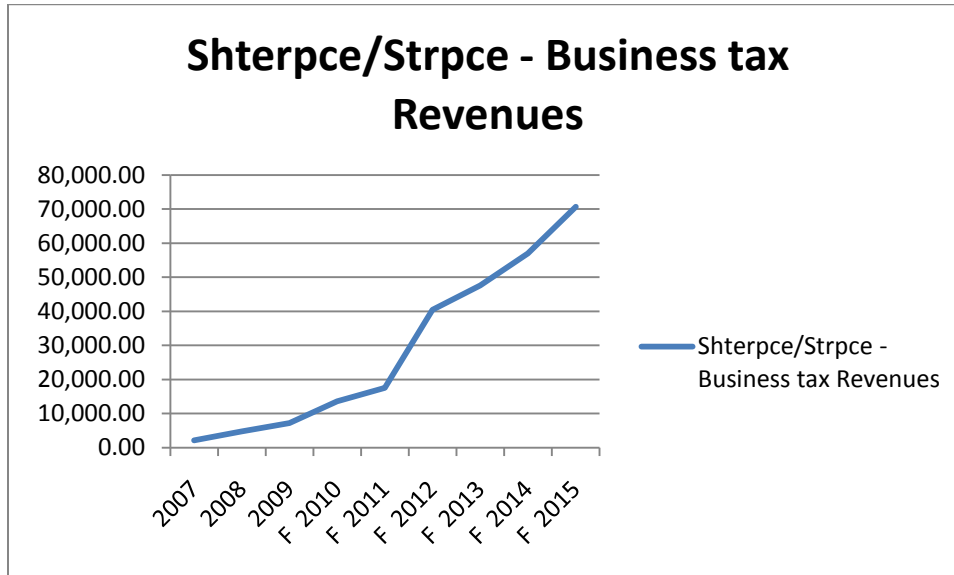
As can be seen from the chart above, the main forecasted drivers of OSR over the coming period are the property tax, business taxes and levies, Municipal services, Administrative taxes and fees and revenues from Use of Municipal Assets. These are the areas where municipalities should try to achieve increases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



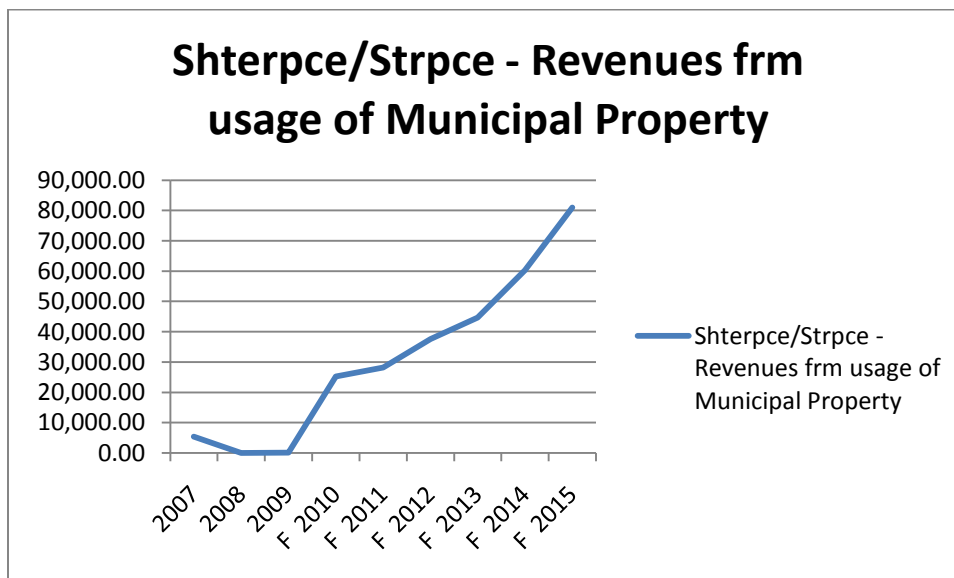
The growth of each category of OSRs forecasted is as presented in the charts below:



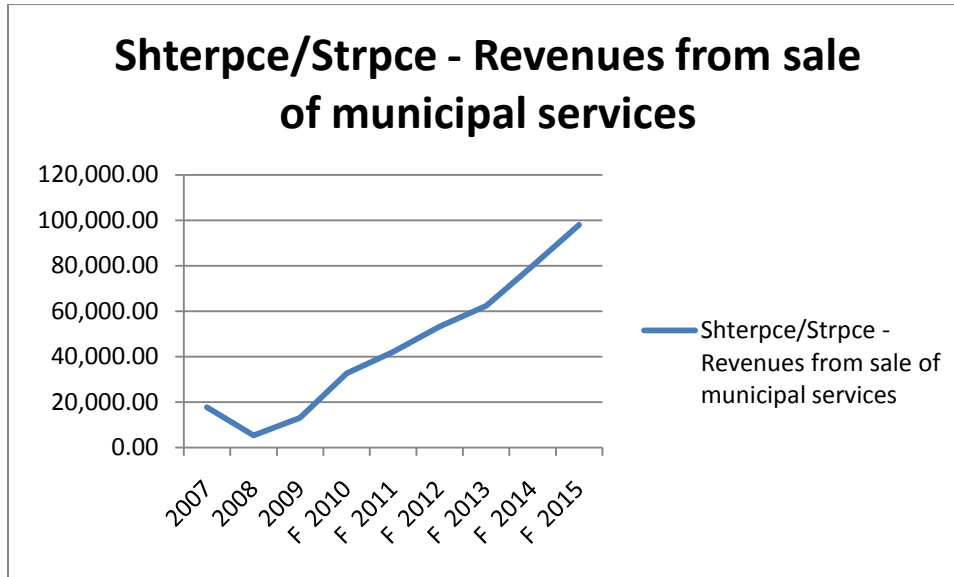
Revenues from Property tax continue to increase due to improved political situation, development of the touristic centre, increase and improved registering, database management, improved invoicing and better enforcement.



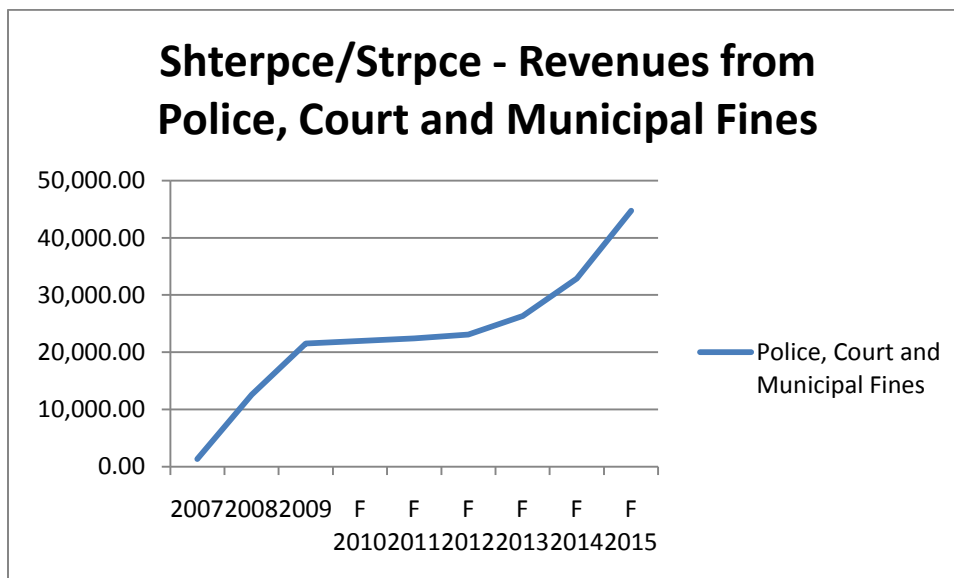
Business taxes have a high growth potential due to the development of the ski centre and touristic capacities, growth of the economy, better registering and servicing of businesses and improved enforcement. Increased collection of business taxes can also be achieved through better cooperation between 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 8.8 times by 2015.



Revenues from use of municipal property have a major impact on OSR in the case of the Municipality of Shterpce/Strpce due to its touristic potential. The increase in revenues from this category can be some 80,000 Euro more compared to the collection in 2007 (the highest year historically), and by then comprise about 20.9% of total OSR.

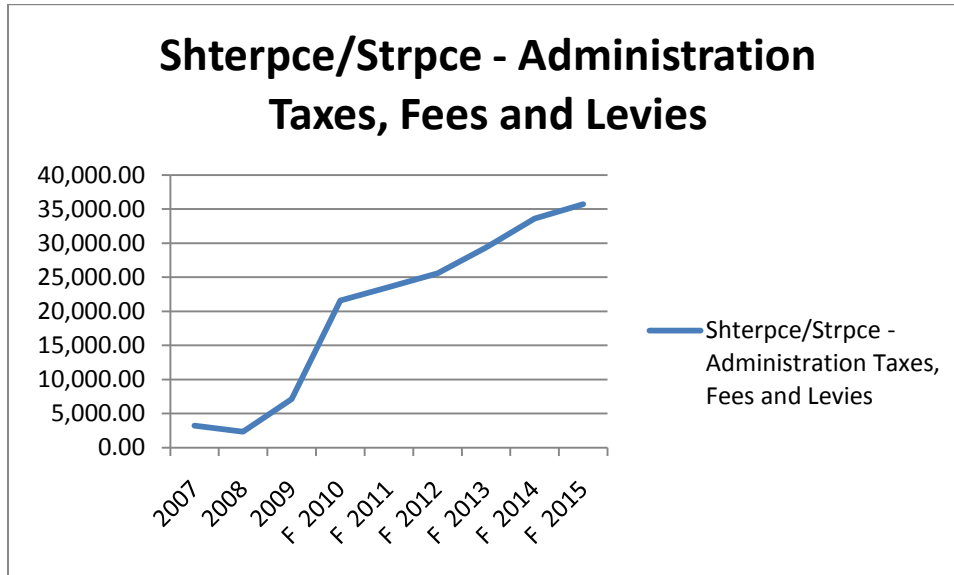


Revenues from sale of municipal services are an important contributor to OSR in the municipality, especially with the calming down of the political situation and the integration of the majority Serb population. Forecasts are that the municipality can achieve an increase of over 6 times compared to generated revenues in 2009.

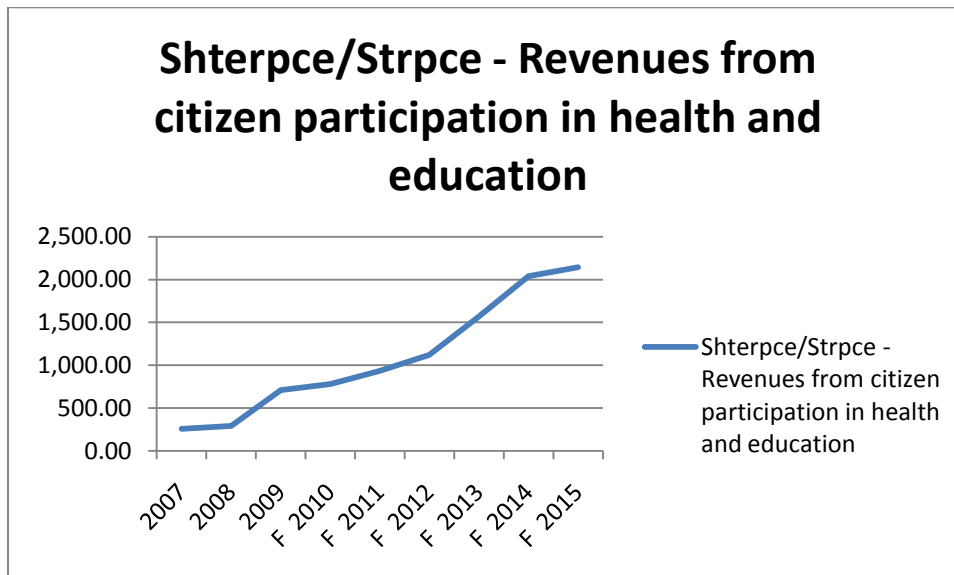


Revenues from fines issued by courts, police and the municipality are mainly coming from increased numbers of visitors to the municipality due to its touristic potential, and continue to be a good contributor to municipal OSR, on average contributing 10.95% to revenues generated by the

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 11% to the OSRs generated by the municipality. The increase in revenues generated from this category will result in an increase of over 4 times when compared to revenues generated in 2009.



Forecasted revenues coming from citizen's participation in health payments contribute on average less than 1% of OSRs generated during the period 2010 – 2015, reflecting the political situation and the provision of totally free healthcare.

## POTENTIAL AREAS FOR INTERVENTION AND SUPPORT

Potential areas for LOGOS project support to the municipality of Shterpce/Strpce 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 size and budget is too 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. Further, with the development of the urban and regulatory plan for the touristic zone of the municipality, all current and new properties will be registered in the system and will be liable to property tax. 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. The municipality should also try to utilize its strategic position having a ski centre with growing interest for construction and real estate development. One should think of introducing policies of taxing second home owners (owners of villas) a higher rate of property tax, thus helping directly to increase generated OSR. 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 (especially important during the skiing season), and also introducing advertisement space tax, as item is bound to grow with the development of the ski centre. 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 Shterpce/Strpce.

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

Revenues from municipal services provide one of the biggest revenue sources currently and having in mind the future developments in the municipality, could potentially provide a good source for OSR. Construction permits, geodesic plans and measurements, field inspections of construction sites could all be potentially good earners having in mind the planned development of the ski centre into a modern touristic centre with complete provisions. Further, revenues from inspections of service facilities like restaurants, hotels, villas for rent, ski lifts, in terms of food, fire safety, could all be potentially good sources of revenues. Shterpce/Strpce could also benefit from a developing agro-processing sector, especially in the dairy sub-sector, where veterinary inspections and other municipal services play an important role, thus providing for a larger involvement of the municipality as well.

Shterpce/Strpce being an ethnically mixed municipality, with a strategic position in terms of nature and tourism, is a very attractive destination for donor supported projects as well. Thus, the 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 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)**