

REVENUE MOBILIZATION AND MANAGEMENT IN SECTORS

Background and Case Studies on user fees and charges in selected sectors

Editor: Tamara Simić



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The case studies in this publication provide a valuable basis for a continued exchange with international experts and beneficiaries on the capacity development needs of the South East Europe.

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ABBREVIATIONS

ATU	Administrative Territorial Units
BAG	Federal Office for Goods Transport (Bundesamt für Güterverkehr)
BMF	MOF – Federal Ministry of Finance
BMVI	Federal Ministry of Transport and Infrastructure
BMUB	Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety
BSL	Budget Systems Law
CGU	Central Government Unit
COFOG	Classification of the Functions of Government
CoMD	Council of Ministers Decision
CPA	Central Public Authorities
CPI	Consumption Price Index
DGoT	General Directorate of Taxation
EC	European Commission
EPA	Environmental Protection Agency
EPF	Environment Protection Fund
EU	European Union
FMIS	Financial Management Information System
GDP	Gross Domestic Product
GFG	Good Financial Governance
GFS	Government Finance Statistics
GG	German Constitution (Grundgesetz)
GIZ	Gesellschaft für Internationale Zusammenarbeit
HGV	Heavy Goods Vehicle
IBP	International Budget Partnership
IMF	International Monetary Fund
LGU	Local Government Unit
LLG	Lower Level Government
LM	Line Ministry
LoB	Law on Budget
LPA	Local Public Authorities
MAEP	Ministry of Agriculture and Environment Protection
MHIF	Mandatory Health Insurance Funds
MoES	Ministry of Education and Sports
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoH	Ministry of Health
MTBF	Medium Term Budgetary Framework
MTBP	Medium Term Budget Program
MTI	Ministry of Transport and Infrastructure
NAO	National Audit Office
NPB	National Public Budget (similar to General Government Budget)
OBI	Open Budget Initiative
OBS	Open Budget Survey
OBU	On Board Unit
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PPI	Private Participation in Infrastructure projects
PUC	Public Utility Company
RMMS	Revenue Mobilization and Management in Sectors
SSIB	State Social Insurance Budget
SWS	Special Waste Streams
WRE	Water Regulatory Entity
WUCs	Water Utility Companies

INTRODUCTION

Governments and their finance ministries pay close attention to planning and managing national tax laws and revenues and assessing tax outcomes. Great effort is made to update tax laws and use modern assessment and enforcement systems. There are many forums for sharing experiences in the EU and the OECD.

However, it is not clear that the same level of administrative expertise and attention is directed at the revenues levied by line ministries and their agencies (or at the revenues levied by subordinate levels of government). In late 2015, the GIZ asked the CEF to plan and manage a study on how line ministries raise revenues to support their activities. Our study found that these charges make up between three and five per cent of budget revenues in the countries examined.

To make our study manageable, we restricted its scope to fees and charges levied on businesses or citizens for goods or services supplied by line ministries or their agencies. Evidently, a number of factors hampered the smooth operation of fees and charges. These problem areas were reasonably consistent across countries and included:

- a. Out-of-date legal bases and fee levels.
- b. A proliferation of fees and charges many of which fail to cover their economic cost of operation.
- c. In some cases a lack of administrative capacity (including IT and payment enforcement capacity).
- d. Varying levels of engagement with those who are expected to pay the fees and charges.

Solving these problems would result in fees and charges that are better tailored to the needs of users and make a more significant, though still modest, contribution to national budgets.

EXECUTIVE SUMMARY

The report that follows begins with a background chapter, contributed by our expert looking at the political economy of revenue raising in line ministries. Working with the GIZ, we engaged four countries to contribute case studies, using user fees and charges as the revenue source for examination. The purpose of fees and charges varies from cost recovery to attempts at changing behavior. For example, the Serbian chapter deals with charges that are aimed at implementing the 'polluter pays' principle to reduce types of commercial waste and increase recycling. The political economy of charges suggests that the public in formerly planned economies may be suspicious of their imposition, fearing that they will not be matched by any reduction in overall taxation levels. As well as making it difficult to increase charges as circumstances change, this suspicion requires politicians to be transparent about how tariffs are set if reasonable collection rates are to be achieved. Much may depend on the nature of the good or service being provided and how the public perceives it.

Increased revenues from charges could help subordinate levels of government to decrease dependence on central government. However, there may be limits on the effectiveness with which these extra funds can be used at lower levels of government in emerging economies due to capacity constraints. Electoral cycles may make it politically difficult to price goods and services at a level sufficient to cover their long-term costs, and bad pricing leads to quality deterioration. An element of the solution to these problems is to have integrated national budget formulation connecting the finance ministry with line ministries in providing goods and services that citizens or businesses are willing to pay for.

Our work, and existing research, tentatively suggests that although charges are justified on the basis of economic efficiency, *in practice* they are a strategy for raising revenue. There is evidence in the case studies that revenue projections can be inaccurate and grounded in poor data and extensive and outdated law. If willingness to pay is weak, line ministries and their agencies frequently lack the techniques or resources to enforce compliance. A well-established and transparent budget process with good consultation between finance and line ministries is essential to success and can enhance accountability, but user fees and charges can create an increased financial burden on the poorest and most vulnerable in society.

The background chapter is followed by four country cases studies: Albania, Moldova, Serbia and Germany. Here, the study focuses on line ministries and agencies through which they operate to deliver 'paid-for' goods or services. Obvious examples include water charges, charges for the use of health services, environmental levies and road tolls, and these are the sectors examined in the study. Of course, fees and charges for services or goods are just one component of line ministry revenues. However, by restricting our focus we hoped to gather some insights about what happens when charges and fees that are not imposed directly by the central government are levied on the public.

THE ALBANIAN STUDY

This chapter takes a general look at fees and charges before turning to a detailed analysis of how the water charges system works today. 58 water utility companies (WUCs) supply citizens and businesses. The system aims at efficient provision of clean, affordable and sustainable water. There is a phased strategy for full cost recovery financed by income. WUCs do not meet their targets, so there is a need for a fresh look at the structures, efficiency and goals if cost recovery is to happen. At present, only one third of the water is billed but, even then, 80% of bills go unpaid. Although the situation is starting to improve, there has been a steep increase in charges in recent years. As a result, payment compliance may worsen as often happens in national tax systems where tax rates increase while tax evasion is seen as pervasive.

Generally, the charges are seen as affordable with some scope for increase. However, if subsidy policy were to be reviewed, it might be better to divert the existing subsidies paid to WUCs to alle-

viate the burden of charges on the poorest water users. A process of mandatory consultation with customers has begun but so far there has been no performance audit of WUCs. Overall, there are no rules setting out how fees and charges should be set and no linkage between charges and performance. It is argued that if line ministries demanded clear and consistent reports on outcomes and costs, the situation could be improved.

A new and comprehensive legal framework is needed to bring order to the system of fees and charges across government. That could pave the way for allowing central government to set tariffs taking into account the need for greater efficiency which would lead to the reduction of operating costs on the part of all suppliers of government produced goods and services.

THE MOLDOVAN STUDY

This chapter looks at user charges for health services. The study is set against a background of reform of public finances through the 'Organic Law on Public Finance and Fiscal Responsibility'. This covers planning, execution and reporting of public resources with the aim of achieving fiscal sustainability in the medium term. This improved legal framework in Moldova sets new rules for managing sector revenues from the sale of goods and services to increase the efficiency, transparency and accountability of public institutions.

The study highlights a concentration of responsibility for revenue collection of fees, charges and levies at central level. The charges and fees for goods and services were equivalent to 1.2% of GDP in 2014. 75% of this revenue is administered by the central government but the plan is to increase the fiscal autonomy of local governments under a new legal framework that initiated fiscal decentralization reform.

However, surveys show that public resistance to government charges for goods and services is high. Nearly 60% of people surveyed regarded charges as arbitrary or unreasonable, and almost half of service users have faced requests for 'unofficial payments' from service providers.

The principles in setting tariffs for public services are to (i) comply with each institution's statutory mandate; (ii) recover the real costs of a service delivery, and (iii) establish charges through a transparent process. As in other countries, the legal and administrative framework for setting tariffs for services is fragmented and needed improvement.

User charges should be reviewed periodically and updated where necessary. However, increases are politically unpopular and have not been sanctioned by the government. As a result, charges in the health sector have been frozen since 2011. Revenue shortfalls are met by central resources. The government has recently launched a public service reform program. It will improve the legal and administrative framework to ensure transparency and fairness in tariff setting, and to give the public access to better quality services.

THE SERBIAN STUDY

Our case study for Serbia is the Special Waste Streams (SWS) levy – an environmental charge administered by the Environmental Protection Agency (EPA). It applies to expended batteries, waste oils, tires, electronic equipment and end-of-life vehicles. It has many of the hallmarks of a tax with taxpayers in relevant industries having to register and submit returns and payments. The tax satisfies the 'polluter pays' principal and is based for many items on the weight or volume of waste (a different basis of charge applies for electronic products). In 2015, the SWS accounted for 0.31% of central government revenues. Collection of the levy has increased since 2013 by an average of 14% annually.

There is evidence of widespread non-compliance with the return-filing requirement. In some industries, volumes of waste reported are declining although other statistics show that the sector's output is increasing. Non-compliance implies that there is potential distortion of competition to the

detriment of compliant businesses. Although the EPA prosecutes evaders in the courts, concerns remain about the inadequacy of IT support for the SWS levy and general administrative capacity. Fragmented responsibilities between the EPA and its line ministry do not help the situation.

The SWS levy is not delivering the desired outcomes – collection and recycling levels do not meet the EU standards. Only about 47–65% of the money raised by the environmental charges has been spent as envisaged on environmental improvement projects and subsidies for recycling, partially due to lack of planning and administrative capacity. Industry is concerned about the level of the charge and one sector has sought permission to opt out of the scheme and operate its own version. The study concludes that annual public hearings on the nature and operation of the charge and the results achieved are needed, together with surveys of user satisfaction. Consumers and businesses would have a role to play in these reviews.

THE GERMAN STUDY

This case study looks at the road tolls applied to heavy goods vehicles (HGVs). The study places the road tolls in the context of Germany's federal government system and budgetary rules. In relation to the overall system of fees and charges, the study points to a fragmented legal base with over 200 regulations. Tariffs are not always updated with half of the fee structures over three years old. Faced with legal uncertainties and low cost recoveries from fees and charges, the system has been reformed. When the new law is triggered, the system will be managed by the individual states. However, the transition period to the new system has been extended from October 2019 to October 2021. In total, revenues generated at sectoral level will comprise 5.2% of government revenues in 2016.

Earmarking of tax revenues for specific purposes is not allowed under the German Budget Code. However, there are exceptions including the HGV road toll revenues, which are designated for transport-related infrastructure. To offset perceived unfair competition from road haulage companies in neighboring countries, the toll was used to subsidize reduced vehicle taxes and to fund a scheme to incentivize the replacement of old HGVs with modern low-emission vehicles. The transport and digital infrastructure ministry is the biggest sectoral contributor to the budget and is expected to contribute € 6 billion in 2016, mostly from HGV tolls. Collection is in the hands of a private consortium.

Evasion of tolls is rare with compliance rates in excess of 99%. Earmarking of the receipts ensures that 72% of 2015 revenues were invested in federal highways, with 12% going to the operating company. Proposals to extend the toll to all road users, including private cars, have been delayed and the Supreme Audit Institution identified an unrealistic timeframe for their introduction, faulty revenue and cost predictions and serious implications of the extension of the toll for the enforcement agency. The study shows that care must be taken to have coherent law and up-to-date charges with the aim of full cost recovery (although this is unlikely to be fully met in the case of road tolls).

The political economy of road tolling is also influenced by environmental concerns and by arguments that extension of the road network is not sufficiently prioritized.

REVENUE MOBILIZATION AND MANAGEMENT IN SECTORS

BACKGROUND

Marjan Nikolov

MARJAN NIKOLOV is the president and co-founder of the Center for Economic Analyses (CEA). He holds a PhD in Economics from the University of Ljubljana and an MSc in International Economics and Finance from the University of Iceland. He has lectured on econometrics, statistics, public finance at local government level, and global business at different universities.

Mr. Nikolov has work experience with EC, USAID, UNDP and DFID on cost benefit analyses, fiscal reforms, macroeconomic modeling, fiscal decentralization and local government creditworthiness and borrowing. He has been engaged as a local expert for the World Bank for evaluation of municipal service improvement projects, municipal finance self-assessment and urban audit. Since 2008 he has been working for the Open Budget Partnership on a fiscal transparency project and Open Budget Survey.

Mr. Nikolov has been project coordinator for the European Instrument for Democracy and Human Rights (EIDHR) project, and has been invited on numerous occasions by central and local governments to participate in legislation drafting, policy design, training, and PPP feasibility studies preparation. He has been appointed as the president of the Supervisory Board of the government-owned electricity generation company AD ELEM.

Mr. Nikolov's focus topics are public finance management, fiscal transparency, fiscal decentralization and PPP.

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INTRODUCTION

Apart from general government taxes, such as value added tax, personal income tax and property tax, there are also sector¹ related revenues, like fees and charges paid for communal services, self-contributions for teaching and nursing, hospital and ambulance services and environmental protection that may constitute a significant part of the sectoral budget. From the general point of view, a tax is a compulsory extraction of revenues from citizens or businesses or added to the cost of some goods and services levied by the (central or local) government and may be used for any public good and service without reference to any special benefit and/or beneficiary. Sector revenues (fees and charges), on the other hand, are charged for special services rendered to concrete beneficiaries by public institutions, i.e. line ministries (LM), government agencies and public utility companies (PUC²).

Sector revenues can also be used for changing the behavior of citizens (users of public goods) through the provision of incentives and for achieving important policy goals for a concrete beneficiary group. Because sector revenues are linked to specific expenditure for a specific beneficiary, they are sometimes referred to as benefit taxes (Welham et al., 2015). As such, the user charges and fees fulfill the principle of fairness because beneficiaries pay only for the goods and services that they are using (Duff, 2004). User charges and fees are also economically efficient in a sense that they ensure that scarce resources are allocated to their most highly valued uses (Bird and Tsiopoulos, 1997).

This means that the willingness to pay for a certain government service reflects the marginal cost of the production of that service. If the willingness to pay is over the marginal costs of providing the bundle of goods and services, government should increase the production. If the willingness to pay is below the marginal cost, government should increase the efficiency of production or should consider investing scarce resources for production in other sectors. On the other hand, given that user charges and fees are regressive, these levies may impose a heavier financial burden on lower-income households than on higher-income ones (Duff, 2004).

Defining sector revenues formally within the overall public revenues is a challenging task. The scope and taxonomy of public revenues may derive from a general public finance point of view or from a fiscal decentralization point of view. Designing sector revenues between levels of government should be carefully considered. Central government is more efficient in providing macroeconomic stabilization and income redistribution than local governments (Musgrave, 1959) and can, thus, rely on general taxation of income, wealth and consumption. For a lower level of government it is more difficult to efficiently redistribute resources. Lower level government's appropriate size of jurisdiction is determined by the "localness" of the public good – the geographical extent of the benefits from the good. The more widespread the benefits, the larger the jurisdiction required to contain all the beneficiaries (O'Sullivan, 2007). That is why it is reasonable to expect that user charges and fees as benefit taxes constitute a larger share in local public finances because lower level governments can reveal specific preferences of specific beneficiaries more efficiently than the central government (Tiebout, 1956, Oates, 1972).

Considering user charges and fees from the political economy aspect is important in order to see who the main actors in the sector revenue mobilization process are and what the formal and informal rules for defining the cost of services, pricing and revenue collection are. The main actors within the budget cycle are line ministries, Ministries of Finance (MoF) and Parliament and also line ministries' budget units, including local governments and councils. In this context, using more user charges and fees, connected with particular expenditures, than general taxation revenues reduces discretionary decision-making of the actors, like the MoF versus line ministries. On the other hand, it may reduce the role of democratic legislatures in amending and approving the overall budget because a certain amount of expenditures and revenues is effectively hypothecated (Welham et al., 2015).

1 Note that "sector" in this paper does not refer to a unit of administrative and/or organizational structure, but rather to the classification of economic activities and/or sectors as per Classification of Functions of Government (COFOG). Furthermore, "sector revenues" and "user charges and fees" are used interchangeably, referring to the same type of revenues.

2 In accordance with the IMF, PUC is a non-financial corporation owned by the government (central or lower level) and thus belonging in the public sector. See more in IMF (2013).

This background also sheds light on cross-cutting fiscal transparency issues because, according to the Open Budget Initiative (OBI), transparency in public finances helps achieve improved efficiency in public spending. Transparency increases the overall credibility of the sector's strategic policies and improves the fiscal discipline (World Bank, 1998). Only transparent presentation of the processes behind the sector's budget preparation and assumptions can help increase citizens' willingness to pay, and their satisfaction and participation in the process.

Developed countries are more fiscally transparent, while transition countries are fiscally less transparent³, as one can see in the International Budget Partnership (IBP) and its Open Budget Index⁴ scores and results (Nikolov and Bogoevska, 2014). The Executive's Budget Proposal, the Enacted Budget and the Final Accounts should, however, be transparent because disaggregated data on revenues presenting user charges and fees allow for an informed public discussion about the economic rationale behind these charges and fees. Transparency helps formulate questions for a full explanation of sector revenue mobilization and spending well in advance of budget enactment and execution and in the audit phase (for central and local governments and line ministries).⁵ Transparency is important also because accountability requires transparency (Johnston, 2002). This is of significance for the analysis of user charges and fees because sector revenues enhance government accountability by linking the supply of public goods and services with the expenditures on these goods and services (Welham et al., 2015) and can facilitate more rational decisions by the voters and members of parliament, thus constraining government actors to these rational decisions (Duff, 2004).

For instance, the use of country systems to absorb aid will require transparent institutions, which are a precondition for sector budget support from potential donors and international finance institutions. Namely, one of the interests of the international development community is to strengthen the quality of fiscal governance through greater government accountability to citizens for the use of public resources (Welham et al., 2015). Good Financial Governance (GFG) recognizes the efficiency and transparency of the state as an integral normative dimension⁶. The budget process should ensure efficient and effective delivery of public services. Transparency throughout planning, implementation and reporting also enables the civil society and oversight institutions to monitor how the money is spent (GIZ, 2014).

STRUCTURE OF THE CHAPTER

This background chapter consists of three sections.

"Section 1: User charges and fees" identifies the revenue sources to be analyzed within the country case studies. We use the International Monetary Fund's Government Finance Statistics (IMF, 2014) in order to achieve consistency and comparability across the country case studies.

"Section 2: Political economy and normative aspects" addresses generic public finance management issues, budget process and budget cycle, with a focus on the practices of transition countries and fiscal decentralization. Our aim is to show that public finance management in transition countries differs from that in developed countries, at least in terms of fiscal transparency. Fiscal transparency and well-informed citizens and voters are recognized as an important issue for transition countries.

"Section 3: Challenges and implications" presents the main challenges in the budget process and budget cycle for revenue mobilization.

The paper concludes with a summary of applications of user charges and fees in Albania, Moldova, Serbia and Germany as an overture to detailed case studies.

3 See more in the IBP, www.internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/country-info/

4 Ibid.

5 For example, the OBI questionnaire includes question No 10 "Does the Executive's Budget Proposal or any supporting budget documentation present the individual sources of non-tax revenue (such as grants, property income, and sales of government-produced goods and services) for the budget year?" as well as question No 11 about the multi-year revenue presentation.

6 The GFG has three dimensions: the normative dimension, the political economy aspects, and the main technical public financial management issues. Through the normative dimension the GFG addresses governance principles, such as pro-poor and sustainable policy design, human rights, state effectiveness, accountability, participation and transparency (GIZ, 2014).

1. USER CHARGES AND FEES

1.1. DEFINING USER CHARGES AND FEES

Sector revenues are wide in range. Their scope and taxonomy may derive from a more general public finance point of view or from a fiscal decentralization viewpoint. In addition, there is the issue of national versus international classifications of revenues, like the IMF's Government Finance Statistics (GFS).

We are not going to address general tax revenues, which are a general source of revenues for the central and local governments that are administered within the tax office of the central government or within the tax departments of local governments. For general taxation there are general fiscal policy goals, while for sector revenues there are more concrete goals of covering the costs of services, changing certain behavior, paying for using public resources or hypothecation. Instead, our focus is on the non-tax revenues, specifically user charges and fees because these are where the revenues of sectors are accounted for.

The category of non-tax revenues is diverse, ranging from international institutions' and foreign governments' grants to funds raised through sales of government-provided goods and services. Different revenues have different characteristics, like who bears the burden of paying the tax or how tax collection is affected by economic conditions. Thus, there is a wide spectrum of non-tax revenues that are considered revenues from sectors. As we are not able to analyze them all here, we narrowed down our subject of analysis to user charges and fees, which is an area wide enough for identifying generic characteristics.

User charges and fees are non-tax revenues and are levied on the basis of a benefit received or a cost imposed on the provision and use of a service (Bahl and Linn, 1992). The main economic reason for levying user charges for benefits from the use of particular public services on direct recipients (whether individuals or businesses) is to make government's use of resources more efficient (Bird and Tsiopoulos, 1997). In contrast to most taxes that are imposed on consumption, wealth or income, user fees are purpose-related, meaning that the revenues generated through them are dedicated to a specific purpose. There are pros and cons for general taxation and for user charges and fees (well reviewed in Duff, 2004) and we are not going to discuss them here.

In the country case studies, we are interested in revenues from sales of goods and services as per the IMF GFS⁷. These involve sales by market establishments, administrative fees charged for services, incidental sales by non-market establishments, and imputed sales of goods and services in administrative fees. Examples include driver's licenses, passports, visas, court fees, and radio and television licenses in case public authorities provide general broadcasting services, sales of products made at vocational schools, seeds from experimental farms, postcards and art reproductions by museums, fees at government hospitals and clinics, tuition fees at government schools, and admission fees to government-owned museums, parks, and cultural and recreational facilities.

1.2. USER CHARGES AND FEES IN THE BUDGET CYCLE

Sector revenues should be analyzed within the budget cycle context. In the planning and enactment phases of the budget cycle the connections between line ministries and Ministries of Finance and those between LMs and their budget units, including local governments, are somewhat less investigated in terms of sector revenues. In Moldova, for example, LMs are required to respect the expenditure ceilings set by the MoF, and when an LM argues that it has greater capacities of revenue collection, the expenditure ceiling usually remains the same, while general revenues are reduced accordingly. Sometimes planning revenues from user charges and fees is constrained by certain principles, like the "ability-to-pay" principle used as a politically correct approach versus the

efficiency principle, as explained in the Serbian case study about environmental fees and charges. As regards the implementation phase of the budget cycle, i.e. collection of revenues, it is important to see how enforcement is conducted: what are the methods of payment and the mechanisms for non-payment. With regard to the former, the Albanian case study offers interesting insight. Namely, some local governments in Albania intend to include the property tax and other local taxes in the water bill. This idea was also put to test in 2004–2006 and showed negative effects, as the rate of tax collection for the use of water dropped by 50%.

In the oversight phase of the budget cycle, the role of the National Audit Office (NAO) should be explained, including information about any past or planned performance audits or irregularities identified. This phase is significant because it directly refers to what the NAO should audit – the efficiency and effectiveness of the use of public resources. In Albania, for example, in some municipalities the NAO has recommended administrative measures against heads of water PUCs who have failed to perform in accordance with the standards.

Fiscal transparency should also be discussed in terms of the comprehensiveness⁸ of user charges and fees. For instance, whether there are any public discussions in Parliament and/or lower level government councils or whether the general public is involved in the budget process when discussing and planning sector revenue sources. In Moldova, decisions on user charges and fees are taken after being consulted with all interested parties in accordance with a well developed regulatory framework on decisional transparency. In practice, there is no significant input from citizens because of their poor capacities and low degree of involvement in the decision-making process. In Albania it is mandatory as of 2015 for PUCs to hold a public hearing 30 days before applying for tariff changes at the water authority.

Such an initiative for citizens' involvement is highly welcome. In former planned economies some services, like water supply, were considered free of charge or were priced lower than the marginal cost of production was. Now, with the change of relative prices for public goods and services, however rationally the charges may be designed, citizens of former planned economies who previously benefited from free or subsidized provision of public goods and services, see user charges as just another tax (Bird and Tsiopoulos, 1997). And since the user charges that are set at marginal cost of production will probably not be matched with reduction in general taxes, it is even more important for heads of PUCs and politicians to be transparent in tariff setting and to encourage citizens' involvement in order to reach reasonable compliance and revenue collection rates.

7 We use IMF GFS's definition to provide for consistency of the classification of revenues across countries.

8 For more information about comprehensiveness in the budget presentation and proper questions related to non-tax revenues as per the OBI, see www.internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/.

2. POLITICAL ECONOMY AND NORMATIVE ASPECTS

2.1. GENERAL POLITICAL ECONOMY ASPECTS

Similar to general government taxes, sector revenues (user charges and fees) are planned and executed within the budget process. The budget is an instrument of economic policy of a (central or lower level) government and it not only involves the Ministry of Finance but the whole public administration. It is thus not only an outcome of a specific budget process presenting finances but it integrates the strategies of different government sectors. If analyzed within the budget process, user charges and fees prone to hypothecation are criticized because they are not flexible and could become excessively rigid and unable to respond to changes in spending priorities (Bird and Jun, 2005).

On the other hand, revenues from user charges and fees constitute a relatively small share in total revenues and the rigidity is somewhat overreacted. Furthermore, user charges and fees that are linked to new priorities or new government programs may provide a platform for public support if the charges and fees are connected with the expenditures on these new priorities or programs (Bird and Tsiopoulos, 1997). Given the complexity of the process, the balancing of the relative power of political actors and in order to enhance GFG, there is a need for efficient and accountable state institutions and financial administrations operating within the rule of law, efficient control institutions and politically and socially anchored oversight mechanisms (GIZ, 2014).

In a developed parliamentary democracy, there is a clear separation between the executive, legislative and judicial powers. The legislator (parliament) has its instruments (the NAO for ex-post financial scrutiny, fiscal councils for ex-ante scrutiny and finance or budget committees) with a capacity to hold the government accountable. Holding the government and line ministries accountable comes as pressure from informed voters and citizens. But accountability requires political energy too: people, interest groups, civil society, courts, the press, and opposition parties must insist that those who govern follow legitimate mandates and explain their actions (Johnston, 2002). The independent media, freedom of information and whistle-blowing policies are important to increase transparency and to inform citizens and voters about the quality and sustainability of public finance management in their country, thus increasing further the pressure for higher accountability from the executive power (government, line ministries and PUCs) on how they generate revenues and plan expenditures.

The fiscal sociology literature recognizes that states applying broad-based taxation of their citizens will, over time, spend these revenues on what the citizens demand (Welham et al., 2015). There is thus a clear and functional fiscal contract in most developed countries. What we want to stress here is that “over time” is important in transition countries because Serbia, Moldova and Albania, the subjects of our case studies, are young democracies compared to the majority of EU countries. The main question is whether an increase in tax revenues can lead to the expansion of responsiveness and accountability by providing incentives for citizens and the government to enter into a fiscal contract in which citizens accept and comply with benefit taxes in exchange for government provision of effective services (Welham et al., 2015).

In young democracies in transition, where the relative prices for goods and services are changing (user charges and fees are introduced for goods and services that were provided free of charge or at subsidized prices during the times of planned economy), the quality of public services is lower than in old democracies. That is why the political economic importance of sector revenues, i.e. user charges and fees, is even higher.

2.2. DECENTRALIZATION AND USER CHARGES AND FEES

Decentralization can be an instrument for increasing government accountability and developing efficient and accountable institutions. A government that is closer to its citizens can easily identify the preferences of citizens and provide for the right package of public goods and services (Musgrave, 1959). Moreover, lower level governments can produce the same goods and services at lower costs than central governments. That is why fiscal decentralization plays a significant role in the structure of public finances of a country.

Decentralization transfers authority and responsibility for public functions from the central government to local governments. In a country with fiscal decentralization, local governments assume financial responsibility for the assignment of expenditures. Thus, local governments need to expand and administer their own source revenues to be able to generate additional tax and non-tax revenues. This is also a requirement of the European Charter for Local Self Government.

For the lower level government it is more efficient to rely on user charges and fees because having revenues generated from general taxation and devoted to redistributive expenditures is not efficient for the mobile local tax base (Musgrave, 1959). Even better, increased reliance on sector revenues tends to be accompanied with reductions of transfers from the central to the lower level government (Duff, 2004). Thus, a higher share of user charges and fees in total revenues helps the lower level government decrease its fiscal dependence on the central government. However, we must be careful when analyzing the effects of fiscal decentralization. This is because decentralization is considered a superior good (one that is common to industrial countries) and there is a relatively higher level of per capita income at which decentralization and its benefits can be better absorbed in developed countries than in countries with relatively lower level of per capita income (Martinez-Vazquez and McNab, 2002).⁹

The political economy at local government level largely relies on relations between mayors, local government councils and PUCs. Sometimes, the political affiliation of the mayor with the political affiliation of the central government or the political affiliation of the mayor with the political affiliation of the city council may affect the efficiency of the delivery of public services at local level (Nikolov, 2013). Political affiliation can be relevant for the efficient delivery of public services because of the political family effect (Vanden Eeckhout et al., 1993) or because of playing zero-sum political games that can delay decisions about projects.

Similarly, this should be analyzed in the context of the management of PUCs and of the mayor and the city council. This is very important because a significant portion of local government services are provided through PUCs and an analysis of tariff setting and cost coverage of these services from PUCs' revenues is necessary and subject to discussion (how tariffs are set, calculated and approved; who calculates and approves them; are there willingness and ability to pay; what are the revenue collection rates etc.).

It is also necessary to consider political sensitivity in the decision-making process when pricing should reflect long run costs. Sometimes, this can be too politically sensitive so that economic decisions are highly correlated with short-term political cycles at the cost of not taking into consideration the long run costs of services. This “bad pricing” can easily become the enemy of good policy in general and for sure can lead to deterioration of public assets, so it is worth taking the effort needed to ensure that the right charges and fees are applied to the right services (Bird and Tsiopoulos, 1997).

In a decentralized system, “bad pricing” might stall devolution at local governments and create pressure for mayors to ask the central government to make politically sensitive decisions about price increases on their behalf, implicitly diminishing the importance of devolution and pushing for more centralization. To illustrate this with an example: when tariffs for water supply are kept lower than the marginal costs for political reasons, the management of a PUC would ask the municipality or the ministry for subsidies instead of proposing tariffs that would reflect cost coverage and increase productivity and labor efficiency at the PUC.

⁹ For challenges of absorbing the benefits of decentralization in transition countries see Nikolov 2013.

3. CHALLENGES AND IMPLICATIONS

Challenges for sector revenue mobilization can be analyzed within the budget process and the budget cycle. There are also challenges related to the lack of political will for more transparency and accountability, and lack of public participation in the budget process. This is important because ministries must be able to carry out transparent budget planning in order to obtain the necessary funds and disburse funds in an efficient and development-oriented manner (GIZ, 2014).

The budget process needs to be well integrated with the management and planning processes of the government. Once the national objectives are announced in the pre-budget statement (fiscal strategy), the line ministries and local governments should not wait till the last moment when the budget circular is sent by the Ministry of Finance. Revenue planning at sector and lower government levels can start immediately once the national objectives and priorities are announced. The line ministries should analyze the profile of the clients they serve and their ability and willingness to pay for the provided goods and services. In analyzing the ability and willingness to pay, it is necessary to connect these with the level of user charges and fees, and to see if they also reflect the cost coverage.

As many result indicators as possible should be defined and proper costing of services should be calculated. From an administrative point of view, sectors should define a strategy on how to set better priorities and prepare for negotiations with the Ministry of Finance on the resources necessary to achieve the pre-set result indicators for the priorities to serve the citizens. These negotiations might affect the expenditure ceilings and the planning of revenues, as reported in Moldova's case study.

3.1. APPLICATION OF USER CHARGES AND FEES IN THE CASE STUDIES

Our research includes three country case studies (Serbia, Moldova and Albania) developed by selected national experts. A separate case study will be developed for Germany. The main objective of these country reports is to acquire a sound understanding of the challenges and best practices with respect to the management of fees and charges levied at sector level. Another objective is to elaborate on the purpose of revenues; for example, is it to recover administrative costs, get additional net revenues or to penalize or contain undesired economic behavior. The country reports also present the amount of user fees and charges revenues generated by line ministries, lower level governments and/or PUCs.

The Serbian case study focuses on the public finance management practices related to the charges for products that after use become special waste revenues. The Albanian case study concentrates on revenues from the provision of water supply services. The Moldovan case study is about health sector revenues. The German case study addresses the new national reform law on fees and charges which aims at unifying the guidelines for (sectoral) fees. Another focus of the German case study is the German transportation sector and the toll system.

In Albania, revenues from sales of goods and services are generated mostly from administrative fees and incidental sales by non-market establishments. In 2010–2014, Albania generated on average 3.4% of its total revenues from the sales of goods and services, both at central and local level, or at around 0.86% of GDP. These include revenues from school tariffs; consular tariffs, TV tariff, service tariff for radio communications, service tariff for the circulation of foreign registered cars, administrative and court tariffs, other administrative and national regulation tariffs, registration tariffs at university and notary's tariff. In terms of sector revenues, the Ministry of Education and Sports generates 49.5%, the Ministry of Finance 36.2% and the Ministry of Health 5.3% of total revenues.

In Moldova, revenues from sales of goods and services have dropped from 5.2% in 2012 to 3.1% in 2014 of total general government revenues, because of excluding higher education services from the budget starting with 2013. These include revenues from paid services, lease of public property, donations, sponsorships and other revenues collected by budgetary institutions. About

three quarters of total revenues from sales of goods and services are administered at central level. Under the functional aspect, four sectors (education, general public services, health and justice) generate about 87% of total collected revenues from sales of goods and services.

In Serbia, revenues from sales of goods and services are mostly generated by the sectors: justice, defense, and general economic and commercial affairs. The majority (58%) of the revenues comes from administrative fees, like court fees, various fees/charges related to gambling, and charges for veterinary and sanitary checks; 39% of the revenues come from cadastral services and sales of goods and services by the military. What is interesting about Serbia is that in 2010, central government revenues from charges rose by two times compared to two years before, mostly because of the government's strategy not to increase taxes in the wake of the global financial crises, and the absence of a policy regulating the charges.

The Annex to this paper shows GFS data for Albania, Bulgaria, Croatia, Germany, Macedonia, Moldova and Serbia, with 2013 as the last year for which data are available. In order to indicate the share of revenues from goods and services in total revenues, we present data for the general government, budgetary central government, central government, extra-budgetary central government and local government.

We selected Albania, Moldova, Serbia and Germany for the case studies. In addition, we present the share of revenues from sales of goods and services for the latest countries that joined the EU – Bulgaria and Croatia – because they belong to the Western Balkans and Croatia used to be part of former Yugoslavia like Serbia and Macedonia. Thus, these countries form a cluster for a possible peer review. The share of revenues from sales of goods and services in total revenues in 2013 as per the IMF GFS is less than 10% and ranges from 3.19% in Moldova to 7.68% in Germany. In Serbia the share is 3.98% and in Albania 3.51%.¹⁰

¹⁰ Figures quoted in country studies may vary somewhat due to use of more recent data during the research phase and to any differences between IMF and national classifications.

CONCLUSION

This background paper and the case studies should be useful to anyone interested in understanding the challenges in revenue mobilization and management in sectors, in particular relating to fees and charges. Determining the proper domain and design of user charges and fees in practice is not easy (Bird, 2003). While general government taxes are not specifically assigned to cover any specific government function, sector revenues (fees and charges) cover costs for providing services or the consumption of specific government-provided goods or services for a specific beneficiary.

User charges and fees are an efficient tool to raise additional revenues but should be carefully analyzed, designed and implemented in transition countries. Even though in theory considered efficient, the willingness to pay for user charges and fees might still be low in transition countries because they might be considered as just another tax for the citizens that previously were enjoying public goods and services free of charge or at subsidized level. User charges and fees are political instruments and as such they are inherently hard to change and tend to prevail until the political circumstances change (Bird, 2003).

Theoretically, user charges and fees should be imposed only where the value of publicly provided goods and services with these charges and fees exceeds the value of the same goods and services that the beneficiary could otherwise obtain in the private sector (Duff, 2004). In the Moldovan health sector, fees for medical services provided by public entities are lower than those of private suppliers and in theory there is justification for introducing user charges and fees in the health sector because, as per the theory, the beneficiaries are receiving higher value for lower prices in the public health sector.

However, there are two problems with this application of the theory. First, there is no evidence as to which services are of better quality (as reported in the Moldovan case study): public or private health services. The quality of services is significant because introducing or increasing health fees may have a negative impact on health service utilization but when implemented with quality improvements these new or increased health fees could be beneficial for health service utilization (Palmer, 2011). This supports the importance of conducting citizen satisfaction surveys and customer profile analyses in line ministries and public spending units during public strategic planning and budget preparation.

The second problem lies in informal out-of-pocket payments¹¹ in the Moldovan health sector. Moldova could introduce formal fees as a strategy to replace informal out-of-pocket payments but formal payments in public facilities are not consistent with the current approach of universal primary care access (Vian et al., 2014). Our conclusion here is that the theory should be carefully considered with respect to the differences between developed and transition countries.

Transparency in budgeting is vital because transparent presentation of the process behind budget planning and assumptions can help increase citizens' willingness to pay and participate in the process. This aspect is important to see who are the main actors in the sector revenue mobilization and what are the formal and informal rules for defining the cost of services, pricing and revenue collection. Pozdena (2014) argues that the total cost of public services would decline by making users of services and facilities aware of the costs associated with their use, and spending would be limited only to those services for which consumers get benefits commensurate with their user costs. Bird, (2003) stresses the importance of transparency and citizen participation for more reasonable and acceptable user charges and fees by providing adequate process of consultation with beneficiaries and review by the public.

A well established and transparent budget process and a timely budget circular are even more important in young democracies but also the negotiations between the Ministry of Finance and line ministries are essential. The negotiations usually address the financial part of the budget, i.e. the budget limits rather than the policies and priorities. Namely, when budgets are prepared within line

¹¹ A direct contribution, which is made in addition to any contribution determined by the terms of entitlement, in cash or in-kind, by patients or others, acting on their behalf, to health care providers for services that the patients are entitled to.

budgeting rather than result-oriented budgeting, the negotiations or bargaining is rather about the budget limits, and not about the results that should be achieved with the use of public resources. This can easily end in diminishing the efficiency and effectiveness of the engaged public resources simply because the process is not oriented to goals, objectives, results and concrete beneficiaries but only to finances.

Furthermore, even though in theory user charges and fees are expected to enhance accountability (by linking the supply of specific goods and services with user charges and fees), it is unlikely to happen in transition countries with low fiscal transparency. Also, the poverty rates in transition countries are relatively higher than in developed countries, and given that user charges and fees are regressive this could impose a heavier financial burden on lower-income households. In that regard, policy-makers should be careful when introducing user charges and fees in transition countries and should take into account the potential increased burden on the most vulnerable and poorest.

In fiscal decentralization, careful consideration of the subsidiarity principle and the geographical extent of the benefits from public goods and services could be the criteria for introducing user charges and fees. Namely, with decentralization the preferences of citizens (i.e. beneficiaries of public services) are clearly revealed and that is why it would be more efficient to introduce user charges and fees as benefit taxes at lower level of government.

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ANNEX: GFS DATA FOR SELECTED COUNTRIES (%)

Albania	General government	Budgetary central government	Central government (including social security funds)	Extrabudgetary central government	Local governments
	2013	2013	2013	2013	2013
Revenue	100.00	100.00	100.00	N/A	100.00
Tax revenue	72.78	89.73	72.91	N/A	16.49
Social contributions	17.85	0.00	18.53	N/A	0.00
Grants revenue	1.88	2.36	1.92	N/A	76.45
Grants revenue from foreign govts	0.61	0.78	0.63	N/A	-0.02
Grants revenue from int orgs	1.27	1.58	1.28	N/A	0.20
Grants revenue from other gen govt	0.00	0.00	0.00	N/A	76.27
Grants revenue from other gen govt: current	0.00	0.00	0.00	N/A	69.17
Grants revenue from other gen govt: capital	0.00	0.00	0.00	N/A	7.10
Other revenue	7.49	7.91	6.65	N/A	7.05
Property income revenue	2.37	2.84	2.40	N/A	0.36
Revenue from sales of goods & services	3.51	3.29	2.69	N/A	5.91
Revenue from fines, penalties & forfeits	0.76	0.76	0.72	N/A	0.45
Revenue from other transfers	0.86	1.03	0.84	N/A	0.34
Revenue from NI & SGS: premiums, fees & claims	0.00	0.00	0.00	N/A	0.00

Bulgaria	General government	Budgetary central government	Central government (including social security funds)	Extrabudgetary central government	Local governments
	2013	2013	2013	2013	2013
Revenue	100.00	N/A	100.00	N/A	100.00
Tax revenue	55.11	N/A	59.56	N/A	10.31
Social contributions	20.37	N/A	22.98	N/A	0.00
Grants revenue	0.00	N/A	0.00	N/A	0.00
Grants revenue from foreign govts	0.00	N/A	0.00	N/A	0.00
Grants revenue from int orgs	0.00	N/A	0.00	N/A	0.00
Grants revenue from other gen govt	0.00	N/A	0.00	N/A	49.35
Grants revenue from other gen govt: current	0.00	N/A	0.00	N/A	49.35
Grants revenue from other gen govt: capital	0.00	N/A	0.00	N/A	0.00
Other revenue	0.00	N/A	0.00	N/A	0.00
Property income revenue	2.63	N/A	2.57	N/A	1.67
Revenue from sales of goods & services	6.92	N/A	6.06	N/A	6.93
Revenue from fines, penalties & forfeits	0.00	N/A	0.00	N/A	0.00
Revenue from other transfers	0.00	N/A	0.00	N/A	0.00
Revenue from NI & SGS: premiums, fees & claims	0.00	N/A	0.00	N/A	0.00

Germany	General government	Budgetary central government	Central government (including social security funds)	Extrabudgetary central government	Local governments
	2013	2013	2013	2013	2013
Revenue	100.00	100.00	100.00	100.00	100.00
Tax revenue	59.18	58.06	56.26	0.00	72.08
Social contributions	29.51	34.21	33.15	0.00	0.00
Grants revenue	1.41	1.60	1.56	32.86	13.10
Grants revenue from foreign govts	0.01	0.01	0.01	0.00	0.02
Grants revenue from int orgs	1.40	1.59	1.55	0.06	0.19
Grants revenue from other gen gov	0.00	0.00	0.01	32.81	12.89
Grants revenue from other gen gov: current	0.00	0.00	0.00	0.03	10.49
Grants revenue from other gen gov: capital	0.00	0.00	0.00	32.78	2.39
Other revenue	9.90	6.13	9.02	67.14	14.82
Property income revenue	2.24	1.61	1.72	3.59	5.62
Revenue from sales of goods & services	4.24	1.65	3.91	50.34	6.00
Revenue from fines, penalties & forfeits	0.48	0.54	0.52	0.00	0.14
Revenue from other transfers	2.94	2.34	2.87	13.20	3.06
Revenue from NI & SGS: premiums, fees & claims	0.00	0.00	0.00	0.00	0.00

Bulgaria	General government	Budgetary central government	Central government (including social security funds)	Extrabudgetary central government	Local governments
	2013	2013	2013	2013	2013
Revenue	100.00	100.00	100.00	100.00	100.00
Tax revenue	51.50	93.07	40.26	1.78	38.96
Social contributions	37.30	1.29	54.41	5.34	1.52
Grants revenue	0.41	1.40	0.81	55.43	36.21
Grants revenue from foreign govts	0.00	0.00	0.00	0.00	0.00
Grants revenue from int orgs	0.41	0.32	0.15	0.21	0.00
Grants revenue from other gen gov	0.00	1.07	0.65	55.22	36.21
Grants revenue from other gen gov: current	0.00	1.05	0.00	54.06	31.12
Grants revenue from other gen gov: capital	0.00	0.02	0.00	1.16	5.08
Other revenue	10.80	4.24	4.52	37.44	23.31
Property income revenue	1.56	1.07	1.26	11.95	1.79
Revenue from sales of goods & services	7.68	3.00	2.94	24.83	17.30
Revenue from fines, penalties & forfeits	0.42	0.12	0.05	0.00	1.27
Revenue from other transfers	1.13	0.05	0.27	0.66	2.96
Revenue from NI & SGS: premiums, fees & claims	0.00	0.00	0.00	0.00	0.00

Macedonia	General government	Budgetary central government	Central government (including social security funds)	Extrabudgetary central government	Local governments
	2013	2013	2013	2013	2013
Revenue	100.00	100.00	100.00	100.00	100.00
Tax revenue	60.05	91.61	59.60	11.37	37.71
Social contributions	27.38	0.00	28.66	0.00	0.00
Grants revenue	0.52	0.07	0.48	21.47	46.57
Grants revenue from foreign govts	0.34	0.00	0.28	3.37	0.84
Grants revenue from int orgs	0.18	0.00	0.15	1.76	0.43
Grants revenue from other gen gov	0.00	0.07	0.04	16.34	45.30
Grants revenue from other gen gov: current	0.00	0.07	0.04	0.00	42.04
Grants revenue from other gen gov: capital	0.00	0.00	0.00	16.34	3.26
Other revenue	12.05	8.32	11.26	67.16	15.72
Property income revenue	3.49	5.52	3.56	0.68	1.08
Revenue from sales of goods & services	6.87	2.18	6.24	57.19	11.13
Revenue from fines, penalties & forfeits	0.19	0.31	0.19	0.01	0.01
Revenue from other transfers	1.50	0.32	1.27	9.29	3.51
Revenue from NI & SGS: premiums, fees & claims	0.00	0.00	0.00	0.00	0.00

Moldova	General government	Budgetary central government	Central government (including social security funds)	Extrabudgetary central government	Local governments
	2013	2013	2013	2013	2013
Revenue	100.00	100.00	100.00	N/A	100.00
Tax revenue	62.15	82.42	57.43	N/A	47.03
Social contributions	26.35	0.00	30.20	N/A	0.00
Grants revenue	5.28	9.80	6.82	N/A	47.57
Grants revenue from foreign govts	5.28	8.44	5.88	N/A	0.57
Grants revenue from int orgs	0.00	0.00	0.00	N/A	0.00
Grants revenue from other gen gov	0.00	1.36	0.94	N/A	47.00
Grants revenue from other gen gov: current	0.00	1.24	0.87	N/A	43.90
Grants revenue from other gen gov: capital	0.00	0.12	0.08	N/A	3.10
Other revenue	6.22	7.79	5.55	N/A	5.40
Property income revenue	2.07	2.74	2.01	N/A	1.24
Revenue from sales of goods & services	3.19	3.96	2.77	N/A	3.05
Revenue from fines, penalties & forfeits	0.58	0.79	0.56	N/A	0.35
Revenue from other transfers	0.37	0.29	0.20	N/A	0.76
Revenue from NI & SGS: premiums, fees & claims	0.00	0.00	0.00	N/A	0.00

Serbia	General government	Budgetary central government	Central government (including social security funds)	Extrabudgetary central government	Local governments
	2013	2013	2013	2013	2013
Revenue	100.00	100.00	100.00	100.00	100.00
Tax revenue	59.24	88.41	56.38	60.27	56.55
Social contributions	30.46	0.00	35.54	0.00	0.00
Grants revenue	0.21	0.31	0.19	30.88	26.22
Grants revenue from foreign govts	0.03	0.04	0.02	0.00	0.07
Grants revenue from int orgs	0.18	0.27	0.17	0.00	0.17
Grants revenue from other gen govt	0.00	0.00	0.00	30.88	25.98
Grants revenue from other gen govt: current	0.00	0.00	0.00	30.88	24.25
Grants revenue from other gen govt: capital	0.00	0.00	0.00	0.00	1.73
Other revenue	10.09	11.28	7.89	8.86	17.23
Property income revenue	3.79	3.65	2.28	0.42	9.51
Revenue from sales of goods & services	3.98	4.90	3.23	8.37	6.26
Revenue from fines, penalties & forfeits	0.39	0.59	0.37	0.00	0.39
Revenue from other transfers	1.93	2.15	2.01	0.07	1.07
Revenue from NI & SGS: premiums, fees & claims	0.00	0.00	0.00	0.00	0.00

REVENUE MOBILIZATION AND MANAGEMENT IN SECTORS

CASE STUDY ON THE WATER SECTOR IN ALBANIA

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INTRODUCTION

Albania, a formerly closed and centrally planned state, is steadily progressing towards a more modern open-market economy. Albania managed to withstand the initial effects of the 2008 global financial crisis, but in the recent years its GDP growth rate has been declining. Slow GDP growth, coupled with an high public spending and borrowing program, has led to a large accumulation of public debt, from 55.1% of GDP in 2008 to 70.4% of GDP in 2013.¹ In order to tackle this negative trend, the new government, formed after the 2013 elections, has embarked on an IMF program in order to sustainably improve Albania's economic and fiscal position in the medium and long term.

As per agreement with the IMF, Albania has undertaken some important structural reforms in the key sectors – energy, education, pensions and local administration – with the aim to create some fiscal space. In line with this aim, it has increased some tax rates, such as the corporate income tax and some national taxes or contributions rates for certain categories of employers. However, further increases in tax rates are not considered feasible² by the Albanian Government, as the focus has shifted towards improving and increasing the overall revenue collection through tax and customs administration.

The aim of this study is to analyze the revenues generated by the public entities in Albania and to explore alternatives in improving their scope, collection and management. A special focus will be given to the revenues generated from sales of goods and services, according to GFS classification. The rationale for this stems from up-to-date evidence that shows the share of revenues from sales of goods and services (on average 1.8% of GDP) to be substantially lower than the share of tax revenues (on average 24% of GDP).³ Sales of goods and services by public entities is done through fees and charges, paid by different types of taxpayers/citizens when they receive a public service or buy a public good/service from any public entity. According to Article 17 of the Law No. 8485, dated 12.5.1999, “The Code of Administrative Procedures” (amended), public services are free of charge, unless provided otherwise by a separate law. Thus, all the fees and charges for sales of public goods and services have to be set by a single law or different ones.

Besides central government institutions, also local institutions are important in analyzing revenues from sales of goods and services, as they constitute more than 20% of the total revenues from sales of goods and service (see Annex 1). In the last years, significant improvements have been made in terms of decentralization in Albania. In 2014, the Administrative-Territorial reform⁴ was approved, reducing the number of local administrative units (mostly small and fragmented municipalities and communes) by 373 to only 61 big municipalities. The administrative units were approved ahead of the decentralization reform, for the simple reason that the local elections of June 2015 were based on the new territorial administrative units. The decentralization reform, approved in September 2015, reflected into a new law on LG organization and functioning under a new name: Self Governance of Local Government. In September 2015, the government issued a decision on how to transfer and finance new exclusive functions at LG level.⁵

Based on the new legal framework, seven new functions have been transferred to municipalities. In order to give local governments time to conduct the necessary analysis and monitoring of the new functions in 2016 and the consecutive two budget years, it is foreseen that these new functions are financed through specific budget transfers, defined for every single municipality for every transferred function. But even these local budget increases are insufficient for local governments to provide high-quality services for the new functions.^{6, 7} As stipulated in Annex 4 of the law No. 147/2015 “On the state budget 2016”, the local government has to add resources from its own revenues to increase the service quality of transferred functions. According to the

interviews with MoF officials, none of the local governments, however, is satisfied with the additional special transfers they took for 2016.

The reduction in the number of LGUs is expected to increase the efficiency of local governments by lowering administrative costs. The concentration of human and financial resources in a smaller number of larger LGUs is expected to increase the efficiency of public services by enhancing the ability of local governments to respond to the priorities of their citizens. The transfer of additional responsibilities for delivering day-to-day public services to larger LGUs should allow the national government to focus more of its energy on the strategic, legislative, and policy-making functions of the state, including the goal of balanced territorial development.

Some major municipalities have already started to review the fees and charges.⁸ The 2016 fiscal package of Tirana Municipality includes the revision of service tariffs for the usage of public spaces: parking tariffs, license tariff for energy products trade, cleaning tariffs, new temporary tax on education infrastructure etc., accompanied by the contestation of the business community and general media overall.⁹

Our goal is to analyze the past and current trends of revenues from fees and charges generated by line ministries (LM) and give recommendations on how to best improve Albania's current situation and ongoing processes. More specifically, we focus on how the fees and charges are set, reviewed and monitored; how they have responded to the quality of services over the years, and how public entities can improve their collection rates. Special attention is devoted to water tariffs due to the monopolistic nature of this sector and the fact that water suppliers are publicly owned.

1 Source: Macroeconomic and Fiscal Framework 2017–2019, Ministry of Finance, www.financa.gov.al

2 www.noa.al/artikull/cani-ne-korce-rritja-e-taksave-nuk-eshte-ne-axhenden-e-qeverise/551333.html

3 Source: Ministry of Finance, www.financa.gov.al

4 Law No. 107/2014 “For the territorial planning and development”

5 Law No.139/2015 “On local self governance”

6 Explanatory Note of the Draft Budget Law 2016 available at www.financa.gov.al/programs/Budget (in Albanian only) and the fiscal package 2016

7 www.shekulli.com.al/p.php?id=333785 (in Albanian only)

8 www.dpttv.gov.al/DocumentFile/Legislacioni/Vendim%20Nr.59%20date%2030.12.2015%20Sistemi%20i%20taksave%20dhe%20tarifave%20vendore%20.pdf (in Albanian only)

9 www.gazetatema.net/web/2016/02/23/biznesi-i-vogel-ne-proteste-per-taksat-e-reja-te-bashkise-tirane/ (in Albanian only)

1. ANALYSIS OF COUNTRY-SPECIFIC QUESTIONS

1.1. REVENUES FROM SALES OF GOODS AND SERVICES: MAIN CHARACTERISTICS AND PAST PERFORMANCE

The planning, execution and monitoring of the revenues generated from Albania's budgetary institutions, at central and local level, is part of the budget process. The process of budget planning, execution and monitoring is prescribed by Law No. 9936, dated 26.6.2008, "On the management of the budgetary system in the Republic of Albania" and Minister of Finance's Instruction No. 8, dated 29.3.2012, "On the standard procedures for the preparation of the Medium Term Budget Program (MTBP)" and related implementation acts.

The central government units (CGU) prepare and submit to the Ministry of Finance (MoF) their budgetary requests and additional budgetary requests for the annual budget and mid-term budget. CGUs should include in their budgets also their estimation of revenues generated from their fees and charges, using a separate format for that. The estimation is done by the head of the finance department in cooperation with the related unit that collects the respective fee and/or charge.

The 2011 PEFA assessment¹⁰ concludes that for the indicators intended to capture the "outcome" of public financial management the results were less positive. Actual overall revenues deviated substantially from forecasted/planned revenues, and the composition of actual expenditures deviated substantially and systematically from budgeted expenditures.

Revenues from sales of goods and services are a separate item under the "non-tax revenues" category in the Fiscal Table¹¹. For 2010–2014, revenues from sales of goods and services provide on average 49% of total "non-tax revenues". Annex 1 shows revenues from the sales of goods and services in 2010–2014, according to GFS classification. In 2010–2014, Albania generated on average 3.4% of its total revenues from "sales of goods and services", both at the central and local level, or at around 0.86% of GDP.

Revenues from sales of goods and services are generated mostly from "administrative fees" and "incidental sales by non-market establishments". The share of revenues from "administrative fees" is 78.4% of total revenues from sales and services, while revenues from "incidental sales by non-market establishments" stand at 18.1% of the total. Revenues from "sales of market establishments" are at a very insignificant level of 2.6% of the total, due to the underdevelopment of the public agricultural/cultural sectors. No revenues are generated from the imputed sales of goods and services neither at the central nor the local level.

The main sub-categories of revenues included in "administrative fees" are school tariffs, consular tariffs, TV tariff, service tariff for radio communications, service tariff for the circulation of foreign registered cars, administrative and court tariffs, other administrative and national regulation tariffs, registration tariffs at university and notary's tariff.

In terms of institutional responsibility, the CGUs that generate the most revenues from administrative fees are the Ministry of Education and Sports (MoES) with 49.5%, the MoF with 36.2% and the Ministry of Health (MoH) with 5.3% of the total. Looking at the lower levels of CGUs, the ones that generate the most revenues are public universities (school tariff and tariff of registration at university) and the Directorate-General of Taxation (DGoT) (service tariff for the use of TV).

The main sub-categories of revenues included in the "incidental sales by non-market establishments" are health and hospitality services, sale of tickets for urban transport and tax bills, parking, publications, chemical and biological analysis, and entrance fees (e.g. museums, cultural and historical centers). The CGUs that generate the most revenues from "incidental sales by non-market

10 ALBANIA – Public Expenditure and Financial Accountability Assessment (PEFA) 2011

11 Fiscal table comprises the main fiscal and budget indicators for a specific year (budgeted or actual)

establishments" are the MoH with 25.8%, the MoF with 11.7%, the Ministry of Interior with 6%, the MoES with 4.5% and the Ministry of Culture with 3.9% of the total.

The main sub-categories of revenues from "sales of market establishments" are tariffs for renting buildings, tariffs for renting equipment and sale of agricultural products. The CGUs that generate the most revenues are the Ministry of Agriculture with 10.2%, the MoES with 10.8%, the MoF with 10.1% and the MoH with 10.3% of the total.

Annex 2 describes the main tariffs according to GFS classification, including their importance, establishment and revision.

1.2. POLITICAL ECONOMY AND NORMATIVE ASPECTS

Most of the fees and charges are established in the Joint Instructions between the MoF with the respective ministries, orders of the Minister of Finance, or orders of the minister of the respective line ministry. There is lack of monitoring of how the fees and charges are established and collected. This is due to the fact that all the laws give the Council of Ministers or the respective minister the discretion to define the tariffs, thus not granting the Parliament with a specific task to monitor the whole process. Even the Supreme State Audit does not conduct sufficient analysis of the establishment and collection of the fees and charges during their annual audits at LMs and LLGs. Instead, the audits mostly focus on the dividends of the central bank, while usually reporting small irregularities related to the usage of the 10% share by the institution which collects the fee and/or charge.

1.2.1. METHODOLOGY OF TARIFF SETTING

There is no written instruction/methodology for calculating the cost of a tariff. Except for the law on higher education and the law on health care that provide some principles for setting respective tariffs, the rest falls under the discretion and judgment of the LMs and the MoF. Fees and charges are reviewed spontaneously and there is no discussion with the third parties (i.e. citizens, businesses, social groups). Many of the implementing acts regarding these fees and charges are not published in the Official Gazette, thus leaving it to LMs to publish them on their official websites, which is not always the case. Some of the tariffs are very old, and according to the interviews conducted for this research paper, in some cases the main rationale for changing them is that they are deemed to be low given the current economic situation.

Sometimes, the indexation with the inflation rate is used to increase certain tariffs. The rest have not been reviewed at all for the past ten years, including fees for chemical analyses, photocopies, consular tariffs, license drivers, museum tickets, customs tariffs, radio and television licenses, and tariff for radio communications services. The consequence of not revising the existing tariffs periodically is that many of the existing fees and charges have lost purpose and should not be applied at all, such as the photocopies tariff or customs tariffs for printing EURO1 certificate.

There is no formal timeframe or periodicity for the revision of fees and charges. It exclusively depends on the internal policies and rules of the respective LM or head of LLG. Due to the fact that the majority of these tariffs are approved with the Joint Instruction between the MoF and LMs or Orders of the Minister, LMs themselves do not include or foresee any increase or reduction of their fees and charges in their estimations. Currently, there is no single case where the MoF has officially opposed any proposal for increasing or decreasing current tariffs related to a specific LM.

Besides LMs, public utility companies (PUC) generate revenues, as their main activity is the provision of direct services or goods to the third parties. In Albania, PUCs (e.g. water utility companies) are state joint stock companies under the responsibility of the Ministry of Economy or a local government. In terms of revenue generation, the dividends that they have to pay to the state are very low, at around ALL 1 billion, annually. According to the reports of the Supreme State Audit, there are a lot of financial issues with regard to these companies. Many of them do not have proper standards for calculating their tariffs. The below case study on water tariffs will highlight some of the main issues related to tariff calculation and performance management.

1.2.2. CORRELATION OF LM REVENUES WITH THE BUDGET CEILINGS

As regards the use of revenues from fees and charges collected by LMs, there is no relation at all between the revenue amounts generated from the tariffs and the budgetary ceilings that LMs receive from the MoF. Based on the interviews conducted for this paper, the estimations of LMs for revenues from their fees and charges are actually never discussed with the MoF and they do not serve as a base of negotiations for budgetary expenditure. According to the heads of finance units at some LMs, the estimations are just done to formally comply with the budgetary procedure. Normally, they try to give lower estimations¹² because it has no influence on the negotiation with the MoF for obtaining higher or lower budgetary ceilings.

CoMD No. 432, dated 28.6.2006, "For the generation and administration of revenues of budgetary institutions" sets out the rules for revenues generated by LMs from their primary or secondary activity and their distribution in the state budget. This CoMD serves as a legal basis for LMs and LLGs to set tariffs for the services that they offer apart from their primary activity, thus not being in line with Article 17 of "The Code of Administrative Procedures" mentioned above.

The distribution of revenues is based on the type of revenues:

1. Revenues from the primary activity of an institution, such as license permits or certificates, go 100% to the state budget. The tariffs should be set by a CoMD;
2. Revenues from the secondary economic activity (for offering services to others) – the institution can use up to 30% of the revenues to cover its administrative costs. The tariffs should be set by an Instruction of the MoF based on the proposal of the line ministry. In the majority of cases, 10% of the revenues go to the institution and 90% to the state budget;
3. Revenues from economic activity for which no state budget expenditure is foreseen – 10% of the revenues go to the state budget and 90% is kept by the institution to cover the costs. The tariffs should be established in the Joint Instruction between the MoF and the line ministry.

Apart from the budgetary principle that the MoF controls LMs' revenue generation, the approval of the tariffs by the MoF is done on an ad hoc basis, as the MoF has no capacity to estimate the cost of a service, especially in the absence of specific rules for this purpose. Based on the interviews, the above-mentioned CoMD has demotivated LLGs and even LMs to pay enough attention to the tariffs that they collect, due to the fact that everything goes to the state budget. Even in case LMs get 10% of the total revenue generated from a specific tariff, the amount is so low that it does not give the necessary motivation to improve the quality of the service or to explore opportunities for offering new services.

There are cases where lower level institutions, such as the Central Technical Inspectorate¹³ under the Ministry of Energy and Industry, generate revenues that cover 100% of their annual budgetary expenditure, based on the existing level of tariffs. This inspectorate generates revenues that are equal to the overall expenditure that is incurred in a budget year. This is just a comparison, as the inspectorate's total expenditures are financed by the state budget and not by the tariffs that they collect. These institutions are not motivated at all to improve their services, revise the tariffs or enforce the collection of tariffs as long as their budget ceilings are set by the LM and all tariff revenues go to the state budget.

Another example is the National Agency for the Tobacco Degustation under the Ministry of Agriculture. The tariff for tobacco analysis has been unchanged for ten years¹⁴, despite the fact that this kind of analysis is very important for customs duty purposes. This agency is under-financed, while the use of revenues from the tobacco analysis tariffs is not even considered as a financing tool.

¹² Law No. 8485, dated 12.5.1999, "Kodi i Procedurave Administrative të Republikës së Shqipërisë" abrogated by Law No. 44/20151 "Kodi i Procedurave Administrative i Republikës së Shqipërisë"

¹³ The tariffs are set by Order of the Minister of Energy No. 6, dated 9.1.2015, "On the audit of the technical standards of crude oil and sub-oil products, the procedures and the respective tariffs". This Order abrogated the Order of the Minister of Industry and Energy No. 166, dated 1.7.2004.

¹⁴ The tariffs are established in the Joint Instruction between the MoF and the Ministry of Agriculture, Food and Consumer Protection No. 8, dated 8.5.2007.

As a consequence, the motivation and means of the agency to improve its services and offer new types of analyses are very low.

1.2.3. BUDGET TRANSPARENCY

Despite the fact that significant improvements have been made in budgeting and monitoring, Albania lacks behind other countries with regard to rigorous accountability in the budget planning and implementation phase. According to the Open Budget Index¹⁵ for 2015, Albania ranks 38 among 100 countries. The worse indicator in this index is weakness in providing the public with opportunities to engage in the budget process, with the score 15/100.

For the purpose of this study, it was difficult to find any information on LMs' revenues on the website of the MoF or any other LM. Neither the MTBP nor the Annual Budget document had a separate file or format on the kind and amount of the revenues generated from fees and charges of the LMs. Normally, the information given by the LMs regarding their revenues is used by the MoF only for estimating the "non-tax revenue" item in the Fiscal Table during the MTBP and annual budget preparation process. There is no detailed analysis of the LMs' revenues for setting the related fees and charges, nor any explanation of the deviations on planned and actual revenues. The Explanatory Note of the Actual Budget Law lacks detailed information on the performance of "non-tax revenues", except for a brief comment devoted to the level of dividends from the Bank of Albania.

¹⁵ www.internationalbudget.org

2. CASE STUDY TOPIC – WATER TARIFFS IN ALBANIA

2.1. INTRODUCTION

“Water is not a commercial product like any other but, rather, a heritage which must be protected, defended and treated as such”¹⁶

Fresh water sources are considered to be one of the main natural resources in Albania. The available average quantity of fresh water is estimated at 8,700 cubic meters per capita per year, which is one of the highest in Europe¹⁷. Fresh water sources in the country exist as natural springs, rivers, lakes, and groundwater aquifers. According to the Goal 6 “Clean Water and Sanitation” of the 17 Global Goals that make up the 2030 Agenda for Sustainable Development, universal access to safe and affordable drinking water should be ensured by 2030. Albania has a lot to do in meeting this target, given that Albania has already failed to meet the target of the Millennium Development Goals on improving access to safe drinking water and sanitation to approach EU standards, by 2015.¹⁸

For more than 20 years, Albania has undergone a process of gradual improvement of the existing legal and institutional framework governing the water sector. A number of laws have been adopted to provide the legal basis for the decentralization of authority to the local level and to restructure the water sector for better performance.

The Albanian decentralisation process is more than 20 years old and there have been transfers of previously centrally owned and managed assets to local government units in the past. However, a full comprehension of “ownership” in the sense of responsibility has failed to reach the LGU and, subsequently, the managers of the various utilities. The deeply political, yet highly unsystematic subsidisation through central government has heavily contributed to this fragmentation and headless management, and fostered personal and political parties’ ties. While there is no more need for formal transfers, there is a huge need for real ownership and accountability.

The decentralization process can be divided into two phases. The first phase, from 2000 to 2006, resulted in the transfer of the assets of 137 stand-alone systems to 12 municipalities and 52 communes, and of five companies and four state enterprises to nine respective local government units. This phase took a case-by-case approach, as required by CoMD No. 550/2002.

The second phase began with CoMD No. 660, dated 12.9.2007, through which the Government decided on the transfer of ownership of all remaining water companies to the respective LGUs, with shares distributed in a manner proportionate to the population of each jointly owned company’s service area. Currently there are 58 WUCs, joint stocks ones, fully owned by the LGUs that provide water supply services, 47 of which are fully operational, seven are in the process of relicensing and four are without a license.¹⁹ These companies supply water for 81% of the population in their jurisdiction; that is, for 2,685,131 people (2014 estimate), with the total volume of water from all systems (000 m³) being 272,908,000 m³ and the total volume of water sold (metered and unmetered) being 89,720,000 m³.

The national policies²⁰ for the development of the water sector are designed by the Ministry of Transport and Infrastructure (MTI), including investments and subsidies. The licensing and monitoring performance of WUCs as well as tariff settings are done by the WRE, an independent body that reports to the Parliament, while the ownership of the companies falls under LGUs. Based on Article 10 of the Law No. 8652, dated 31.7.2000, “For the organization and function of the local government” (amended), water supply is a local function. Besides this legal provision, de facto LGUs have

¹⁶ Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy

¹⁷ “National Strategy for Water Supply and Sanitation 2011–2017”, Albanian Government Decision (2011)

¹⁸ “The Millennium Development Goals in Albania”, prepared by Ilir Ciko & Elena Polo, September 2015

¹⁹ www.rru.al/licensing

²⁰ National Strategy of Water Supply and Sewerage 2011–2017

no say in the overall financial performance of WUCs, although the public perception is that LGUs are responsible for water management, as the tariffs are set by the WRE and investments and subsidies are provided by the central government.

2.2. STRUCTURE OF WATER TARIFFS

The WRE is the mandatory authority to license WUCs and to set water tariffs, based on Law No. 8102, dated 28.3.1996, “On the Regulatory Framework of the Water Supply and Wastewater Disposal and Treatment Sector”. As a result, the WRE is the only institution in Albania with more than 15 years of experience in setting tariffs. The first decision on water tariffs was issued in 1999 (Decision of the Commission No. 3, dated 8.4.1999). The methodology of tariff setting was revised in September 2011 and is currently used by the WRE. According to this methodology, the structure of water tariffs is designed to fulfill the following policy objectives:

1. **Cost Recovery:** The tariff structure and prices set shall ensure cost recovery for the individual WUCs whereby revenues exceed costs. The WUCs shall increase revenue collection in the following stages until full cost recovery is achieved:
 - i. Revenues cover Operation and Maintenance (O&M) costs;
 - ii. Revenues cover O&M costs, plus depreciation;
 - iii. Revenues cover O&M costs, plus depreciation plus interest charges on loans (if any).
2. **Managerial Efficiency:** Cost recovery shall be enhanced by systematic efforts to reduce service costs through improved management and technical efficiencies, mainly by reducing water losses in the system, reducing illegal connection, and by increasing revenues through improved collection efficiency. Measurable progress in the improvement of technical and financial performance of the WUCs is considered by the WRE before a tariff application is approved.
3. **Affordability:** The tariff structure shall set an affordable price for the basic consumption needs of low-income households, particularly in those areas where functioning subsidy schemes are not already in place. According to international standards, the lowest income deciles of the population should not have to pay more than 5% of its household income for water and wastewater services.
4. **Environmental Efficiency:** The tariff structure shall set an economic price for higher consumption levels to encourage resource conservation and sustainable consumption, where this is needed under environmental considerations.

For each tariff approval, the WRE sets performance criteria for the WUCs in order to monitor their future economic and managerial performance. The tariffs are divided for four types of consumers: household; business; public entities and water wholesale. According to the methodology, the WUCs can use “lump sum” tariffs for non-metered water that should be higher than the tariffs for metered water, in order to encourage the use of metered water. Although not applicable, the WUCs can propose tariffs based on the level of water consumption, and higher tariffs for the consumers that do consume water more than the minimum level. The WUCs are obliged to submit to the WRE, besides its request for tariff increase, financial documents, such as financial reports, its current economic and technical stance, the opinion of the local government that owns the WUC, the decision of the Supervisory Council (composed of members of owner-LGU) and past and foreseen subsidies obtained by the central budget.

2.3. ISSUES OF WATER TARIFFS AND COLLECTION

The average water tariff levels have increased gradually over the past two decades. As it can be derived from Table 1, there is a 69% increase in average water tariffs from 2008 to 2015.

Table 1: Average total water tariffs, 2008–2015

	Unit	2008	2009	2010	2011	2012	2013	2014	2015
Average Water Tariff (total)	Lek/m ³	36,68	37,25	39,15	44,76	52,85	58,72	61,24	62

Source: Water Regulatory Entity

A more detailed analysis shows that the bulk of this increase is owed mainly to WUCs serving the cities with the highest level of population, such as Tirana, Durres, Fier, Vlore and Shkoder. However, according to World Bank 2011 issue brief “Decentralization and Service Delivery in Albania: Governance in the Water Sector”, the prevailing tariff levels for water services in Albania are below the potential of affordability. Keeping WUCs away from meeting affordability is mainly related with the WRE’s tariff methodology that links that proposal for tariff increase with managerial efficiency, as described above, where most WUCs fail in improving certain indicators.

Despite the 69% increase of the water tariffs over the past seven years, the sector is not financially sustainable. Analyzing the annual WRE reports and the financial situation of WUCs, it appears that the main problems of the sector are closely related with the managerial issues of the companies. Since 2011, the main aim of the tariff policy has been the coverage of O&M costs, and only then the coverage of full costs, which include O&M costs, loan interests and depreciation costs. For 2015, the coverage of O&M costs at sector level is 104%, while the coverage of total costs is 79%. Only 19 WUCs cover 100% of their O&M costs, six WUCs cover their total costs and 39 WUCs are not able to cover their O&M costs.

According to the WRE, this aim has failed to materialize, because there has been a continuous increase of the overall costs. As a result, the long persisting lack of full coverage of total costs has been constantly covered by budget subsidies from the Central Government. The WUC get subsidies in order to finance the O&M costs, such as energy and labor force, based on the Joint Instruction between the MoF and the Ministry of Transport²¹. According to the Ministry of Transport and Infrastructure, these subsidies have been averaging ALL 1 billion per year. Besides that, even the local government has to use the unused unconditional transfers from the central budget in order to pay energy related arrears of their WUCs. In total, the annual subsidy funds total ALL 1 billion. According to the Ministry of Finance, it is estimated that the current need for government subsidies for the whole water sector is close to EUR 15 million per year.

The existing subsidy policy can be one of the main factors that hinders WUCs to become self-sufficient. It has relaxed the management of the WUCs, as even the minimum costs will be covered by the state budget if they fail to manage properly. Despite the fact that the aim of the Strategy 2011–2017 was to shift the focus of subsidies towards the poor by year 2015, this much needed move has yet to be materialized. Twenty WUCs that receive subsidies have not increased their water tariffs during the last five years (2010–2015), some of them even failing to submit all required documents or receive final approval by the WRE due to the failure of meeting the managerial indicators. Regardless of these facts, the MTI continues to approve requests for subsidies from the aforementioned WUCs following their unsustainable financial situation.

Revenues from water tariffs provide a small part of water sector funding. All the capital expenditures are covered mostly by the state budget and donors, and less by local governments and WUCs. Besides the subsidies, the state budget allocates to the MTI around ALL 3.3 billion annually for capital expenditure to the water and sewage sector, while funds from the donors total around ALL 3.9 billion. Donor financing of capital expenditure has doubled in 2014 compared to 2006, demonstrating an increased interest of international financial institutions towards the needs of this sector. Nevertheless, the overall financial bill for the water sector is still not up to the required standards. Analyzing the progress of sector benchmarks set in the National Water Strategy 2011–2017, it appears that the main indicators are not performing well and they are far from the Strategy’s benchmarks.

21 Joint Instruction No. 6569, dated 27.6.2006, between the MoF and the Ministry of Public Works and Transport, “On the criterias and procedures for the usage of the subsidies”

Table 2: Performance and benchmarking of the water sector, 2010–2015

No	Performance indicators/Years	2010	2011	strategy benchmark 2011	2012	strategy benchmark 2012	2013	strategy benchmark 2013	2014	strategy benchmark 2014	2015	strategy benchmark 2015
1	Water supply coverage	80,30%	80,8	91% /60%	80,80%	92% /64%	80,8	93% /70%	80,8	94% /76%	80,80%	95% /79%
2	Running water (hour per day)	11,1	10,9	12	10,8	13	11,5	14	12,1	15	12,1	16
3	Coverage of the O&M costs	93%	101%	95%	106%	95%	114%	100%	122%	100%	104%	100%
4	Coverage of the Total costs	67%	74%	68%	82,7	70%	84,6	72%	87%	74%	79%	76%
5	Collection rate	84%	80%	86%	90,9%	88%	82%	90%	91%	92%	91%	94%
6	Staff efficiency (no employees per water connection)	9,3	9,3		9,3		9,5		8,9		9	
7	Non revenue water	63%	63%	60%	67%	57%	67%	54%	67%	51%	67%	48%
8	Metered water	45%	51%	48%	55%	52%	59%	60%	61,2%	65%	63%	72%

Sources: Ministry of Transport and WRE’s reports

As seen in Table 2, the average collection rate for the water supply sector by the end of 2015 marked a considerable progress (91%) towards the collection rate from the end of 2009 (78.3%)²². However, this increase should be treated cautiously, as per methodology the collection rate reflects even the collection of unpaid bills from the previous year. Big WUCs, such as Durres or Fier, still have low levels of revenue collection, 68.3% and 74.7% respectively. In other eight companies, there is a decline in the collection rate, while in two others the level of collection rate is unchanged.

Aggregate data on individual WUCs shows that collection from state institutions is lower than collection from households or businesses, especially in small WUCs like Rrogozhina, Rubik, Corovoda, Polican, etc. In 2014, for some WUCs, the collection rate is higher than 100% pertaining to overdue water bills being actually paid by state institutions. This owes to a government policy to pay all the arrears under the IMF program. For example, in 2014, Tirana had 181.3% collection rate from state institutions, and this high percentage influences the overall average for the sector.

There is still lack of enforcement toward non-paying customers and widespread occurrence of illegal connections, which partly explains the below-par total cost coverage rate. Another reason is the relatively high level of non-revenue water – on average 67%²³ for the sector in 2015 –, remaining unchanged for the last four years. So, only 32.8% of the produced water is billed and only 28.9% of the bills are paid.

In 2014, the sector’s revenues were at around ALL 4.6 billion. Taking into consideration that WRE’s reports that half of the non-revenue water comes from mismanagement, it appears that around ALL 3.6 billion are non-collected revenues due to the underperformance of the sector. This revenue loss is about the same as the MIT annual budget allocation for capital investments in the water sector and more than three times the annual subsidy to cover operating costs.

The water sector evasion has the features of the evasion found in other economic sectors of Albania: energy, labor market, taxes. For example, an informal business that is not registered with the tax authorities does not pay any central or local taxes, for energy, water etc. In the energy sector, non-technical losses are around 30% and the shadow economy (illegal business, illegal energy and water connections, etc.) reaches the level of 50%²⁴. As mentioned above, the increase in tariffs will “punish” the honest consumers that pay their bills. An increase in the collection rate of water tariffs is closely related with the overall government measures against informality taken in September 2015.

Local government units have not done enough to improve this sector, sometimes considered by them to be just “an employment sector”. The 2015 WRE report highlights that 13 directors of

22 www.erru.al/doc/Raporti_i_Performances_Shqip_2014_P.Offline.pdf (in Albanian only)

23 This figure is estimated and should be treated cautiously, as many utilities do not have functional bulk meters

24 gazetaekonomia.com/informaliteti-cani-aksioni-nis-me-1-shtator-ja-ku-do-te-fokusoheми/ (in Albanian only)

WUCs were replaced in 2015 due to political reasons. Looking at the indicator “Staff efficiency” (i.e. number of employees per water connection) through years, we see that it has been unchanged at 9 persons per 1000 connections, while the region’s average is 4-5 people per 1000 connections. Energy and labor costs provide the bulk of the sector’s O&M costs. Thus, any further rise in the number of employees would increase overall costs and put additional pressure to request tariff increases which are simply unjustified.

Comparing the existing water tariff levels with total household income, it appears that the tariffs are below the affordability level set by WRE, as described in the part related to structure and water tariffs. Apart from the WUC of Korça, where the water tariff level is 4% of the household income, the rest remain under 3% of the household income. Therefore, from the point of view of affordability, there is room for water tariffs to increase in order to improve the financial situation of WUCs and subsequently the quality of their services. This policy can be taken into account by those WUCs whose tariffs stand below 3% of total household income and they do not even cover O&M costs.

Interviewees of this research paper claim that when a WUC submits a request for an increase in the tariff, the company has a discussion about its economic indicators with the WRE. If they are not satisfactory, the WRE rejects the request for a tariff increase and recommends improving the performance indicators instead. If after two or three years the WUC still fails to reach the required performance indicators, the WRE would eventually approve the tariff increase. In a sense, the WRE just postpones the timing of the tariff increase, as the last step is unavoidable.

Water tariffs are collected and managed exclusively by WUCs. The water services bill issued by WUCs includes not only the water tariff (based on one cubic meter water pricing) but also the tariff for sewerage services. The bill itself is addressed to the individual (usually the head of the family) or business who has signed a contract with the water utility for water provisioning and sewerage.

Starting from 2002, the bill for water services has become legally binding²⁵ and since then it has proven to be an effective measure in increasing the collection rates for the sector as a whole. Any delay in paying the bill is treated as payment overdue and it automatically incurs overdue fines which add up to the original bill amount. In cases where the payment overdue exceeds a predefined amount of time, the water utility should initiate a legal enforcement process through the bailiff system.

The management of billing and collection of water tariffs has improved over the past decade. The introduction of IT systems by some large service providers (e.g. water utilities of Tirana, Korça, Elbasan, Durres) has enhanced further the capacities of water utilities to handle the collection process effectively, while also increasing transparency and accountability for end users. Municipalities have also used the water bill as a tool to collect their own local taxes. For example, Tirana collects the cleaning tariff through water bills, and Korça and Elbasan collect the property tax. One of the interviewees of this paper mentioned that Tirana Municipality intends to include the property tax and other local taxes in the water bill. However, this practice was tested in 2004–2006 and has had negative effects as the collected rate dropped by 50%.

2.4. CONSUMER INVOLVEMENT IN SETTING WATER TARIFFS

Consumer involvement in the tariff setting process has been an issue during the past years. In 2010, the Office for the Protection of Consumers was officially addressed by the WRE to be consulted before any water tariff increase.²⁶ Every increase in the water tariffs has been accompanied by broad media coverage, being mainly criticized as a tool to cover all the problems of the water sector, such as non-metering water, non-revenue water, and unavailability of 24 hours of running water.²⁷ Given the continuous media awareness of water tariffs setting, in July 2015 the Commission of the WRE approved the Decision No. 26, dated 8.7.2015, on the organization of public

hearings during the process of the approval of tariffs. It is mandatory for the companies to hold a public hearing 30 days before applying for tariff increases at the WRE. According to the current WRE regulations, consumers of water supply services have a right to be informed and have a say in how the services are run. Large WUCs (providing water supply to at least 100,000 or water supply and sewerage services to more than 50,000 residents in the service area) must hold a public hearing, open to all customers. For other WUCs, public hearings are not mandatory. According to the WRE’s Annual Report 2015, the first public hearing on an increase in tariffs was held by utility companies of Durres.

2.5. FINANCIAL OVERSIGHT OF THE WATER SECTOR

The legal framework for the financial oversight of water utilities allocates the responsibility to the internal audit unit of the ministry responsible for water supply and sanitation and local government units, whereas the external audit function is allocated to the Supreme State Audit Office (SAO). The latter performs financial and compliance audits on a pre-scheduled number of water utility companies, with the aim of auditing each of them at least once in five years.

Published external audit reports highlight the main findings and recommendations, which range from addressing irregularities in internal financial control to cases of financial fraud that are forwarded to the Prosecution Office. In some cases, the SAO has recommended even administrative measures for heads of WUCs who have failed to perform, such as in Fier, Peshkopi, Bulqize. However, interviews with representatives of the SAO have pointed out that currently there are no performance audits conducted in the water supply sector, but efforts are made to establish a special unit that will perform this kind of audit on a regular basis in the near future.

²⁵ Law No. 8975, dated 21.11.2002, “On treating water services bill as legally enforceable”

²⁶ www.arkivalajimeve.com/ZMK-proteston-Jo-rritjes-se-cmimit-te-ujit-pa-transparence.423555/ (in Albanian only)

²⁷ www.gazeta-shqip.com/lajme/2015/03/06/uji-per-familjaret-dhe-bizneset-kerkohet-rritje-nga-12-ujesjelles/; www.gazeta-shqip.com/lajme/2015/03/06/uji-per-familjaret-dhe-bizneset-kerkohet-rritje-nga-12-ujesjelles/ (in Albanian only)

CONCLUSION

TARIFFS FOR GOODS AND SERVICES OF LMS

There are 64 tariffs for selling goods and services by LMs. Apparently all the Albanian budgetary institutions set and collect these tariffs, and all citizens – households and businesses – must pay for the goods and services. This is because there are no rules for estimating the costs for offering the goods and services, and subsequently there are no rules for setting the respective tariffs. Moreover, the public entities entitled by the laws and implementing acts to levy and collect the tariffs are not motivated enough to conduct any studies, as their actual performance is not linked at all with the budgetary process and decision-making. The procedure for budgeting the revenues is formal and lacks monitoring and evaluation, both by LMs and the MoF.

The laws and implementing that serve as the basis for tariff setting are very widespread. There is lack of transparency for the general public, in particular for the individuals or social groups concerned. The majority of tariffs are collected by lower level government entities. Interviews conducted for this research paper have shown that these entities are not fully engaged by their respective LMs in the process of designing and management of fees and charges. Thus, LMs should increase communication with their lower level institutions by instructing them to provide written reports on the level of tariffs, revenue collection and enforcement issues.

We hereby recommend the following immediate steps to improve the situation:

- The MoF in cooperation with LMs should conduct an inventory of all tariffs regarding “sales of goods and services”. It would be useful to revise the economic and social reasons for having the tariffs and produce a short list of tariffs to be analyzed in relation with the respective cost of goods and services. Consequently, certain old tariffs that have no economic sense and increase the burden of businesses and households should be abolished.
- A special law on fees and charges in Albania should be drafted in order to create a legal basis for all kinds of fees and charges applied by LMs. The law should include the economic and social rationale for the application of fees and charges, the reviewing process and principles for the calculation of the costs and tariffs of services. This would be beneficial for all stakeholders.
- CoMD No.432/2006 should be revised in order to increase the motivation of LMs and review the role of the MoF as an approver of tariffs rather than the one who establishes them. In addition, a legal framework along with a tariff setting methodology should be established for each LM, using the water tariff methodology as a model. It is also worth considering obliging all government institutions to collect fees and charges through banking or postal services. No cash should be admitted. Where necessary, the cash register should be used according to the tax procedures law.
- The budgetary ceilings of LMs should be linked with revenues from fees and charges. The MoF could consider revising the policy of “out of limit” revenues and closely relate them with the budgetary ceilings of respective LMs.
- LMs’ revenue estimation and revenue outcome should be part of the documents of the State Budget.

WATER SECTOR

While there is lack of procedures, criteria and monitoring rules for the fees and charges of LMs, the practice of setting water tariffs has a solid experience equipped with the necessary rules. WRE has been a watchdog, monitoring the performance of WUCs. The water tariffs methodology offers the best model of tariff setting for the calculation of costs and respective tariffs. However, providing up-to-standard water supply services in Albania remains a challenge that requires the right policies and more financial resources. The range of water sector problems is wide and complex and as such cannot be covered fully in this research paper.

The policy of water tariffs should be revised with a view to addressing the citizens’ needs. WRE may review “the five percent rule” stipulated in its objectives for setting water services. The existing subsidies to WUCs have not been effective as they have created room for inefficiency at management level. Consequently, one way to avoid this phenomenon is to “shift” the subsidies from the “water

seller” to the “water user” and specifically to those that have less money. The existing subsidy policy should be abolished and a new one targeting the poorest, in terms of financial support, should be designed and implemented. MTI should revise the subsidy policy as soon as possible in order to support the poor who cannot afford paying the current water tariffs.

The Water Strategy 2011–2017 has not achieved its sector performance benchmark. So, the government could consider updating all policy measures. Local governments as owners of water utility companies have to embark on a deep reform to reduce non-revenue water and to improve the performance indicators of their WUCs. Some of the measures that are used by the government to reduce electricity losses could be adapted for the water sector as well. Payment of water bills by state institutions as important consumers should be part of the internal rules of the budgetary discipline to avoid accumulating arrears.

LGUs should increase awareness and discipline regarding the reduction of O&M costs and improvement of water services. Revision of the water tariffs of 20 WUCs would help enhance financial performance and improve the quality of the water service. The focus should not be on the rise of tariffs in itself, rather on how much the tariffs need to be increased, while also taking into account affordability and helping WUCs improve their services.

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ANNEXES

ANNEX 1: REVENUES FROM SALES AND GOODS AND DIVIDENDS IN ALBANIA, 2010–2014

YEAR 2010 and 2011

billion Lek									
Classification		2010				2011			
		Central government	Social security funds	Local governments	Total	Central government	Social security funds	Local governments	Total
142	Sales of goods and services	7,346	59	2,811	10,216	7,670	56	2,675	10,401
1421	Sales of market establishments	226	0	107	333	233	0	100	333
1422	Administrative fees	5,470	43	2,139	7,653	5,760	43	1,990	7,793
1423	Incidental sales by non-market establishments	1,650	16	565	2,230	1,678	13	584	2,275
1424	Imputed sales of goods and services	-	0	0	0	0	0	0	0

YEAR 2012 and 2013

billion Lek									
Classification		2012				2013			
		Central government	Social security funds	Local governments	Total	Central government	Social security funds	Local governments	Total
142	Sales of goods and services	8,544	59	3,128	11,732	8,334	68	2,957	11,291
1421	Sales of market establishments	195	0	136	331	226	0	153	379
1422	Administrative fees	6,751	49	2,362	9,162	6,472	57	2,208	8,737
1423	Incidental sales by non-market establishments	1,598	10	630	2,238	1,636	10	597	2,243
1424	Imputed sales of goods and services	0	0	0	0	0	0	0	0

YEAR 2014

billion Lek					
Classification		2014			
		Central government	Social security funds	Local governments	Total
142	Sales of goods and services	10,156	74	3,322	13,552
1421	Sales of market establishments	201	0	148	349
1422	Administrative fees	8,430	61	2,484	10,975
1423	Incidental sales by non-market establishments	1,525	12	690	2,227
1424	Imputed sales of goods and services	0		0	0

ANNEX 2: ANALYSIS OF SELECTED KEY TARIFFS IN ALBANIA

ADMINISTRATIVE FEES

Registration and school tariffs

Based on the law on universities, study tariffs are composed of the registration fee and the school fee. The registration fee is set by the Order of the Minister of Education and Sports, while the school tariff is set by the Council of Ministers. The tariffs are paid by all bachelor, master and PhD students at public universities, through postal services.

Based on Article 75 of the law, the general rule for setting the school tariff is that it should not exceed the value of schooling cost. However, there are no rules, instructions or methodologies for calculating schooling cost, which would serve as the basis for calculating the school tariff for each university. Every year, universities propose to the MoES the tariffs and the number of students and the latter decides the final value of the tariffs and the number (quota) of students for each university.

Based on the interviews conducted for this research paper, universities take into account the salary of teachers and the cost of buying goods and services as well as the number of students to calculate the cost. According to them, it is necessary to increase the tariffs by 50% in order to cover all study costs. Based on the MoES's reporting for the fact budget 2014, all secondary tariffs constitute 43.9% of the total budget of universities compared to 31% in 2010.²⁸

In 2014, there was an increase in tariffs that provoked wide contestation among students. The minimum tariff was ALL 25,000²⁹ and the maximum up to ALL 40,000 per year. Many universities postponed the deadline for payment of the tariff installment, as students could not afford it. The majority of the grants taken by the state budget goes for financing salaries and there is no correlation between universities' revenues and the amount of grant. The interviewees said that the tariff was increased for the sake of covering the future cost. No documents on the method of calculation of the tariff were made public by any university.

TV tariff

The tariff for the usage of the equipment of the Albanian Radio Television (ART) is defined by the Joint Instruction between the MoF and the ART, No. 29, dated 18.12.2014, based on the law on national taxes. Besides the fact that the Joint Instruction is signed by the Director of the ART, the latter has no say in revenue collection and there is no connection between the level of this tariff and the services of the ART. This tariff is paid through the electricity bill. The Albanian Operator of Energy (AOE) is the tax agent who gets 10% for commission, while 90% goes to the DGoT that is responsible for the collection of this tariff.

Despite the fact that the TV tariff was considered relatively low in 2010, only 20% of the population paid it. The collection of the TV tariff is linked with the collection of electricity fees. Comparing with other countries, the level of this tariff is the lowest in the region.³⁰

In 2008, the tariff was ALL 100 per year for the usage of radio and ALL 400 per year for the usage of TV. Due to the need to increase revenues and comparing with other countries, over the past ten years this tariff has been increased 12 times for the radio and three times for the TV.

Based on worldwide practices, this tariff is a kind of hypothetical tax, as it is paid for the ART and the revenues should serve as a source for financing/subsidizing certain programs for the development of the ART. However, the continuous increase in revenues from this tariff³¹ is not accompanied with a rise in budget expenditure for the ART. Instead of financing ART, the revenues go to the general state budget. In 2014, the ART, in need to find money to implement its digitalization project, had to borrow money from Deutsche Bank Frankfurt am Main (around EUR 20,064,590.55).

28 www.arsimi.gov.al/files/userfiles/buxheti/2015/Raporti_i_Monitorimit_12_mujori_2014.pdf (in Albanian only)

29 The minimum monthly wages is ALL 22,000.

30 www.obs.coe.int/en/country/albania/tv

31 According to the Tax Administration, revenues from these tariffs have increased by 8.4 times from 2008 to 2014. According to the MoF, the budget expenditure of the ART has decreased by 0.7 times from 2008 to 2014.

Tariff for consular services

This tariff is established in the Joint Instruction between the MoF and the MoFA, based on the law on national taxes. The tariff is collected from the Albanian diplomatic offices all around the world and the MoFA. 100% of the revenues go to the account of the DGoT. The level of tariffs has not been changed for at least ten years. The MoFA once requested the MoF to get a percentage of the tariff revenues in order to develop some of its internal programs for the modernization of diplomatic services all around the world. Due to the conservative policy of the MoF to keep in the "budget pocket" all the revenues, this request was not met.

Tariffs for administrative acts and courts

These tariffs are established in the Joint Instruction between the MoF and the Ministry of Justice, No. 33, dated 29.12.2014, based on the law on national taxes. These are tariffs for the administrative services offered by prosecution, courts, the Ministry of Justice and notaries. The tax agent for the collection of these tariffs is the administration offering the services, while for notary services the tax agent is the Albanian Post. The tax agents get 10% as commission fee, while the Albanian Post gets 3% of the collected revenues. The tariffs are collected through stamps that the tax agents order from the DGoT.

There is no methodology for the calculation of these tariffs. In March 2010, the Ministry of Justice proposed to increase the court administrative tariffs, by over 3-4 times, arguing with the increase of the costs, canceller, staff and so on. The MoF accepted the proposal and approved the tariffs. This brought about immediate reaction from the media³², especially as regards the tariff for the request for lawsuit that was increased from 1% to 3%. Such high increase was considered as a huge barrier to access the justice system. The case ended up at the Constitutional Court, which gave the right to both ministers (Decision No. 7, dated 27.2.2013). Despite this decision, due to the very sensitivity of the issue, in November 2013 both ministries revised the increase and the tariffs were left at the levels of 2009, instead of revising the tariffs the increase of which was unjustified. Compared with the level of court tariffs applied in Kosovo, the Albanian tariffs are very low. A moderate increase in administrative and court tariffs should thus be appropriate.

INCIDENTAL SALES BY NON-MARKET ESTABLISHMENTS

Health sector

Based on the Law No. 10107, dated 30.3.2009, "For the health case in the Republic of Albania" and the Law No. 10383, dated 24.2.2011, "For the compulsory health insurance in the Republic of Albania", as well the Law No. 44/2012, dated 19.4.2012, "For mental health", the level of health tariffs are decided by the Order of the Minister of Health.

Health services are free in Albania for the insured patients. Based on Article 10 of the Law 10383/2011, the health services package includes the doctor's visit, examination, medical treatments in the first health care system and hospitals, public and private, medicines, products and medical treatments by contracted health service providers.

The health tariffs are set by the Order of the Minister of Health No. 28, dated 26.1.2016, "For the referring system and the tariffs in the public health". This recent Order of the Minister reflects the government policy for "free healthcare" and in this spirit the current health tariffs are lower than the previous ones from 2009. For the first time, the tariff of emergency health service for uninsured patients is zero.

However, no rules have been defined for calculating the health tariffs. The Minister of Health establishes an internal working group that is guided by some general principles in deciding on the level of tariffs, such as material costs, tariffs at private hospitals and social issues. At the end, it is the Government who decides on the tariffs based on its social policies.

One of the main concerns of the MoH is the collection of these tariffs. Health institutions do not use a cash register to register every payment. One interviewee also referred to a tax audit that has established fines for health institutions for not using a cash register.³³

32 respublicalb.wordpress.com

33 According to Article 54 of the Law 9920/2008 on the tax procedures, it is obligatory to use a cash register for every economic unit that sells products or services with transactions made in cash.

All the tariffs are used by hospitals as part of the service cost, based on an Instruction of the Administrative Council of the Fund. From the budgetary point of view, these revenues are “out-of-limit” revenues, which means that they are used fully by the hospitals and have no relation to the budget ceilings. The capital expenditure for hospitals is covered by the MoH’s budget. Hospitals are obliged to calculate the real expenditures for every service, based on a standard defined by the MoH. To this date, these standards have not been defined.

The main issue of the health service in Albania is that the cost of each health service is not measured. For the first time, in 2014 it was managed to measure the cost of dialysis and kidney implant. According to the MoH, it took three months to estimate the costs of these two health services.³⁴ The quality of health services is a constant worry for the society. The patients’ expenditure from their pocket is more than half of the expenditure in health. The World Bank has been investing the Albanian health sector in recent years. A project was developed recently to improve the Albanian health system, which the estimated cost of around EUR 36.1 million.

TICKET TARIFFS OF THE MINISTRY OF CULTURE

Ticket tariffs constitute a very complex issue. Based on Article 14 of the Law No. 9386, dated 4.5.2005, on the museums, the format and the price of the tickets are set by an Order of the Minister of Culture; the distribution of revenues from ticket sale is set by CoMD, whereas the use of revenues from ticket sale is established in the Joint Instruction between the MoF and the Ministry of Culture.

In order to promote cultural tourism, the ticket prices in Albania are very low, the highest being less than USD 5. From the budgetary point of view, these tariffs are “out-of-limit revenues” and there is no relation with the budget ceilings. According to heads of museums, at least a double increase in tickets prices is recommended, with 90% of the revenues to be used for investments.

OTHER FEES

These revenues include parking tariffs collected mainly by the customs branches³⁵ or the police, revenues from photocopies collected mainly by the court or prosecutions offices, revenues from the sale of documents (e.g. customs documents, Euro 1 Certificate), guarantee papers issued by the customs administration, grade certificates of students issued by universities, and so on.

There is no legal basis for these tariffs. They are set based on CoMD No. 432/2006, and the proposal of the customs administration or the Ministry of Interior or the Ministry of Justice, and then approved by the Minister of Finance. Payment is done in cash. The tariffs only increase the cost for businesses, patients, students and other citizens. According to an interviewee, these tariffs are meant for revenue generation. Some of them date back to 2000 and before, and the MoF should consider the abolishment of these tariffs.

SALES OF MARKET ESTABLISHMENTS

The main categories of revenues from sales of market establishments are revenues that come from renting state property and revenues from sales of agricultural products.

RENTAL REVENUES

Apparently all budgetary institutions rent their properties. In 2015 alone, there were more than 160 budgetary institutions that were renting out their unused premises to third parties. The rates for rents are set by CoMD No. 54, dated 5.2.2014. Normally, buildings, urban land, and lines of production of public joint stock companies are rented out. The majority of rents are for the buildings up to 200 m².

Renting real estate premises is also a business-to-business activity. By renting state premises, budgetary institutions behave as economic agents in the real estate market. CoMD No. 469, dated 3.6.2015, defines the minimum rental prices for business entities in order to pay capital gain taxes

³⁴ shqiptarja.com/shendetesi/2712/astrit-beci-kontratat-e-reja-sh-ndet-sore-m-shum-siguri-p-r-pacient-t-206899.html#st-hash.XD7qWFJj.dpuf (in Albanian only)

³⁵ The trucks that contains goods for customs declaration, while they stay at customs premises, they had to pay a certain parking fee.

to the tax administration. Comparing both CoMDs, it seems that government institutions rent at a very cheap price in comparison with business entities. This often leads to corruption among heads of government institutions that rent, instead of being motivated to utilize free premises to better perform their state duties and generate more revenues to the state budget. The MoF may need to revise rental prices by increasing the rents as a tool to demotivate renting.

SALES OF AGRICULTURAL AND FOREST PRODUCTS

According to the data, apparently revenues are re-generated only from sales of agricultural products. However, during the meeting with representatives of the ministry responsible for forest, it seemed that significant revenues are generated from renting forest or selling forest products. For reasons unclear, these revenues have not been classified under the “sales of goods and services” according to GFS classification. This problem will be addressed only in 2016.

REVENUE MOBILIZATION AND MANAGEMENT IN SECTORS

CASE STUDY ON THE HEALTH CARE SECTOR IN MOLDOVA

Viorica Neclea

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INTRODUCTION

Moldova, assisted by its development partners, continues to carry out a broad agenda of reforms in the area of public finance management (PFM), anchored in a strategy for 2013–2020, and following annual action plans.¹ One of the major recent achievements is the new organic law on public finance and fiscal responsibility, adopted in July 2014. It is fully enforced as of January 2016. The new legal framework is in line with the best international practices, aiming to establish a modern system of public financial management in Moldova and ensure budget sustainability in the medium and long term.

Under the new organic budget law, a new budget classification has been approved and applied. It is aligned with the GFS 2001 and COFOG standards, and is accompanied by a new budget methodology for budget planning, execution and reporting. All of this is supported by the new Financial Management Information System (FMIS), applied starting with budget cycle for 2016 budget.

This case study on Moldova, along with other country studies (Albania, Serbia, Germany), is drawn up as part of a broader study on the mobilization and management of resources in sectors,² that is being developed under the auspices of the Centre of Excellence in Finance, Ljubljana, Slovenia. Thereafter, it might be used as reference material or as a platform for discussion for improving the efficiency and effectiveness in public service delivery.

The purpose of the study is to analyze the process and procedures of revenue mobilization and management at sector level in Moldova, with a focus on the health sector. In terms of area coverage, this case study focuses on revenues collected by budgetary authorities from sales of goods and services,³ and does not cover grants for externally financed projects or other earmarked revenues (special funds). It does not comprise revenues from services provided by self-financed public institutions or public economic entities (state/municipal owned enterprises).

The analysis was carried out in collaboration with stakeholders from the Ministry of Finance and Ministry of Health, using data from annual reports on budget execution and relevant national legal and methodological framework. A background paper on the topic prepared by the lead expert of this project and the Guidance Note and Tool of GIZ's Good Financial Governance in Sector Ministries served as a guide in developing this case study.

1 Government Decision No. 573 of 6 August 2013, mf.gov.md/politici/sdmfp

2 For the purpose of this study, "sector" refers to classification of sectors or functional classification.

3 According to the GFS code 142 "Revenue from sales of goods and services". In Moldova, this type of revenue is similar to "Revenues collected by budgetary institutions".

1. ANALYSIS OF COUNTRY-SPECIFIC ISSUES

According to the law on public finances and budgetary responsibility (LPFBR) No.181 of July 25, 2014, the National Public Budget⁴ (NPB) consists of four components: state budget, state social insurance budget (SSIB), mandatory health insurance funds (MHIF) and local budgets. The state budget, the SSIB and the MHIF together form the central consolidated budget.

In terms of organizational structure, the state budget includes the budgets of the 58 central public authorities (CPA) (16 ministries, 28 agencies and 14 autonomous authorities, 871 budgetary Institutions), while local budgets consist of 35 budgets of level 2 (districts/regions) and 896 budgets of level 1 (administration of communes, villages, cities).

1.1. REVENUES SOURCES COLLECTED IN SECTORS – MAIN CHARACTERISTICS AND RECENT TRENDS

In Moldova's budget system, the revenue collected in sectors by budgetary institutions⁵ include:

- a) revenues from paid services
- b) leases of public property
- c) donations, sponsorships and other revenues collected by budgetary institutions

In 2014, total revenues of NPB amounted to about 38 percent of GDP⁶. Of them, revenue collected from sales of goods and services, classified as code 142 according to the GFS standards, stood at 1.2% of GDP.

The share of revenues from sales of goods and services in total NPB revenues varied from 5.2% in 2012 to 3.1% in 2014 (see Table 1).

Table 3: Revenues from sales of goods and services in total NPB revenue, 2012–2014

	2012	2013	2014
Total revenues, (MLD million)	33,526.1	36,899.5	42,246.8
of which: revenues from sales of goods and services (cd GFS 142), (MLD million)	1,753.5	1,178.7	1,323.5
Share of total, %	5.2%	3.2%	3.1%

The major source of revenues from sales of goods and services (about 84% in 2014) comes from incidental sales by non-market establishments (cod GFS 1423). General government revenues by main sources classified according to the GFS and by types of budget for 2012–2014 are presented in Annex 1.

A decrease of the share of revenues from sales of goods and services in 2013 occurred mainly at central level, as a result of the exclusion of higher education services from the budget (universities were excluded from the budget and became self-financed institutions).

Although the share of sector revenues in total revenues is relatively low, in specific sectors these revenues gain a more significant value and are seen as an additional source to cover the costs of public service delivery.

4 The NPB in Moldova is similar to the General Government Budget according to the GFS.

5 Law on public finance and budgetary responsibility No. 181/2014 (Art. 43)

6 Report on the execution of NPB, 2014, <http://mf.gov.md/reports/?y=2014&m=y>

About three quarters of total revenues from sales of goods and services are administered by central public authorities (CPA). This highlights a concentration of competence of revenue collection at central level. However, the initiated decentralization reform creates premises to increase the financial autonomy of local public authorities (LPA), including in service delivery and revenue collection. The trend of the distribution of this type of revenues by levels of budgets for 2012–2014 is presented below (see Table 2).

Table 4: Distribution of revenues from sales of goods and services by budgets, 2012–2014, %

	2012	2013	2014
State budget	84.6	75.4	75.8
Local budgets	15.4	24.6	24.2

Despite the increasing trend at local level, LPAs need to further enhance their capacities to make use of the benefits and opportunities in the field of service delivery and budgetary process, offered by the new legal framework and fiscal decentralization reform.

At national level, under the functional aspect, sectors like education, general public services, health and justice generate the biggest part of collected revenues from paid service delivery. These four sectors manage about 87% of total collected revenues (see Table 3).

At sector level, the share of revenues mobilized in sectors in overall funding of sectors varies from 0.2% in social protection to 7.2% in defense.

Table 5: Functional distribution of revenues collected in sectors, 2014

Sectors	National Public Budget			
	Total expenditure per sector (MLD million)	of which: expenditure from collected revenues (MLD million)	Share of collected revenues in total (%)	Share of collected revenues in total sector (%)
General public services	4,058.1	235.7	19.6	5.8
National defense	409.2	29.6	2.5	7.2
Judicial system	2,806.1	130.5	10.8	4.7
Economic services	6,127.5	157.5	13.1	2.6
Environment	578.8	9.0	0.7	1.6
Housing	1,497.3	63.2	5.2	4.2
Health	5,890.3	166.8	13.9	2.8
Culture, sports & youth	1,184.9	31.3	2.6	2.6
Education	7,823.6	355.7	29.5	4.5
Social protection	14,145.9	24.7	2.1	0.2

At central level, the largest part of revenues collected in sectors is levied in general public services (25%), health (21%), education (19%), and justice (17%). At local level, the highest rate is held by education (51%), followed by national economy (16%) and housing (15%).

1.2. POLITICAL ECONOMY AND NORMATIVE ASPECTS

1.2.1. SECTOR REVENUES AND BUDGET MANAGEMENT

Currently, in Moldova revenues collected by budgetary institutions are fully integrated in the budget. However, before 2015, according to the legal framework, the revenues were managed separately through distinct treasury accounts in accordance with specific rules. In particular, the revenues had a predetermined purpose, they were recorded separately from general revenues, and the outstanding balances of these accounts as at the end of the year were available for use in the following year.

The past practices for revenue collection had a number of shortcomings.

- Strategic planning distorted because of dual budgeting. Ministries had to keep separate processes for prioritization and planning – for general resources and for own collected revenues
- Difficulties to differentiate costs of providing basic functions from those related to paid services. As a result, at the end of the year there were significant unused balances stored on the treasury accounts. For instance, at the end of 2014, the balances of unused funds on the accounts of budgetary institutions, financed from the state budget, amounted to about a quarter of the annual expenditure from the respective accounts.
- Unused balances treated as ‘pocket money’, spending general allocations first and keeping collected revenues for “more suitable time and purposes”. Budgetary institutions managed unused revenues collected on paid services to gain more flexibility, as compared to other institutions not having permission to deliver such services.
- Weakened overall fiscal balance because of carry-overs. Budgetary institutions had the opportunity to carry over balances to the following year, which undermined the macrofiscal targets.

In order to address these shortcomings, a new approach to mobilize and manage revenues in sectors has been introduced by the new organic law on public finance and fiscal responsibility and the new budgetary methodology, enforced with the 2016 budget. The essence of the reform lies in:

- elimination of specific destination of collected resources, whereby respecting the principle of budget universality;
- the expenditure part of the budget, laid out in programs, being presented as an aggregate amount without being divided by sources of funding;
- closing of unused balances at the end of the budget year.

However, the budgetary authorities are encouraged to collect such revenues as they will continue to be cashed on their accounts, and will be used alongside with the general allocations, as they are received, to fund the total expenditures approved in their budgets. Thus, these revenues remain available for use during the budget year.

1.2.2. LINK WITH THE BUDGET PROCESS

Revenues collected in sectors by budgetary entities are planned, approved and reported as part of the general budget and pass all stages and procedures of the budgetary process.

Collected revenues are allocated along with the general resources to cover the program priorities included in the medium term sector expenditure strategies, developed as part of the Medium Term Budgetary Framework (MTBF). At the same time, line ministries (LM) are required to respect the expenditure limits set by Ministry of Finance (MoF), and when an LM argues that it has greater capacities of revenue collection, the expenditure limit usually remains the same, while general revenues are reduced accordingly.

The new legal framework in Moldova sets the following rules for managing revenues mobilized by budgetary institutions.

- Revenues collected by the budgetary institutions are used, along with general resources, as they are collected, to fund any expenditures approved in their budgets, without being related to certain expenditures. There are no specific budget lines in the expenditure part of the institutions’ budget related to the respective collected revenues.
- If during budget execution the budgetary institutions collect more revenues than the approved amount, the surplus revenues are used for the funding of total expenditures only in the approved amount, while the general revenues are reduced by the surplus of mobilized revenues.

- In a contrary situation, when budgetary institutions collect fewer revenues than the approved amount, expenditures shall be decreased by the amount of uncollected revenues. At the same time, the general allocation remains constant and does not cover non-collected revenues by institutions.

The abovementioned rules are supported by the new FMIS, introduced for the 2016 budget cycle. Although the new rules contribute to improving the efficiency and accountability of public authorities for assumed revenue collection, they involve an element of “punishment”, when collected revenues are not levied – expenditures are cut correspondingly. At the same time, additional collected revenues may be used only after the annual budget law is amended by the Parliament, which is usually a long process.

Despite some concerns expressed by the budgetary authorities on the alignment of collected revenues to general rules, the MoF is firm to continue the reform and considers that the institutions should focus on their general mission to deliver high quality services within the approved appropriations, no matter the sources they come from.

1.2.3. ASPECTS OF TARIFF

According to the legislation, the list of paid services and tariffs is approved by the government or, correspondingly, by local councils. Decisions on public services and tariff setting are taken after being consulted with all interested parties in accordance with the legislation regulating transparency in the decision-making process.

The basic principles in setting tariffs for public services are:

1. to comply with the institution’s statutory mandate;
2. to recover the real costs of service delivery;
3. to be established in a transparent process of consultation and accountability.

Any tariff increase or introduction of a new paid public service must be justified in terms of economic efficiency. At the stage of tariff setting, beneficiaries’ ability to pay for services and willingness to pay should also be considered

Usually the historical average cost method is applied in tariff setting. Although the actual costs of services are influenced by the Consumption Price Index (CPI), wage increases and other cost drivers, in practice the government avoids adjusting tariffs annually and they remain constant over several years. This is seen as being an unpopular measure with a negative impact on the society. On the other hand, freezing tariffs directly leads to economic inefficiency in service delivery.

According to a study conducted in 2013⁷, along with other issues identified by recipients of services (lack of transparency and limited access to services, isolated institutional approach), there is a “lack of uniform and transparent principles in tariff setting for paid services. Charges for services were perceived by most people as arbitrary or unreasonable. According to the survey more than 58% of the beneficiaries assessed tariffs for services as unjustified. In addition, 47% of the respondents mentioned that service providers requested unofficial payments.

The result of the survey indicates the need for serious changes in the organization of public services in Moldova. As a part of the public administration reform, in 2014 the government launched a Public Services Reform Program for 2014–2016. This reform envisages re-engineering of operational processes in public service delivery to ensure transparency and equitability in tariff setting, and to improve public access to high-quality public services.

⁷ Public Service Reform Program for 2014–2016 (Government Decision No. 122/2014).

2. SPECIFIC ANALYSIS OF THE HEALTH SECTOR

For the case study, the health sector was chosen. It is relevant in terms of the significant rate of revenues collected in the sector – about 14% of total revenues collected in NPB. At the same time, the health sector constitutes 13.3% of total expenditures of NPB (based on the report on the execution of NPB for 2014). Another reason is that there is quite a good legal and methodological framework related to the topic of the case study established in the sector. Moreover, the Ministry of Health has made significant progress in implementing structural reforms as well as in public finance management, particularly in strategic planning and program budgeting.

2.1.1. FINANCING OF THE HEALTH SECTOR

The competences for funding in this sector, in terms of central and local levels of government, are in proportion 97.7% to 2.3%. With the implementation of mandatory health insurance in 1999, powers of local authorities in the allocation and management of resources in the health sector declined drastically. Local governments practically do not deliver services in the health sector, they have only the role of supporting the medical institutions founded by them (current repairs, equipment, and other non-permanent implications), this being conducted at the discretion of LPAs.

In terms of the source covering the expenses, for the years 2012–2014, the share of revenues collected in the health sector (without the MHIF), highlights a slight increase in the recent years from 12% in 2012 to 14% in 2014. The major part of revenues collected by institutions in the health sector comes from payments for the services delivered. In 2015, these accounted for 78% of total collected revenues in the health sector. From 2012 to 2015 the average collection rate ranged from 95% to 111% (see Table 4).

Table 6: Revenues collected in the health sector, 2012–2015

	2012	2013	2014	2015
	mln / %			
Collected revenues, total	114	95	150	143
of which				
paid services	90	87	102	112
Share of total, %	79	92	68	78
other (lease, donations)	24	8	48	31
Share of total, %	21	8	32	22
Collection rate of paid services, %	111	98	101	95

2.1.2. REVENUES FROM HEALTH SERVICES AND BUDGET PROCESS

Revenues collected in the health sector by budgetary institutions are planned, approved and reported as part of the general budget and pass all stages and procedures of the budgetary process.

Based on the limits set within the MTBF and in line with the annual budget circular, the institutions estimate the amount of collected revenue. The estimations are made according to the approved tariffs’ estimated volumes of the services and specific rules established under legal contracts. The estimations of collected revenues are presented as a part of the budget proposal, in a multiannual perspective. An extract from the budget proposal of the Ministry of Health for 2016 is presented in Annex 2.

During budget consultations the MoF examines whether the estimations are realistic and accurate. Discussions are focused mainly on the volumes of collected revenues and less on tariffs, because the approval of tariffs by the government passes a separate procedure. Naturally, the MoF participates at the stage of tariff setting.

At the same time, it is recognized that budget consultations could be improved by putting more emphasis on performance and efficiency of public resources, including revenue mobilization and management.

Medical institutions provide a wide range of paid services. The list of paid services, approved by the government, comprises more than 5,000 types of services in the health sector. Service users' profile consists of two groups: (i) legal entities – enterprises, companies, organizations; and (ii) natural persons – citizens.

2.1.3. LEGAL AND METHODOLOGICAL FRAMEWORK FOR TARIFF SETTING

The legal and methodological framework regulating the public services, tariffs and the methodology of setting tariffs in the health sector in particular includes:

- Law on health protection (Article 7) – sources of funding
- Law on state supervision of public health (Chapter II) – competencies
- Regulation on establishment and use of revenues collected by medical institutions (Government Decision No. 928/2007)
- List and charges of paid services in the public health area (Government Decision No. 533/2011)
- Methodology for setting tariffs and charges for health services (Government Decision No. 1020/2011)

According to the approved methodology, medical services provided by public institutions are non-profit. The basic principles in tariff setting for medical services are:

- recovering of real costs
- avoiding discrimination of service providers and consumers
- transparency of tariff setting

In practice, there is a deviation from the principle of cost recovering, since prices for services provided by public health institutions in the sector have not been revised since 2011.

For example, the real costs of a specific service (Investigation of IgM anti-HAV) exceed more than three times the tariff approved by the government (based on information provided by the Ministry of Health (MoH)). The total cost of the service includes the cost of materials and supplies, cost of equipment and personnel costs. A detailed calculation of the tariff for this service is presented in Annex 3.

So, it is evident that the differences in costs of services are covered from general revenues. There are also cases when medical institutions refuse to provide certain services because of cost inefficiencies in their provision.

Although the MoH annually analyzes the cost drivers' implications (salary increases, inflation) and in 2014 initiated an update of the list and tariffs for services provided by medical institutions, the initiative was not supported by the government, being an unpopular political measure.

Thus, revenues from paid services in the health sector are planned based on annual trends of estimations of the volume of services and the collection rate.

The tariffs for medical services consist only of the basic elements:

- direct expenses (salaries, insurance contributions, materials and supplies)
- indirect costs (utilities, administrative and general auxiliaries, depreciation of fixed assets)

The tariffs do not include the profitability rate, capital expenditures, or investments in research and development.

On the health care service market, the budgetary institutions have to compete with private suppliers, which often have a better financial situation. At the same time, there is no evidence which services are of higher quality. However, it is obvious that fees for medical services, provided by public entities, are cheaper than those by private suppliers. So, the choice is up to the consumer.

In terms of transparency, decisions are taken within a wide public consultation process in accordance with a regulatory framework on decisional transparency. In practice, there is no significant input from citizens because of their poor capacities and low degree of involvement in the decision-making process. The methodology and tariffs for services are published in different sources and are available to the customers in the medical institutions.

The MoH has not practiced, so far, conducting opinion polls to investigate the degree of customer satisfaction or expectations to service quality. However, with the implementation of program budgeting, the ministry has focused on improving the quality of the expenditure programs in terms of performance indicators.

CONCLUSION

Moldova has an integrated budget model in place, including all sources of funding: general budget resources and resources collected in sectors by budgetary service providers. Revenues mobilized in sectors are planned, approved and managed as part of the budget process, passing all stages and procedures from forecasting within the MTBF to reporting on budget execution. The responsibilities of participants within the budget process are clearly defined by the law.

The share of revenues collected in sectors as compared to total budget is 3%. The indicator varies at sector level, and can reach 4–7% of total sector budget (cf. defense, general public services, justice, and education).

About three quarters of total revenues from sales of goods and services are administered at central level. As for local level, the initiated decentralization reform is expected to improve the distribution of competences between central and local authorities, and create a basis for strengthening the financial autonomy of LPAs, including in service delivery and revenue collection. The decentralization of powers in public service delivery and the consolidation of the financial management capacity of LPAs remain a challenge and need to be addressed in the medium term through further development of the legal framework and capacity building programs.

The current study has revealed several challenges related to the collection of revenues from sales of goods and services. Although these challenges arise from the specific analysis of the health sector, they are common to other sectors as well.

- Budgetary institutions have expressed concern about restricted access to unused balances/carry-overs, especially from donations. Nevertheless, the MoF is steadfast to continue the reform through applying unified and uniform rules of managing all budgetary resources, including sector revenues collected by budgetary institutions. Moreover, revenue mobilization at sector level should not be seen as a competition in collecting more revenues, but a responsibility. At the same time, budgetary institutions should focus on their core mission to efficiently provide high-quality public services within approved budgetary appropriations, no matter the sources they come from. As regards donations, better collaboration between public authorities and donors is needed to ensure timely disbursements in order to absorb the funds till the end of the year.
- Another challenge lies in the fragmentation of the legal and methodological framework for setting tariffs for services provided by budgetary institutions. Each ministry develops its own specific regulation, which is then approved by the government. To address this challenge, the government intends to develop a general unified methodological framework on setting tariffs for public services.
- The lack of a periodic adjustment of tariffs to the impact of cost drivers highlights weaknesses of the decision-making process as regards charges. This also undermines the effectiveness and efficiency of service delivery. It is influenced by political instability in the recent years and should be addressed in the context of the planned public administration reform.

Additionally, public authorities should pay more attention to transparency. With the implementation of program based budgeting, public institutions are encouraged to focus on increased performance in providing public services. Developing capacities of public authorities to undertake regular studies and surveys on beneficiaries' ability and willingness to pay, as well as on user satisfaction degree would bring public authorities closer to service beneficiaries and contribute to improving the quality of sector policies.

In 2014, the government launched the Public Service Reform Program for 2014–2016, which aims to address the above challenges. In particular, the reform envisages re-engineering of operational processes in public service delivery, ensuring transparency and equitability in tariff setting, and improving public access to quality public services. The program requires also development of the necessary legal framework for public services.

A further strengthening of the institutional efficiency and public financial management system remains high on the government agenda. The reforms in public finance in the coming years are expected to be supported by international partners, notably through the launch of the EU Budget

Support Program for policy improvement in public finances (PFM 2) for the years 2015–2017. However, synergy between the PFM reform and other complementary reforms is needed to successfully address the existing challenges, and to improve the performance of public services. While the PFM reform focuses on efficient and effective management of sector revenues, the decentralization and public service reform should concentrate on the quality, accessibility, transparency and efficiency of public services.

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ANNEXES

ANNEX 1. GOVERNMENT REVENUES ACCORDING TO GFS, 2012–2014

Types of revenue	2012			
	General government	Budgetary central government / state budget	Central government (social security funds)	Local governments
	% of total			
Revenue, total	100.00	100.00	100.00	100.00
Tax revenue	61,1	81,9		45,9
Social contributions	26,7		65,9	
Grants revenue	4,5	7,5	33,9	49,0
Grants revenue from foreign govts	4,5	7,3		0,3
Grants revenue from international orgs				
Grants revenue from other gen govt		0,2	33,9	48,7
Grants revenue from other gen govt: current			33,9	47,1
Grants revenue from other gen govt: capital		0,2		1,6
Other revenue	7,7	10,6	0,2	5,1
Property income revenue	1,5	2,0	0,2	0,9
Revenue from sales of goods & services	5,2	7,5	0,0	3,1
Revenue from fines, penalties & forfeits	0,6	0,7	0,0	0,5
Revenue from other transfers	0,4	0,4		0,6
Revenue from NI & SGS: premiums, fees & claims				

Types of revenue	2013			
	General government	Budgetary central government / state budget	Central government (social security funds)	Local governments
	% of total			
Revenue, total	100.00	100.00	100.00	100.00
Tax revenue	62,1	82,4		47,0
Social contributions	26,4		65,9	
Grants revenue	5,3	9,8	33,8	47,6
Grants revenue from foreign govts	5,3	8,4		0,6
Grants revenue from international orgs				
Grants revenue from other gen govt		1,4	33,8	47,0
Grants revenue from other gen govt: current		1,3	33,8	43,9
Grants revenue from other gen govt: capital		0,1		3,1
Other revenue	6,2	7,8	0,3	5,4
Property income revenue	2,1	2,7	0,2	1,2
Revenue from sales of goods & services	3,2	4,0	0,0	3,1
Revenue from fines, penalties & forfeits	0,6	0,8	0,1	0,4
Revenue from other transfers	0,3	0,3		0,7
Revenue from NI & SGS: premiums, fees & claims				

Types of revenue	2014			
	General government	Budgetary central government / state budget	Central government (social security funds)	Local governments
	% of total			
Revenue, total	100.00	100.00	100.00	100.00
Tax revenue	60,1	80,1		29,7
Social contributions	25,4		64,7	
Grants revenue	9,2	14,0	35,1	64,9
Grants revenue from foreign govts	9,2	13,8		0,8
Grants revenue from international orgs				
Grants revenue from other gen govt		0,2	35,1	64,1
Grants revenue from other gen govt: current			35,1	53,4
Grants revenue from other gen govt: capital		0,2		10,7
Other revenue	5,3	5,9	0,2	5,4
Property income revenue	1,1	1,2	0,1	1,2
Revenue from sales of goods & services	3,1	3,6	0,0	2,8
Revenue from fines, penalties & forfeits	0,6	0,7	0,1	0,4
Revenue from other transfers	0,5	0,4		1,0
Revenue from NI & SGS: premiums, fees & claims				

ANNEX 2. EXTRACT OF MINISTRY OF HEALTH'S BUDGET PROPOSAL FOR 2016-2018

Extract from the budget proposal for 2016 and estimates for 2017-2018

Source		State Budget		Cod									
Authority		Ministry of Health		0215									
A. Aggregate budget proposal (produced automatically in FMIS), thousand lei													
Name	Cod	2013	2014	2015	2016	2017	2018						
	F1	Eco (k2)	Execution	Execution	Approved	Project	Estimates						
A.1. EXPENDITURE, total	07		X	X	174.737,3	182.707,0	190.381,9						
Wages and salaries	07	21	X	X	132.889,2	143.077,1	150.459,2						
Goods and services	07	22	X	X	18.336,7	19.334,3	19.517,1						
Social benefits	07	27	X	X	682,5	967,8	1.001,6						
Other expenditures	07	28	X	X	0,0	158,0	158,6						
Fixed assets	07	31	X	X	11.444,5	7.120,7	7.120,7						
Stocks of materials	07	33	X	X	11.384,4	12.049,1	12.124,7						
Name	Cod		2013	2014	2015	2016	2017	2018					
	S3	S5	F1	Eco (k2)	Execution	Execution	Approved	Project	Estimates				
A.2.RESOURCE, total (A2=A2.1+A2.2+A2.3)			07		X	X	174.737,3	182.707,0	190.381,9				
A.2.1. Internal collected resources, total	112	1	07	14	X	X	68.577,0	68.577,0	68.577,0				
A.2.2. External collected resources, total	112	2	07	13	X	X							
A.2.3. General resource, total A.2.3=A.1-(A.2.1+A.2.2)	111	1	07		X	X	106.160,3	114.130,0	121.804,9				
B. Expenditure limits (produced automatically in FMIS), thousand lei													
Name	Cod		2016 Project			2017 Estimates			2018 Estimates				
	F1	Expend(r/c), resource (S3)	Limit	Deviations +/-	Proposal	Limit	Deviat. +/-	Proposal	Limit	Deviat. +/-	Proposal		
TOTAL			182.707,0	0,0	182.707,0	190.381,9	0,0	190.381,9	197.542,3	0,0	197.542,3		
Recurrent expenditure	07	r	182.707,0	0,0	182.707,0	190.381,9	0,0	190.381,9	197.542,3	0,0	197.542,3		
Capital investments	07	c		0,0			0,0			0,0			
TOTAL			182.707,0	0,0	182.707,0	190.381,9	0,0	190.381,9	197.542,3	0,0	197.542,3		
Collected resource	07	2	68.577,0	0,0	68.577,0	68.577,0	0,0	68.577,0	68.577,0	0,0	68.577,0		
General resource	07	1	114.130,0	0,0	114.130,0	121.804,9	0,0	121.804,9	128.965,3	0,0	128.965,3		
C. Detailed collected resources, mii lei													
Name	Cod						Description	2013	2014	2015	2016	2017	2018
	Source (S3S4)	Origin of source (S5)	Donor (S6)	F3	P3 (7xx)	Eco k6	Execut	Execut	Approved	Project	Estimates	Estimates	
TOTAL							X	X	68.577,0	68.577,0	68.577,0	68.577,0	
Revenue from sales of goods and services	297	1	x	0740	00186	142310	X	X	67.792,0	67.827,3	67.827,3	67.827,3	
Lease of public property	297	1	x	0740	00186	142320	X	X	765,0	749,7	749,7	749,7	
Donation for current exp. from internal source	297	1	x	0740	00186	144114	X	X	20,0				

ANNEX 3. EXAMPLE OF COST CALCULATION OF A SERVICE⁸

Cost calculation per one service / investigation based on 2015 real expenses

4309. Identification of IgM anti-HAV								
a) Materials and supplies, lei							11,77	
#	Name of chemicals	Un	Normative	Price	Cost			
1	2	3	4	5	6=4*5			
1	Set HAV IgM	set	1	1035,76	1035,76			
	Cost per set, lei	x	88	x	11,77			
b) Cost of equipment per service / investigation, lei								
N d/o	Name of equipment	Balance cost, lei	Depreciations normative, years	Depreciation per year, lei	Time normative per year, min	Cost per 1 minute equipment functioning, lei	Time norm per 1 investig. min	Cost of equipment per 1 investigation, lei
1	2	3	4	5=3/4	6=251*60*6,5	7=5/6	8	9=7*8
1	ELISA station	151538,72	10	15153,87	97890	0,155	40	6,19
n = normative per day subdivision, hours (6,5)								
c) Expense per 1 minut for subdivision, lei							2,1	
d) Time per 1 service (investig), min								
including:								
20 min - centrifuging and recording evidence								
15 min - investigation								
20 min - protocol, reading and evaluation of results								
5 min - delivery of result								
Total real cost of service/investigation = a + (c * d) + b = 11,7+(2,1*60)+6,19							= 144	
Approved tariff (Gov decision 1020/2011)							30	

⁸ The calculation is provided by the Ministry of Health. The service is provided by the National Center of Public Health.

REVENUE MOBILIZATION AND MANAGEMENT IN SECTORS

CASE STUDY ON THE ENVIRONMENT PROTECTION SECTOR IN SERBIA

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INTRODUCTION

The purpose of this paper is to shed some light on the manner of managing particular revenues in the sector of environment protection in Serbia. The reason for selecting the environment protection sector for the case study is twofold: 1) the sector is prone to revenue generation from charges; and 2) effective financing mechanisms are important for the sector's development and Serbia's progress in the EU integration process.

Serbia's key strategic documents in this area recognize that clear financing strategy is a prerequisite for tackling the challenges in the environment protection domain.¹ Given the current status of the environment protection infrastructure in Serbia and having in mind the situation of recent EU entrants, it is certain that the most expensive part of the acquis implementation would be in the environment protection sector.² Water, waste, and industrial contamination are sub-sectors with the highest investment needs. The significant part of those expenses relates to operating costs, which cannot be financed from international sources of financing, but only from the budget, private sector funds, or through charges.

Our case study focuses on the public finance management practices related with the charge for products that after use become special waste streams (SWS). We have chosen the SWS charge because it is one of the most important revenue sources among environmental charges, and the single biggest one in terms of environmental charges' contribution to the central government budget.³

The key objective of the case study is to examine how sector driven policy goals (in our case: reduction of negative effects of the waste generated by certain type of products) are reconciled with broader policy objectives: development of business environment conducive for economic growth, non-hampering of the purchasing power of consumers and public finance needs (budget consolidation).

TIERS OF THE GOVERNMENT AND DECENTRALIZATION DEVELOPMENTS

Serbia has a rather flat vertical organization of the government sector. For most intents and purposes, there are only two levels of government: central (Republic) and local government. This statement needs to be somewhat qualified. Constitutionally, there are two provinces: Vojvodina, and Kosovo and Metohija. The Province of Vojvodina has responsibilities in a number of areas (the environment sector included) that are similar to the responsibilities of regions in some European countries. However, most of the Serbian territory is not part of any province. Additionally, there are 29 counties that operate as intermediary entities between the Republic and local governments, covering the whole territory. As opposed to the provinces, counties do not have democratically elected governance and represent mere de-concentrated units (field offices) of the Republic's government.

This relative centralization is, to a certain degree, offset by relatively robust local governments. There are 145 local government units, with the average number of citizens per local government around 50,000, making Serbian cities and municipalities among the biggest in Europe. The City of Belgrade has around 1.5 million people, and there are several other cities with more than 200,000 people.

Central, provincial and local governments have a combination of their own and shared responsibilities and sources of revenues. The environmental sector, which is in the focus of this research, is an example of shared responsibility. All three levels of government have responsibilities in the adoption and implementation of regulations in the area of environment and in supervision (through the system of inspections) of adherence to environmental regulations.

The system of financing of the sector is a combination of own sources and shared financing. Most of the sector's revenues are the Republic's government revenues. Local governments also have

1 See e.g. the National Strategy of Republic of Serbia for Approximation in Environment Protection Sector, December 2011, www.misp-serbia.rs/wp-content/uploads/2010/05/EAS-Strategija-SRP-FINAL.pdf (in Serbian only).

2 Ibid.

3 There is one environmental charge that generates more revenues in total (charge for emission of pollutants), but it is shared with local governments.

their own revenue source: the charge for development and protection of the environment, where rates are determined by local governments, up to the ceilings set by the central government. Finally, there are shared revenues, such as the charge for environmental pollution, which is shared between the central and local governments in the 60:40 percent ratios. The provincial government level also has a share in some environmental charges collected on its territory. For example, the charge for the use of forests and forest land is shared between the central and provincial government in the 20:80 percent ratio. When revenues are shared like that, the central government's share on the territory of the province may fully belong to the provincial budget, as is the case with the charge for the use of forest.

BUDGET PROCESS IN THE REPUBLIC OF SERBIA

The Budget System Law (BSL) stipulates that the Ministry of Finance prepares and proposes to the Government the Draft Law on Budget (LoB) for the following year, starting from the mid-term fiscal framework, and after consultations with direct and indirect budget beneficiaries. The BSL provides that the budget preparation process starts on February 15 with the Minister of Finance instructions for the proposal of the priority areas to be funded, and ends on December 15 when the National Assembly adopts the proposal of the Budget Law for the following year.

The spring part of the budget cycle (including submission of proposals for priority areas of financing by budget beneficiaries, consideration of government expenditure priorities within the available fiscal envelope, and setting of spending ceilings per budget beneficiary) should normally result in government's adoption of the Fiscal Strategy document by June 15. However, in recent years, the deadlines prescribed by the budget calendar were not respected: the Fiscal Strategy, which is the main medium-term budget and policy planning tool at strategic level, was not adopted until late in the fall. Thus, the budget beneficiaries were not able to timely commence with the revenue and expenditure planning procedure, in line with sector priorities and spending ceilings.

Furthermore, the BSL stipulates that the government shall adopt the budget proposal for the next year until November 1 and submit it to the National Assembly, which has a 45-day deadline to adopt the Budget Law. This stipulation was not respected in recent years either. The Assembly typically had only about a week to review and approve the budget.

The budget classification system in Serbia is fully in line with the IMF Government Financial Statistics as well as with COFOG. A program budget classification was introduced in the 2015 budget. All direct budget users now link their expenditures to programs, program activities and projects, with set objectives and performance indicators.

When it comes to budget transparency, according to the results of the Open Budget Survey (OBS) for 2015⁴, Serbia's score of 47 out of 100 is a little higher than the global average score, and about the average for the region. In the segment of revenue transparency, Serbia has an above average score, with individual sources of all tax revenues and individual sources of 91% of non-tax revenues presented in the LoB. Multi-year estimates for individual sources of revenues accounting for less than two-thirds of revenues are presented in the Fiscal Strategy. There is a lack of transparency in the presentation of earmarked revenues – only earmarked donations and loans (but not fees and charges) are clearly identified in the LoB, with some information provided in the explanatory note.⁵

According to the IMF's Report on Observance of Standards and Codes, this lack of information is particularly significant in the budgets of indirect budget beneficiaries and budget funds, making them less complete in respect of own revenues and spending. The PEFA 2015 report for Serbia states that the data on final revenues collected in the previous year is missing in the LoB, and provides an important insight into the reliability of budget revenue estimates, showing that actual revenues were between 92% and 116% of budgeted revenues in at least two of the last three years.

4 See more at www.internationalbudget.org/wp-content/uploads/OBS2015-Questionnaire-Serbia.pdf

5 According to the Budget System Law, it is possible to earmark revenues but this practice is a rare exception, unlike in previous years (before 2012), when earmarked revenues were listed separately for each budget beneficiary in the column "own income".

REVENUES FROM SALES OF GOODS AND SERVICES

The key legal instrument defining the types of revenues in Serbia is the Budget System Law (BSL).⁶ Article 14 of the BSL stipulates the following types of public revenues: taxes, non-tax revenues, mandatory social insurance contributions, self-contributions and grants. Non-tax revenues include fees, charges, fines and revenues generated by the use of public resources. Non-tax revenues are further defined as “public revenues collected from physical or legal persons for the use of public goods (charges), provision of certain public services (fees), for the breach of contractual or legal obligations (penalties and fines), and revenues generated by the use of public resources”.⁷

The key revenues for the scope of this analysis are fees and charges. With some risk of oversimplification, we will use the term “fee” to denote payments for mostly administrative activities of the public sector (e.g. issuance of a permit or a certificate), and the term “charge” for payments related to the use of public resources (e.g. for the use of wells or for the benefits of a melioration system) and provision of public services (e.g. veterinary-sanitary tests).

As a result of proliferation of fees and charges during a number of years up to 2012, the amendments to the BSL adopted that year introduced, for the first time, some important principles related to these non-tax revenues. Some of them seem obvious, like the one that stipulates that only one fee can be collected for one public service.⁸

Probably the most important principle among the 2012 amendments to the BSL is that the amount of a fee must be commensurate to the costs of administering the activity it is collected for. In the same manner, the BSL stipulates that the amounts of fees, unless expressly authorized by a law, must be expressed in absolute numbers and not as percentages of variable base (for example, value of a sale should not be a basis for the fee for the verification of the transaction contract, as the case was and still is). Fees can be introduced only by the virtue of the law, for services directly provided, an act issued or a procedure completed by a public authority.⁹

The BSL authorizes the Minister of Finance to adopt a rulebook on the methodology for the calculation of the amounts of fees based on the actual costs of administrative actions.¹⁰ The amount of a fee not determined in a law is set annually, in accordance with the methodology, after receiving, by September 30 for the following year, a positive assessment of the Ministry of Finance,¹¹ and cannot be changed within the same calendar year.

When it comes to charges, the BSL stipulates that they can be introduced for the use of goods that are defined in sectoral laws as natural resources, public interest goods and goods in public use. The BSL requires all main elements of a charge (payer, basis, amount, method of calculation payment and beneficiary) to be defined in special legislation within the purview of the Ministry of Finance.

⁶ “Official Gazette of the Republic of Serbia”, No. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013, 108/2013, 142/2014, 68/2015 – other law and 103/2015.

⁷ Article 2, paragraph 18 of the BSL.

⁸ Obvious or not, more than three years following the 2012 amendments to BLS, this principle is still not consistently implemented in the system of non-tax revenues

⁹ The BSL also introduced one principle important for the one-stop-shop concept of the services provided by the public sector; namely that a fee cannot be collected for obtaining a document in possession of one public authority for the procedure administered by another public authority. Unfortunately, evidence around this provision is being widely ignored.

¹⁰ The Rulebook was adopted in 2013 and then amended twice in the same year (“Official Gazette of the Republic of Serbia”, No. 14/2013, 25/2013 and 99/2013).

¹¹ Local government finance department, in the case of fees introduced by an entity within responsibility of local government.

1. MANAGEMENT OF FEES AND CHARGES IN SERBIA

1.1. NON-TAX REVENUES: COUNTRY COMPARISON

Based on the overview of revenues generated in 2013 in seven representative countries (Albania, Bulgaria, Croatia, Germany, Macedonia, Moldova, and Serbia), classified according to the IMF GFS, when tax revenues, social contributions and grants revenues are excluded from total revenues, the percentage of the remaining amount (classified as “other revenues”) represents between 6.22% and 10.80% of a country total revenue (see Annex to “Revenue Mobilization and Management in Sectors: Background”).

Under the classification “other revenues” it can be observed that the share of “revenues from sales of goods and services (142)” in total revenues varies significantly among the countries (Moldova: 3.19%, Albania: 3.51%, Serbia: 3.98%, Croatia: 4.24%, Macedonia: 6.87%, Bulgaria: 6.92%, and Germany: 7.68%).

Based on disaggregated data on central government revenues under GFS “sales of goods and services” for Serbia in 2015 (see Table 6 in Annex):

- About 58% of the revenues come from “administrative fees”, the most significant being the Republic court fee (22%) and the Republic administrative fee (16%), followed by various fees/charges related to gambling, charges for veterinary and sanitary checks etc.
- About 39% comes from “incidental sales by non-market establishments”, the most significant being revenues from the republican organizations – formerly “own source” revenues – (16.1%), the charge for using cadastral data and services of the geodetic institute (11%), and income of the Serbian military from sales of goods and service (10%).
- About 3% come from “sales by market establishments” – mostly from leasing of military property.
- COFOG sectors that are particularly prone to revenue generation under this category are justice, defense, and general economic and commercial affairs.

Based on disaggregated data on central government revenues under GFS “rent” for Serbia in 2015 (see Table 7 in Annex):

- The most significant individual revenues are special waste streams charge (20%), water goods usage charge (18%), radio frequencies and TV channels usage charge (17%), mineral and geothermal resources usage charge (12%), and revenue from lease of agricultural land (14%).
- COFOG sectors that are particularly prone to revenue generation are environment protection; agriculture, hunting and forestry; and water management.

The share of “property income revenue (141)” in total revenues is the highest in Serbia (3.79%), compared to only 1.56% in Germany or 2.07% in Moldova. A significant share of revenues under this GFS category and sub-category “rent” in Serbia (see Table 4 and Table 5 in Annex) relate to the charges for the use of public goods. Some of those charges are hypothecated (earmarked), such as the environmental charge discussed in this paper.

IMPORTANCE OF CHARGES IN THE PUBLIC FINANCE SYSTEM

The period of 2008–2010 was an important time for charges in Serbia, particularly for environmental charges. In 2010, central government revenues from charges rose by two times compared to just two years ago, mostly because of the government strategy not to increase taxes in the wake of the global financial crises, and the absence of policies regulating charges. Local government revenues from charges, when construction land charges which plummeted due to the lack of investments are excluded, increased by respectable 25% (Bisic, 2011, p. 57). New environmental charges and reduction in the share of local government in the existing ones from 60% to 40% con-

tribute to the significant rise in central government revenues from charges: in 2008 environmental charges contributed only 0.2% of central government budget revenues, whereas in two years it rose by 250%. Still, even after all these developments, the share of charges in the central government budget was a modest 1.6% in 2010. In the local government budgets, however, charges in 2010 made about 20% of their total revenues. This resulted mostly from construction land related charges, but also newly introduced environmental charges that are shared with local governments or are their own source revenue (Bisic, 2011, p. 58).

1.2. PRICING AND TARIFF SETTING

Several types of approaches can be distinguished when it comes to tariff setting policies of the Serbian public sector:

- Determining the amounts of fees and charges in accordance with the “ability to pay” principle is probably the most common approach, even though often concealed behind some other, more politically correct principles. The “ability to pay” principle is very often quoted by policy-makers as a standard of fairness, without realization that rate setting principles for charges cannot be the same as the ones widely accepted for taxes. Furthermore, the “ability to pay” principle is meant to protect households from excessively high user charges; when it comes to businesses, this principle implies raising as much revenue as possible without losing the business. In this way, charges become sort of assumed profit tax. Real problems arise when it comes to market disruptions. Profit rates for the whole industries can fall dramatically, while charges remain the same. In those cases, an amount of charge that was bearable before the crisis could be the straw that makes a business fail.
- Setting the amounts payable based on calculation of needs. There are at least two different practices that have the elements of needs calculation:
 - For technical work performed by public authorities (review of technical designs), the charge can be calculated by multiplying the hourly wages of technical staff with the number of hours needed to complete the task (usually in addition to a flat fee).
 - The melioration charge is an example of a charge calculated on the basis of full capital and operative expenses related with the provision of a service that is not a utility. It serves to collect revenues for public water companies that manage melioration facilities. This approach has its proponents, as it also appeals to the fairness principle – the total charge collected for a service (such as functioning of the melioration system) in a year should reflect the annual costs of running the system. However, this approach has received a lot of criticism, as it disincentivizes cost efficiency in operating the system. These systems are particularly prone to increases in the number of employees and salaries in operating entities as their costs are fully recovered through charges, while payers have little or no say in determining the amounts of those charges.
- The third type of approach in setting rates of user charges is defining amounts based on amounts charged in the comparative practice, particularly in the region and the European Union. These amounts are then adjusted, usually downwards, to reflect lower purchasing power in Serbia (especially when a charge is collected from citizens/households).

Determination of the level of a charge collected from bottlers of water and beverages is an interesting example of dilemmas that policy-makers in Serbia face. What should be the basis for this charge? It would be ideal to treat water usage rights of an attractive well as a concession object and set the charge by auctioning bottling rights. But what to do with facilities already operating? In Serbia, most policy-makers seem inclined to apply the “ability to pay” principle – a gut feeling estimate of how much the industry can afford to pay without being hit too hard.

As a result, the charges paid by the bottling industry in Serbia are among the highest in the region, and beyond. The industry bitterly complains about it, raising the issue of the amount of the charge as an impediment for domestic businesses to compete not only internationally but also on the domestic market with foreign businesses that pay lower charges back home.

Another factor that complicates the calculation of an optimal level of charge is the different quality of water – both between waters in Serbia and those abroad and between different waters within Serbia.

There is also a question of the basis of this charge – whether it should be the amount of water consumed or water (product) delivered? The first method favors producers employing more advanced technologies, with a smaller environmental footprint; the second method is easier to administer. Since in this case there are no costs of remediation of the environmental impact to use as a basis for calculating the charge, to the extent that the resource is fully renewable, one would be well advised to use data on concession charges for similar rights if they exist and to extrapolate them on the existing producers, adjusted for the quality of waters. When such data on the Serbian market is not available, comparative data from the region should be taken in consideration when determining the payment levels.

1.3. LEGAL RATE-SETTING INSTRUMENTS

The amounts of non-tax revenues are generally defined in one of the following ways:

- Tariffs are defined in laws – an approach seldom employed. However, the Law on Administrative Fees defines a huge number of fees in absolute terms. Some of the fees regulated by that law are defined as a percentage of a variable, for example the fee for utilization permit, which is expressed as 0.2% of the assessed value of construction works. The third approach employed in this law is defining the value of the working hour of staff with appropriate skills in public body and providing for the payable amount to be determined by multiplying the number of hours actually worked on the subject matter by the hourly rate set in the law. An example of that is the administrative fee for fire protection requirements for technical construction designs issued by the Ministry of Interior’s Sector for Emergencies.
- A law sets the key elements of the non-tax revenue, and the tariff is set in a bylaw, usually adopted by the Government of Serbia or by the sectoral minister.
- The tariff is set by a public agency (or a state-owned enterprise), subject to approval by the Government of Serbia or by a local government council when the tariff is set by a company or public entity established by a city of municipality.

Setting the amount of charges by the managing boards of public agencies or enterprises, subject to approval by the Government of Serbia, indicates too broad authorities of those parastatal entities. Having the rates proposed to the Government by line ministries might be a step in the right direction. In either way, determining the amounts of fees and charges by the Government allows for the process of reconciliation of the different priorities between key ministries: line ministry (such as the Ministry of Agriculture and Environment for environmental charges), the Ministry of Economy, which should act as a guardian of enabling business environment, and the Ministry of Finance as a protector of the Treasury.

1.4. RATE SETTING PROCESS

The Law on Local Government Finances stipulates mandatory public hearings when setting rates of local government revenues. However, there is no such requirement – nor a practice – at the central government level. In the absence of institutionalized dialogue between the rate setting authorities and payers, their interaction can take the form that appears as lobbying or another improper practice. Moreover, without formalized and meaningful dialogue between the stakeholders, there is no mechanism to correct even obvious flaws in the system of charges, which in time may become increasingly unjust and counterproductive from an economic point of view. In such circumstances, a backlash by payers may be just a matter of time. One can argue that because of lack of proper dialogue on charges, in previous five years we had more charges eliminated than reformed. The life cycle of a charge often consists of introduction-deformation-elimination.

Out of the four biggest non-tax revenues identified in NALED’s ground-breaking research on para-fiscal charges from 2012 (NALED, 2012, p. 12), by the end of 2014 three were abolished fully or in major part: the construction land use charge was completely abolished, the business fee (firmarina) was abolished for the vast majority of payers, and the construction land development charge was abolished for several categories of payers, while cap was introduced for others.

1.5. PROJECTION OF FEES AND CHARGES IN REVENUE AND BUDGETARY NEGOTIATIONS

Until the supplementary 2012 budget, direct budget beneficiaries were able to plan “outflows from additional revenues” (funding source 04 – “budget beneficiaries’ own-source revenues”, used to also indicate earmarked fees and charges) in a separate column in the specific section of the Budget Law. In the event that direct beneficiaries of budget funds were able to raise more revenues than indicated in this column, they were entitled to use the additional revenues up to their actual level for purposes allowed by the law, as well as to carry any unspent funds over to the following year. Expenditures financed from “own-source revenues” were not subject to the budgetary negotiations with the MoF.

The 2012 BSL amendments brought budget beneficiaries’ own-source revenues into the general revenues of the budget so as to ensure more efficient financial planning and public financial management and control, as well as control of spending by all budget beneficiaries included in the consolidated treasury account of the Republic of Serbia. The BSL amendments created collision with sector laws that stipulate earmarking of fees and charges. In the subsequent budgets, it has not been clear to what extent a projected revenue from a fee or a charge is allocated according to the purpose defined in the generic sector law. Introduction of program budgeting has made it easier to identify appropriations allocated for specific purposes, but projected income from a related fee or charge is not referenced in program elaboration.

Since 2012, the projection of revenues from fees and charges under the authority of a budget beneficiary has become a subject of budgetary discussions: their historic values and projections are analyzed, but as a rule, they do not impact the final budget allocations much. More significant parameters for budgetary allocations are actual spending needs and historic execution rates of a budget beneficiary. Program budgeting and performance indicators were introduced in the 2015 budget, but information on performance of budget beneficiaries is still not influencing budget decisions. The challenge for meaningful budget negotiations and well-informed decision-making on both sides seems to be the time constraint. Typically, the budget circular is sent late, leaving only a week or less for the budget beneficiaries to finalize their proposals, which means that both the budget beneficiaries and the MoF analysts are under pressure to provide their inputs in just a couple of days.

2. CASE STUDY – THE ENVIRONMENT PROTECTION SECTOR AND THE SPECIAL WASTE STREAMS CHARGE

2.1. SECTOR FINANCING PRINCIPLES AND ECONOMIC INSTRUMENTS

The Environmental Protection Law¹² establishes two key principles of financing by means of non-tax mechanisms: 1) “polluter pays”, whereby the polluter is required to pay an environmental pollution fee when its activities have caused or may cause damage to the environment, or where it produces, uses, or places on the market raw materials, intermediate products, or finished products containing materials harmful to the environment; and 2) “user pays”, according to which anyone who uses natural resources is required to pay a reasonable price in return for their use and land re-cultivation.

These principles were taken as the starting point for defining the following economic instruments: natural resource use charges; environmental pollution charges; environmental protection and improvement charge; and incentives in the form of tax breaks and subsidies for producers and consumers whose activities positively affect environmental protection. Natural resource use charges are revenues of the central, provincial, or local authority budgets, whereas revenues from environmental pollution and environmental protection and improvement charges are earmarked for implementation of environmental protection programs and national, provincial, or local action and remediation plans (by the provisions of the Environmental Protection Law and Waste Management Law).¹³

2.2. EARMARKED REVENUES

The earmarking of green taxes and charges revenue is viewed as an important mechanism for financing the environmental infrastructure in many countries. In situations when large sector investments are due and there is a lack of financing mechanisms characteristic of more developed market economies, the benefits of earmarking environmental tax and charge revenue outweigh the potentially negative aspects of such practice.¹⁴ In periods of fiscal consolidation, when investment funds are cut from year to year, earmarked funds can provide sustained financing for environmental programs. Earmarked “environmental funds” have been used extensively in transition economies to address broad environmental goals. For example, most CEE countries have, to a certain extent, utilized this financing mechanism in the transition period: Poland financed 33% of total environmental expenditures from the Environmental Fund, while in Hungary, Slovenia, and Lithuania earmarked revenues accounted for 20% of the expenditures.¹⁵

2.3. ENVIRONMENT PROTECTION FUND

The Environment Protection Fund (EPF) was established in Serbia in 2009 to finance projects and measures in line with the National Environment Protection Program and other strategic documents and action plans. Revenues from environmental charges were accruing to the EPF. The Fund revenues amounted to 4.7 billion dinars in 2010 and 4.2 billion in 2011, while the expenditures for environment protection and renewable energy programs and projects (“earmarked” expenditures)

12 Zakon o zaštiti životne sredine [Environmental Protection Law], Official Gazette of the Republic of Serbia, No. 135/2004, 36/2009, 36/2009 – Other Law, 72/2009 – Other Law, and 43/2011 – Constitutional Court Ruling.

13 Zakon o upravljanju otpadom [Waste Management Law], Official Gazette of the Republic of Serbia, No. 36/2009 and 88/2010.

14 Inefficiencies of earmarking revenue occur, for example, when the amount of a tax or a charge is set based on investment needs that are not economically rational; when high revenues from a tax or a charge leads to irrational investment spending; or when low revenues lead to under-investment.

15 Generating Public Sector Resources To Finance Sustainable Development, The World Bank, 2002.

were 3.1 billion dinars in 2010 and 3.5 billion in 2011. As the 2012 amendments of the BSL abolished own-source revenues of budget beneficiaries (including from earmarked charges) the EPF became obsolete.

2.4. REVENUES FROM ENVIRONMENT PROTECTION CHARGES AND BUDGETARY IMPLICATIONS

Table 1 provides an overview of environmental charges, revenues collected over the past three years, and distribution of funds collected between the various levels of government (Annex also provides figures disaggregated by year and national/provincial/local level).

Table 7: Revenues from Environment Related Charges (in dinars)

Charge	Total amount collected (national and local Level)			Ratio
	2013	2014	2015	
Fisheries charge	43,169,383	44,031,224	40,536,330	100:0
Environmental pollution charge	3,514,057	3,804,333	2,170,934	60:40
Ozone depleting substances charge and plastic bag charge	4,698,970	22,255,204	14,748,378	60:40 (80:20)
Charge for emissions of nitrogen dioxide, sulfur dioxide, powder materials and waste production or disposal	2,916,573,816	4,847,558,143	3,050,245,193	60:40
Charge for placing on the market of protected wild plant and animal species	60,487,023	105,708,926	67,710,800	100:0
Special waste streams charges	2,242,074,478	2,689,754,049	2,929,095,621	100:0
Charge for placing on the market of packaging materials	15,467,862	15,119,241	22,639,045	100:0
TOTAL:	5,285,987,602	7,728,233,134	6,127,148,316	

Source: Ministry of Finance, Treasury Administration

The earmarking of environmental charges and the existence of EPF enabled the Ministry of Agriculture and Environmental Protection (MAEP) to plan for the implementation of environmental protection programs and projects based on projected revenues from charges (i.e. revenues collected in the previous years). These funds were not subject to budget negotiations between the line ministry and the MoF.

After the EPF was abolished, revenues previously accruing to the EPF became revenues of the central budget. These changes have reduced transparency in how charge revenues are planned and expended (i.e. it remains unclear to what extent they are planned and used specifically for purposes of environmental protection and development). Currently the MAEP's entire financial plan proposal is subject to budget negotiations with the MoF. These new circumstances have restricted predictability of funding and have made it more difficult to plan and consistently implement sector policy measures in the medium term.

Funds allocated in the budget for environmental development projects (i.e. spending earmarked for specific purposes) from 2013 to 2015 made up approximately between 47% and 65% of charge revenues that were collected in those years. Interviews with MoF and MAEP officers have revealed that the projected charge revenues (and historic track record) affect allocations for environmental protection programs and projects to only a limited extent. The lower amount of funds allocated for special-purpose spending is partly the consequence of under-execution in recent years. Insufficient capacity for the planning and implementation of environmental protection projects, and infrastructure projects in particular, has been reported to be one of the major reasons for environmental budget under-execution.

Table 8: Simulation of the share of "earmarked" expenditures in revenues from environmental charges

	Budget 2014	Budget 2015	Budget 2016
1) Expenditures that can be considered "earmarked"			
Infrastructure projects	265,873,000	506,000,000	343,600,000
Settlement of liabilities of the EPF	1,251,875,000	835,305,000	262,700,000
Subsidies for waste recycling industry	1,600,000,000	1,900,000,000	2,100,000,000
7012 – IPA 2010 MISP project	139,000,000	347,500,000	173,750,000
IPA 2013 Environment and climate change project	175,634,000	33,951,000	472,320,000
IPA 2012 Strengthening the system of Environmental protection and climate change	273,715,000		27,827,000
TOTAL:	3,432,382,000	3,622,756,000	3,290,197,000
	2013	2014	2015
2) Revenues generated from environmental protection charges	5,285,985,589	7,728,231,120	6,127,146,301
Share of expenditures (1) in revenues (2)	65%	47%	54%

Sources: Ministry of Finance, Treasury Administration; authors' own calculations based on the Law on Budget for 2014, 2015, 2016

The amendments to the Environmental Protection Law adopted in 2016 established a budget fund called the Green Fund. This is expected to increase the transparency of funding allocated for the implementation of all environmental protection programs and projects in the budget, by their grouping under the Green Fund chapter. However, the establishment of the Green Fund will not increase the predictability of funding nor ensure the consistency of sector policy implementation. According to the BSL, revenues from green charges are the general revenues of the budget; funding available for programs and projects under the Green Fund is determined each year in the budgetary procedure; and unspent funds cannot be carried over into the following year, so there is no accrual of funds.

2.5. SWS CHARGE: LEGAL BACKGROUND AND ASSESSMENT CRITERIA

The Waste Management Law¹⁶ governs special waste streams, which constitute flows of waste (expended batteries and accumulators, waste oils, waste tyres, electrical and electronic equipment waste, end-of-life vehicles, and other waste) from its source, through collection, transportation, and treatment, to its final disposal. The Law mandates payment of charges by producers or importers of products disposed of as SWSs after use, and earmarking of collected revenues for investment and operating costs of managing SWSs.

The charge assessment criteria and procedure are governed under a specific Government Decree.¹⁷ This Decree categorizes the products that are subject of the charge and mandates the keeping of daily records and annual reporting on the quantity and type of products produced and imported. Charge payers are required to file annual reports on SWSs with the Serbian Environmental Protection Agency (EPA) covering the preceding year by 15 March of the current year. In 2012, the EPA established a National Register of Pollution Sources, which includes an electronic reporting feature.

¹⁶ Zakon o upravljanju otpadom [Waste Management Law], Official Gazette of the Republic of Serbia, No. 36/2009 and 88/2010.

¹⁷ Uredba o proizvodima koji posle upotrebe postaju posebni tokovi otpada, obrascu dnevne evidencije o količini i vrsti proizvedenih i uvezenih proizvoda i godišnjeg izveštaja, načinu i rokovima dostavljanja godišnjeg izveštaja, obveznicima plaćanja naknade, kriterijumima za obračun, visinu i način obračunavanja i plaćanja naknade [Government Decree on products disposed of in special waste streams after use, daily record form on the quantity and type of products produced and imported and annual report form, manner of and deadlines for annual reporting, charge payers, assessment criteria, amount, and manner of assessment and payment of the charge], Official Gazette of the Republic of Serbia, No. 54/2010, 86/2011, 15/2012, 41/2013 – Other Regulation, and 3/2014.

Based on information provided by the EPA, the MAEP assesses the amount of the charge payable by each producer/importer. According to the Decree, the amount of the charge for a particular category of product is determined with reference to the cost of managing waste generated by that category of product. The charge is payable quarterly and is assessed based on: 1) products' weight (for vehicles); 2) VAT base (for information technology (IT) equipment); or 3) the quantity of products produced or imported (for all other SWS products).

2.6. COLLECTION RATES

The EPA keeps records of products that are to be disposed of as SWSs, as well as of the actual management of waste generated from such products. The EPA's 2014 SWS Report¹⁸ reveals an annual increase in the number of businesses complying with their statutory reporting requirements with the EPA, but also that a large number of firms still have not been filing their reports (see Table 8 in Annex).

Revenues from this charge have grown continually over the past three years at an average annual rate of 14% (see Table 2). Since neither the assessment method nor the rate has changed, it indicates a higher collection rate and/or more extensive manufacture or import of SWS products. As shown in Table 3, the share of the SWS charge in central government revenues has increased by approximately 12%: from 0.28% in 2013 to 0.31% in 2015.

Table 9: Share of SWS charge revenues in central government revenues (million RSD)

	2013	2014	2015
SWS charge revenue	2,242	2,690	2,929
Total central government revenues	812,080	881,083	947,837
Share of SWS in central government revenues	0.28%	0.31%	0.31%

Source: authors' calculations

Based on the reports filed, the quantities of waste generated and treated have, in the majority of product categories, increased from 2011 to 2014, but there are significant annual oscillations and no clear trend (see Table 9 in Annex). As evidenced by EPA records, the quantities of some categories of products placed on the market (such as tyres) increased from 2010 to 2014, whilst the amount of waste in other categories (EE products) declined (see Table 10 in Annex). Cross-referencing the filed data with the reports of the Serbian Office of National Statistics on imports reveals that the quantities reported have been significantly underestimated.

The above records show that a large number of businesses that produce/import products disposed of as SWSs are still avoiding compliance with their statutory requirements. The low collection rate has led to problems with unfair competition in the market, as the charge has a direct impact on the product price.

The Decree envisages fines of between RSD 0.5 and 1 million for producers/importers failing to: 1) file an annual report with the EPA or keep daily records of the quantity of products produced and imported; 2) submit proof of payment of the charge, by product category, to the MAEP by 15 March of the current year. In its 2014 SWS Report, the EPA concludes that bringing misdemeanor charges against non-compliant businesses has had a markedly positive impact on both reporting for the current year and submission of information for previous years.

The Economic Instruments Department in the MAEP keeps a register of charge payers, including those that have been issued charge assessment decisions. Where a charge payer has failed to file its annual report with the EPA, the Ministry assesses the charge based on the report of a national

¹⁸ Source: Proizvodi koji posle upotrebe postaju posebni tokovi otpada u Republici Srbiji u 2014. godini [Products disposed of into special waste streams in the Republic of Serbia in 2014], Serbian Environmental Protection Agency, Belgrade, June 2015.

By way of illustration, according to the EPA, some 1,400 reports for 2013 had been filed by the statutory deadline (31 March 2014). Over the course of 2014, the EPA began a data collection drive to gather information about charge payers by customs tariff numbers, based on the Customs Administration records. As at mid-November 2014, misdemeanor charges had been brought in a total of 5,667 instances against businesses that had failed to file reports as envisaged under the Decree. As a result of actions undertaken by the EPA and misdemeanor courts, the total number of reports for 2014 filed increased to 4,173 (Source: EPA 2014 SWS Report).

environmental inspector. The large number of charge payers (in excess of 9,000) poses a major problem for inspection oversight (as the Environmental Inspection Department employs a mere 97 inspectors).

2.7. CHARGE ADMINISTRATION CAPACITY

The analysis of 1) the process of administering the charge for SWS products and other environmental charges (data collection and monitoring, charge assessment and misdemeanor fees); 2) volume of work; and 3) human resources available at the EPA and MAEP devoted to these purposes has revealed a gap in administrative capacity. Discussions with officers of the MAEP have led to a similar conclusion.

The Economic Instruments Department, tasked with monitoring and analyzing environmental financial mechanisms and economic incentives, registering and distributing polluter charges, and overseeing implementation of projects financed using the funds so collected, currently employs only five permanent and eleven temporary employees. At the time of its closure, the Environmental Protection Fund, which had been tasked with the same responsibilities, employed 25 people.

The lack of an appropriate information system also makes it difficult for the MAEP to efficiently track and collect charges. The staff of the Economic Instruments Department has to manually cross-reference information provided separately by the EPA, Treasury Administration, and Business Registries Agency, which significantly slows down their operations and introduces room for errors. The disbandment of the EPF also means that the responsibility for administering these charges is now divided between the EPA and the MAEP. This may also make the process less efficient (due to excessive administration).

The lack of administrative capacity at the MAEP, in particular for economic and financial analysis and planning, is exacerbated by the expected extension of the MAEP's role and remit, as envisaged under national strategic documents and Serbia's EU Accession Plan. This issue additionally gains in importance in view of the fact that the negotiating chapter 27 calls for the MAEP to assume major responsibilities for developing economic instruments (identifying and mobilizing external grants, developing cost refund policies and waste management fees, etc.).

2.8. ECONOMIC NATURE AND EFFICIENCY

The introduction of the SWS charge is in line with the concept of *extended producer responsibility* for environmentally sensitive products. In a broader sense, this charge, just as other environmental charges, is considered a charge for the use of public goods, as reflected in the plan to include all environmental charges in the future Law on Charges for the Use of Public Goods. However, it is arguable whether this is their real economic nature. The SWS charge, together with most other financial environmental instruments, has the elements of a Pigovian tax, being levied on market activities that generate negative externalities on the environment (future pollution, following the end of a product usage cycle). The quasi-tax nature of environmental charges is particularly true for charges for emissions of nitrogen dioxide, sulfur dioxide, powder materials and ozone depleting substances – that is for the type of pollution for which no direct remedial actions are undertaken

by the public sector. Other environmental financial instruments have more elements of a charge, as the case is with the SWS charge, since the government is supposed to fund remediation actions – to collect the waste resulting from end of usage of SWS products and to recycle or dispose them in an appropriate way.

For the tax nature of charges to be less prominent, there is another requirement, besides certain service being provided by the public sector to payers: the amounts payable should commensurate with the costs of providing the service. The methods of calculating environmental charges comply, to a certain extent, with the proportionality principle. The SWS charge is calculated based either on the number of products or similar criteria (weight, volume), which are directly correlated with the costs of disposing such products.

However, there are some notable deviations from this principle. For example, the SWS charge for IT equipment is calculated on the basis of the VAT base. In this regard, the SWS charge has the elements of para-fiscal imposition, as the VAT basis cannot be an approximation of the costs of remedying future waste stemming from current products. Even the rates are not consistently defined: for IT equipment (e.g. personal computers) the rate is 5% of the VAT base, while for mobile phones the rate is 1% of the VAT base. Similarly, the rate for photo cameras is 36 dinars/kg, while for watches it is double that. The only explanation for such policy is that the “ability to pay” principle was at work. Additionally, one wonders whether watches after the usage cycle should be a matter of organized collection and disposal in the first place.

Apart from covering the operating costs incurred in collecting and treating particular categories and quantities of waste (the short-term aspect), the SWS charge payable by the “polluter” should, to a certain extent, cover investment costs of managing SWS (the long-term aspect). Determining the optimum percentage of charge revenues devoted to longer-term investments in waste management system does not come easy: various issues should be taken into account, including sector and fiscal policy objectives over the medium and long term, availability of alternative financing instruments, etc.

The basic relationship that should apply in terms of efficiency of economic instruments is as follows: amount of charge per unit of SWS waste > operating cost of collecting and recycling a unit of SWS waste > amount of recycling subsidy per unit of SWS waste.

3. OVERVIEW OF THE KEY ISSUES AND POSSIBLE IMPROVEMENTS IN THE SYSTEM

1. The system of non-fiscal revenues in Serbia is in the state of prolonged flux. Changing government priorities continue to influence the ability of sectoral ministries to plan and implement their policies. Policy approaches, on the one hand, included allowing more revenue control to ministries and semi-independent public agencies to uphold their independence; this was meant to endow them with resources needed for their goals. However, years of almost unrestrained control over the introduction of non-tax revenues by line ministries or public enterprises have led to the proliferation of fees and charges. As a reaction to that, we have also seen attempts to centralize management of non-fiscal revenues in order to reduce the national government's deficit and to streamline the laws, procedures and taxing structures to improve the business environment.
2. However, it is clear that the SWS system is not fully meeting its stated goals. The share of waste that is being collected and recycled or otherwise appropriately disposed of consistently falls short of EU standards. Therefore, the most important comment regarding the SWS financing system is not related with the charge itself, but rather with the outcome it produces.
3. This shortcoming is related to the second major problem: lack of administrative capacities of the public sector. Various administrative arrangements have not yet solved the problem of how to plan and implement projects financed with proceeds from the charge. Data on the difference between environmental charges collected and the level of central government financing of environmental projects indicates lack of capacities of the public sector to design and implement projects in the volume that would consume levels of collected charges, but also the tendency of the Ministry of Finance to funnel proceeds from environment related charges towards other government priorities. The lack of public sector capacity to implement policies is even more worrying when we consider how it can influence Serbia's capacity to absorb the EU funds available for environmental protection.
4. Industries subject to SWS, obviously, have a different perspective. Some industry representatives see the SWS charges as a significant imposition that can make up to 12% of the final price of the product. Additionally, SWS charge payers complain that subsidies to recycling businesses are awarded in a rather non-transparent manner, and provided in a way that discourages investments in recycling capacities.
5. The industry also complains about the level of the charge and has alleged that collection rates are very low. As far as the amounts of charge are concerned, the electronic and electric industry claims that the rates in Serbia are 2.5 to 3 times higher than in the EU. The result still seems to be unsatisfactory – the waste collection rate is more than three times below the EU level, if data provided by the industry representatives is accurate. One of the major producers of electric home appliances has estimated that only 25% of the intended payers actually pay the charge and that almost 20 million EUR of revenues annually end up uncollected.

The company's recommendation in this regard is to invest much more effort into creating an up-to-date register of importers and producers of relevant products. The implementation of this measure would be beneficial not only for revenue raising purposes, but also for leveling the playing field by eliminating the unfair advantage that unregistered businesses have over their law abiding competitors. To be effective, the register of producers and importers would need to be supported by improvements to other elements of the collection mechanisms, such as introduction of IT systems and assigning more staff for the collection function.

In addition to that, the industry has sought the right to form a Collective Operator that would be responsible for managing waste produced by that industry, allowing businesses to choose whether to pay the charge to the government or to the Collective Operator. In the practice of oth-

er countries, there is another model that a payer of the charge can opt for – a single payer acts as an individual operator and assumes responsibility to collect and manage certain volumes of the waste.

6. Once collected, the revenues should be prudently spent. That requires informed negotiations between the line ministry and the MoF on spending priorities. Results here depend not only on the ability of the environmental sector to prepare quality projects for funding, but also on:
 - a. better implementation of funded projects to ensure their optimal impact
 - b. monitoring of the impact of implemented projects and other developments in the sector
 - c. making sure that funding requests in the environmental sector are matched by other stakeholders' investments (the EU, other donors, local governments etc.)
7. Improved transparency is essential to the success of any reform. The first step in improvements of the system is the one that requires the least preparations and investment. A sound and enduring reform of the SWS charge, and probably other environmental charges, should include regular annual public hearings to discuss the results achieved with the use of different economic instruments. Citizen satisfaction surveys and other more objective instruments should be used to determine progress in achieving policy objectives. The subject of those reviews should also include financial effects on businesses as well as on consumers.
8. The next reform steps are already underway. Two of the most important current developments in the area of non-tax revenues are being discussed in response to this situation: (1) the amendments to the Law on Local Self-Government Finance and (2) the Law on Charges for Use of Public Goods. Amendments to the Law on Local Self-Government Finance aim to continue streamlining the system of fees and charges by eliminating the remaining para-fiscal charges in the system. The goal of the Law on Charges is to follow up on the promise of the BSL to codify all charges related to the use of public goods in one law and to put it under more stringent control of the Ministry of Finance. In this situation, we see two important pieces of legislation complementing each other in support of coherent fiscal goal.

Additionally, the Ministry of Finance is working jointly with the Public Policy Secretary to develop a package of new legislation which includes the Law on the Planning System, Bylaw on the Methodology for Public Policy Management, and Bylaw on the Methodology for development of Medium-Term Plans. The new legislation, due to be adopted in 2016, aims to fully integrate planning and program budgeting, streamline procedures related to prioritization of policy and expenditure, and strengthen policy monitoring and evaluation mechanisms. Furthermore, the MoF is developing a new Public Investment Management Framework to streamline the process of preparation, evaluation, prioritization, and monitoring of capital investments. The bylaw and methodology regulating this process should also be adopted during 2016.

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ANNEX

Table 4: Central government revenues, 2015

GFS 2015	General government	Budgetary central government	Central government (incl. social security funds)	Extrabudgetary central government	Local governments	General government	Budgetary central government	Central government (incl. social security funds)	Extrabudgetary central government	Local governments
Revenue	2.080.183,8	947.837,7	1.763.322,8	27.452,1	289.408,9	100,0	100,0	100,0	100,0	100,0
Tax revenue	957.895,5	797.169,2	797.169,2	0,0	160.726,3	46,0	84,1	45,2	0,0	55,5
Social contributions	505.694,6	0,0	505.694,6	0,0	0,0	24,3	0,0	28,7	0,0	0,0
Grants revenue	392.570,2	5.464,2	308.662,6	8.079,1	75.828,5	18,9	0,6	17,5	29,4	26,2
Grants revenue from foreign govts	7.217,4	5.464,2	5.464,2	428,0	1.325,2	0,3	0,6	0,3	1,6	0,5
Grants revenue from int orgs	0,0					0,0	0,0	0,0	0,0	0,0
Grants revenue from other gen gov	385.352,8	0,0	303.198,4	7.651,1	74.503,3	18,5	0,0	17,2	27,9	25,7
Grants revenue from other gen gov: current	377.701,7		303.198,4		74.503,3	18,2	0,0	17,2	0,0	25,7
Grants revenue from other gen gov: capital	7.651,1		0,0	7.651,1		0,4	0,0	0,0	27,9	0,0
Other revenue	224.023,5	145.204,3	151.796,4	19.373,0	52.854,1	10,8	15,3	8,6	70,6	18,3
141 Property income revenue	27.980,5	27.980,5	27.980,5			1,3	3,0	1,6	0,0	0,0
1411 Interest	227,0	227,0	227,0			0,0	0,0	0,0	0,0	0,0
1412 Dividends	13.096,1	13.096,1	13.096,1			0,6	1,4	0,7	0,0	0,0
1413 Withdrawals from income of quasi-corporations	0,0	0,0	0,0			0,0	0,0	0,0	0,0	0,0
1414 Property income attributed to insurance policyholders	0,0	0,0	0,0			0,0	0,0	0,0	0,0	0,0
1415 Rent	14.657,5	14.657,5	14.657,5			0,7	1,5	0,8	0,0	0,0
142 Revenue from sales of goods & services	37.437,2	37.437,2	37.437,2			1,8	3,9	2,1	0,0	0,0
1421 Sales by market establishments	1.215,8	1.215,8	1.215,8			0,1	0,1	0,1	0,0	0,0
1422 Administrative fees	21.944,4	21.944,4	21.944,4			1,1	2,3	1,2	0,0	0,0
1423 Incidental sales by nonmarket establishments	14.277,0	14.277,0	14.277,0			0,7	1,5	0,8	0,0	0,0
1424 Imputed sales of goods and services	0,0	0,0	0,0			0,0	0,0	0,0	0,0	0,0
Revenue from fines, penalties & forfeits	6.210,3	6.210,3	6.210,3			0,3	0,7	0,4	0,0	0,0
Revenue from other transfers	99.541,4	73.576,3	80.168,4	19.373,0		4,8	7,8	4,5	70,6	0,0
Revenue from NI & SGS: premiums, fees &	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Source: Ministry of Finance, Macroeconomic Department

Table 5: Central government revenues, 2014

GFS 2014	General government	Budgetary central government	Central government (incl. social security funds)	Extrabudgetary central government	Local governments	General government	Budgetary central government	Central government (incl. social security funds)	Extrabudgetary central government	Local governments
Revenue	2.043.226,5	881.083,3	1.732.826,0	28.057,1	282.343,4	100,0	100,0	100,0	100,0	100,0
Tax revenue	929.604,7	770.958,1	770.958,1	0,0	158.646,6	45,5	87,5	44,5	0,0	56,2
Social contributions	509.432,5	0,0	509.432,5	0,0	0,0	24,9	0,0	29,4	0,0	0,0
Grants revenue	431.414,7	6.456,6	342.848,5	8.440,9	80.125,3	21,1	0,7	19,8	30,1	28,4
Grants revenue from foreign govts	8.940,3	6.456,6	6.808,6	133,8	1.997,9	0,4	0,7	0,4	0,5	0,7
Grants revenue from int orgs	0,0		0,0			0,0	0,0	0,0	0,0	0,0
Grants revenue from other gen gov	422.474,4	0,0	336.039,9	8.307,1	78.127,4	20,7	0,0	19,4	29,6	27,7
Grants revenue from other gen gov: current	414.167,3		336.039,9		78.127,4	20,3	0,0	19,4	0,0	27,7
Grants revenue from other gen gov: capital	8.307,1		0,0	8.307,1		0,4	0,0	0,0	29,6	0,0
Other revenue	172.774,7	103.668,6	109.586,9	19.616,2	43.571,5	8,5	11,8	6,3	69,9	15,4
141 Property income revenue	27.980,5	27.980,5	27.980,5			1,4	3,2	1,6	0,0	0,0
1411 Interest	227,0	227,0	227,0			0,0	0,0	0,0	0,0	0,0
1412 Dividends	13.096,1	13.096,1	13.096,1			0,6	1,5	0,8	0,0	0,0
1413 Withdrawals from income of quasi-corporations	0,0	0,0	0,0			0,0	0,0	0,0	0,0	0,0
1414 Property income attributed to insurance policyholders	0,0	0,0	0,0			0,0	0,0	0,0	0,0	0,0
1415 Rent	14.657,5	14.657,5	14.657,5			0,7	1,7	0,8	0,0	0,0
142 Revenue from sales of goods & services	37.437,2	37.437,2	37.437,2			1,8	4,2	2,2	0,0	0,0
1421 Sales by market establishments	1.215,8	1.215,8	1.215,8			0,1	0,1	0,1	0,0	0,0
1422 Administrative fees	21.944,4	21.944,4	21.944,4			1,1	2,5	1,3	0,0	0,0
1423 Incidental sales by nonmarket establishments	14.277,0	14.277,0	14.277,0			0,7	1,6	0,8	0,0	0,0
1424 Imputed sales of goods and services	0,0	0,0	0,0			0,0	0,0	0,0	0,0	0,0
Revenue from fines, penalties & forfeits	6.210,3	6.210,3	6.210,3			0,3	0,7	0,4	0,0	0,0
Revenue from other transfers	57.575,2	32.040,6	37.958,9	19.616,2		2,8	3,6	2,2	69,9	0,0
Revenue from NI & SGS: premiums, fees &	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Source: Ministry of Finance, Macroeconomic Department

Table 6: "Sales of goods and services" revenues

GFS	SECTOR (COFOG)	Individual revenues under GFS "Sales of Goods and Services" (142)	Revenue amount in 2015 (mill)	% of total revenue
1422	Justice	National court fees	8,099.4	22.0
1422	Justice	Costs of legal representation in judicial and administrative proceedings	42.7	0.1
1422	Justice	Funds in 30% amount of collected public notaries fee	642.7	1.7
1422	Various	National administrative fees	6,068.2	16.5
1423	Various	Revenues of national authorities and organizations	5,934.5	16.1
1423	Economic and Commercial affairs	Charge for use of survey, real estate cadaster and lines cadaster data, review of real estate cadaster and services provided by Republic Geodetic Authority	4,074.8	11.1
1423	Economic and Commercial affairs	Revenues of Serbian Armed Forces on accessory sale of goods and services	3,810.7	10.3
1421	Defense	Revenues on real estate lease of properties used by Ministry of Defense	658.0	1.8
1423	Defense	Revenues of Serbian Armed Forces from specific activity	305.5	0.8
1422	Defense	Charge for hosting of classic games on chance	1,432.8	3.9
1422	Defense	Charge for hosting special games on chance on automatic machines	1,336.4	3.6
1422	Health	Charge for hosting special games on chance - betting	1,331.9	3.6
1422	Social	Charge for approval on special games on chance on automatic machines	849.2	2.3
1422	Sport and youth	Charge for hosting special games on chance in gambling houses	152.2	0.4
1422	Sport and youth	Charge for hosting special games on chance on Internet, by telephone or on other means of telecommunication	60.9	0.2
1422	Sport and youth	Charge for permission on special game on chance in betting houses	60.2	0.2
1422	Sport and youth	Charge for approval on special game on chance - betting	247.6	0.7
1422	Agriculture	Charges for conducted veterinary and sanitary overviews	568.7	1.5
1421	Agriculture	Charge for laboratory analysis food and animal food taken during official inspections	278.5	0.8
1422	Agriculture	Charge for issuance and renewal of animals health standing certificate	162.3	0.4
1422	Agriculture	Charge for marking and recording of animals	141.9	0.4
1423	Agriculture	Charge for conduct of technical oversight on craft	55.4	0.2
1423	Agriculture	Costs of sanitary and veterinary inspectors procedures on request of party	54.4	0.1
1422	Foreign affairs	Consular fees	490.2	1.3
	Total:		36,859.3	100.0

Source: Ministry of Finance, Macroeconomic Department

Table 7: "Rent" revenues

SECTOR (COFOG)	Individual revenues under GFS "Rent" (1415)	Revenue amount in 2015 (million dinars)	% of total revenues
Environment	Charge for use of mineral and geo/thermal resources	1,757.5	11.99
Environment	Charge for use of mineral and geo/thermal resources at territory of the Province of Vojvodina	810.5	5.53
Environment	Charge for special waste streams	2,929.1	19.99
Environment	Charge for placing packaging material at market	22.6	0.15
Agriculture	Charge for use of forest land when leased out	16.5	0.11
Agriculture	Proceeds from lease of State owned agriculture land, or agriculture structures	2,017.2	13.77
Agriculture	Charge for use of hunting-protected animals	29.0	0.20
Agriculture	Charge for hunting permit	66.6	0.45
Agriculture	Charge for use of forests and forest lands	324.6	2.22
Agriculture	Charge for change of use of forests	56.4	0.38
Water	Charge for use of waters and water land	2,639.5	18.01
Water	Charge for released water	898.8	6.13
Water	Melioration charge collected from natural persons based on the Tax Administration issued bills	229.6	1.57
Water	Melioration charge from legal entities	226.0	1.54
Water	Charge for use of water facilities and systems	56.3	0.38
Culture/information	Federal charge for use of radio and TV frequencies	2,525.6	17.24
Energy	Charge for applied testing excavations of mineral and other geological resources	46.9	0.32
	Total:	14,652.6	100.00

Source: Ministry of Finance, Macroeconomic Department

Table 8: Producers/importers required to file annual reports with the EPA

2013		2014		2015	
Filed	Did not file	Filed	Did not file	Filed	Did not file
4,649	2,831	6,399	2,690	N/A	N/A

Source: Serbian Environmental Protection Agency

Table 9: Quantity of waste generated and treated, based on reports filed

WASTE TYPE	2011		2012		2013		2014	
	Generated (t)	Treated (t)						
Electrical and electronic equipment	4,753	7,084	2,282	10,601	4,941	18,998	1,108	20,972
Asbestos	141	310	240	17	192	30	1,542	/
Waste oils	1,679	5,304	4,577	3,411	18,667	8,245	13,778	10,135
Tyres	1,169	30,984	27,907	34,114	6,234	30,150	6,863	28,766
Batteries and accumulators	790	5,295	1,563	18,322	1,632	14,059	751	10,910
Vehicles	/	/	/	/	2,842	2,583	2,936	1,914
Total	8,532	48,977	36,569	66,465	34,508	74,065	26,978	72,697

Source: Serbian Environmental Protection Agency, Report on products disposed of as special waste streams in the Republic of Serbia in 2014, June 2015

Table 10: Quantities placed on the market, based on reports filed

Waste type	Quantities placed on the market				
	2010 (t)	2011 (t)	2012 (t)	2013 (t)	2014 (t)
Tyres	25,480	23,150	22,398	25,488	39,298
Asbestos	425	26	5	3	0
Batteries and accumulators	12,173	14,032	12,672	14,800	9,205
Waste oils	6,557	15,096	16,954	19,128	19,437
Electrical and electronic equipment	25,343	18,896	7,964	9,201	6,969
Vehicles	/	743	34,428	40,843	199,388

Source: Serbian Environmental Protection Agency, Report on products disposed of as special waste streams in the Republic of Serbia in 2014, June 2015

REVENUE MOBILIZATION AND MANAGEMENT IN SECTORS

CASE STUDY ON THE TRANSPORT SECTOR IN GERMANY

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INTRODUCTION

Revenue generation and management in sectors have received little attention in the literature to date. Germany is no exception. Yet revenues raised within sectors - be it at federal, state or communal level - can contribute significantly to the state budget or to directly financing public services and goods. While in the case of Germany most revenues raised at sectoral level remain at the charging entity, there are some revenues that flow back into the national budget and are earmarked for specific expenditures. This is very prominently the case in the transport sector (Federal Ministry of Transport and Digital Infrastructure). The case study, therefore, sets out to create a general overview of the German federal government, its budget system and the sources of revenues generated in sectors by various entities. In addition to this more general picture a more detailed look will be taken at the transport sector, as this is the sector that most significantly contributes to the German government budget.

THE GERMAN FEDERAL GOVERNMENT SYSTEM

Germany is a federal parliamentary republic consisting of 16 **Länder** (states) that vary considerably in size, population density and economic power. The division of powers between **Bund** (federation), **Länder** and the **Kommunen** (municipalities) is enshrined in the Constitution (Basic Law - Grundgesetz, GG). Article 87 GG for instance stipulates tasks that lay in the hands of the Bund. This includes, among others, foreign affairs, defense and federal fiscal authority. While most legislative powers rest with the Bund, the **Länder** enjoy a high degree of autonomy with respect to executing federal laws (Article 83 GG). Typical sectors that are governed by the **Länder** are education, culture, science and public order and safety. According to article 28 (2)¹ GG, municipalities are in principle self-governing and have a certain degree of financial autonomy through raising local taxes and levying fees and charges.

BUDGET PROCESS AND PRINCIPLES

The GG stipulates fundamental requirements of the German budget system. Amongst others, it prescribes the fiscal relationship between the federation and the **Länder**. In principle the **Länder** are autonomous in managing their budget. They should be able to finance their own expenditures. Revenues from state and municipal taxes are complemented by tax revenues shared between Bund, **Länder** and municipalities. Shared taxes include VAT and wage tax, which are the two most important tax revenue sources in Germany.² However, many **Länder** and municipalities still depend on fiscal transfers from the Bund. In 2015, four **Länder** and the Bund contributed to the fiscal equalization, while 12 **Länder** were on the receiving side (see annex 1).

The national budget system is mainly prescribed in the Budgetary Principles Act³ and the Federal Budget Code.⁴ Since 2013 and following the introduction of the debt brake, Germany follows a top-down approach of budgeting. The fiscal aggregates or benchmark figures (*Eckwertebeschluss*) are communicated by the MOF in March. They are binding for all ministerial budget proposals. This marks the start of the political bargaining process among ministries, leading up to the presentation of the draft budget in August and its adoptions by parliament in November/December. Within the limits of the budgetary aggregates, line ministries are asked to draft the individual budget plans.⁵ Despite the top-down nature of Germany's budget system, at federal level, the line ministries enjoy a high degree of managerial freedom.

1 "Municipalities must be guaranteed the right to regulate all local affairs on their own responsibility, within the limits prescribed by the laws. Within the limits of their functions designated by a law, associations of municipalities shall also have the right of self-government according to the laws. The guarantee of self-government shall extend to the bases of financial autonomy; these bases shall include the right of municipalities to a source of tax revenues based upon economic ability and the right to establish the rates at which these sources shall be taxed."

2 In 2015, revenues from the wage tax made up 28.8% (178.9 bn EUR) of total tax revenues, and revenues from the VAT 46.9% (290.9 bn EUR) of total tax revenues (BMF, 2016a). The **Länder** received 42.5% and 46.4% of the respective revenues.

3 Gesetz über die Grundsätze des Haushaltsrechts des Bundes und der Länder

4 Bundeshaushaltsordnung, BHO

5 For a good overview of the German Budget process see the OECD's Budget Review for Germany (2014): <http://www.oecd.org/gov/budgeting/Budget-Review-Germany.pdf>

RECENT PUBLIC FINANCE AND ADMINISTRATIVE REFORMS

In 2006 and 2009, the **reform of the German federal system** was enacted. It was to date the most far reaching reform of German constitutional law. The first reform package of 2006 mainly dealt with restructuring the competencies between Bund and **Länder**. This had become necessary mainly due to uncertainties over legislative responsibilities of Bund and **Länder**, which had resulted in sluggish legislative procedures and a backlog in reform efforts. The second reform package of 2009 dealt with the financial relations between Bund and **Länder**. The most prominent aspect of the reform package was the introduction of the **debt brake** in German Basic Law. Strict borrowing limits and the requirement for a structurally close-to-balance or balanced budget were constitutionally enshrined for Bund und **Länder** government. Exemption clauses have been tightened and are based on a repayment principle. Moreover, off-budget funds are no longer exempted from the borrowing rule. The debt brake becomes binding for the Bund in 2016 and for the **Länder** in 2020.

In 2013, German parliament agreed on a comprehensive **structural reform of the law on fees and charges**. The law is applicable to all administrative agencies and institutions, public bodies and foundations. The reform had become necessary due to the fragmentation and amplitude of rules and regulations (over 200) governing fees and charges, legal uncertainties, a missing factual base for a number of user charges and low cost recovery rates. This had resulted in high degrees of uncertainties for charging bodies. It had also led to significant variations in the application of the law and revenue shortfalls for the federal government. Sectors had missed to regularly update their regulations regarding user fees. In an audit of the application of user fees, the German Supreme Audit Institution (SAI – *Bundesrechnungshof*) had found that half of the fee structures were more than three years old and 20% dated more than eight years back. Two thirds of all fees did not recover the costs (*Bundesrechnungshof*, 2013). For instance, it became apparent that waste charges for comparable disposal services differed as much as 500% among various communes. While communes with high fee structures argued that their pricing was a result of low demand, additional services included in the fee and regional particularities, other studies pointed at inefficiencies in municipal waste management (Souren, R. 2009). In another case, the SAI estimated that resistance by the Federal Ministry for Economic Affairs and Energy to the increase of fees in aviation administration has led to a revenue shortfall of about 30 million Euro in the period 2000 to 2010 (*Bundesrechnungshof*, 2013).

The reform on fees and charges focused on and reinforced the following elements:

- strengthening of the cost recovery principle (as in EU law) and the orientation of the fee calculation on economic principles; making fee calculation simple, accessible and user-friendly;
- general rules to be concentrated in the new Federal Fees Act with 24 paragraphs; in addition a General Fee Ordinance (*Allgemeine Gebührenverordnung, AGebV*) will stipulate a uniform approach to fees and charges applicable to all administrative agencies and institutions, public bodies and foundations;
- fee regulations for public services will in principle become the responsibility of the **Länder**. Federal regulation - in coordination with the **Länder** - will apply only in cases where a nationwide provision becomes necessary.

It is assumed that the reinforcement of the cost recovery principle will lead to an augmentation in revenues from fees and charges and a reduction in bureaucratic costs. The General Fee Ordinance of the federal government and the Special Fee Ordinance of the various resorts/sectors will cover the details regarding fees and charges in conformity with the structural reform package. The clear division between federal and **Länder** responsibility will lead to an increased administrative burden in the short-term, as the **Länder** will have to redraft their fee regulations and incorporate previously federal regulations in their rules. Moreover, the **Bundesrat**⁶ warned that the reform of law on fees and charges may result in a fee competition between the **Länder**. This could potentially undermine the cost recovery principle and lead to a below-cost selling (*Innenausschuss des Deutschen Bundestag*, 2013). There are a few exceptions in the law with respect to coverage. For instance, regula-

6 Because of its bicameral political system, two chambers are involved in federal legislation. The members of the Bundestag (first chamber) are elected in general elections. Through the Bundesrat (second chamber), the individual federal state governments (16 states) participate directly in the decisions taken by the national state, i.e. the Federation. According to its size of the population, each federal state government has a different number of seats.

tion of fees and charges in the road and transport sector remains the responsibility of the federal government. The toll fee is not covered by the law on fees and charges.

The law on fees and charges is supposed to come into effect on 14 August 2016 with a new special fees ordinance by the Federal Ministry for the Interior. Yet, in March 2016 a draft law was tabled in parliament proposing the postponement of the enforcement date until 1 October 2019 with a transitional period to adopt the new fee regulations until 1 October 2021. It is not quite clear why this postponement has become necessary. One reason might be a recent SAI recommendation to include police fees into the new fee regulation which had not been foreseen under the current law.⁷

⁷ The mentioned SAI report is not publically available and thus cannot be verified.

1. REVENUE MOBILIZATION IN SECTORS

The German budget (2016) is made up to 91% of revenues generated through general taxes. The remaining funds stem to 5.2% from revenues generated at sectoral level, 2% from contingencies/reserves/funds, contributions and investment subsidies and 1.8% from grants and subsidies (other than investment grants) (BMF, 2016b). Out of the 5.2% revenues generated at sectoral level, about 52% (8.622.986k Euro) stem from fees and charges and approximately 35% are profits from economic activities, mainly shares in federal enterprises such as the German Central Bank.

Figure 1: Revenues 2012 (actual; 3 main sources per level)

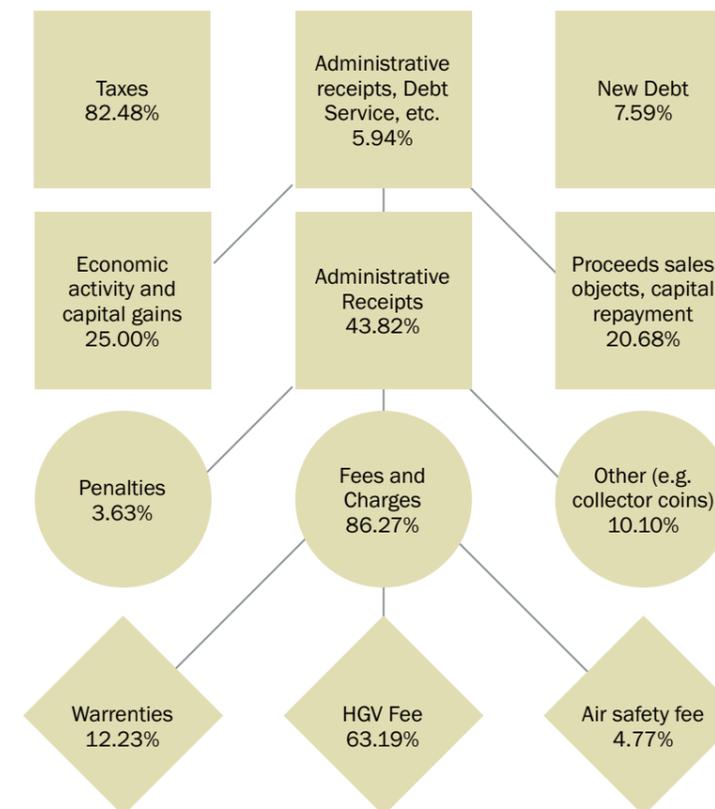


Figure 2: Revenues 2014 (actual; 3 main sources per level)

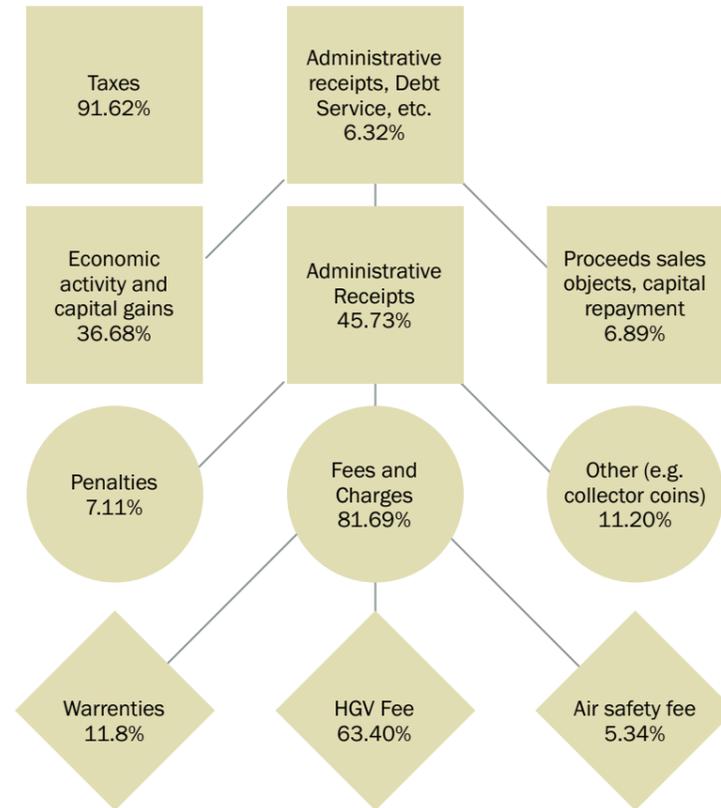
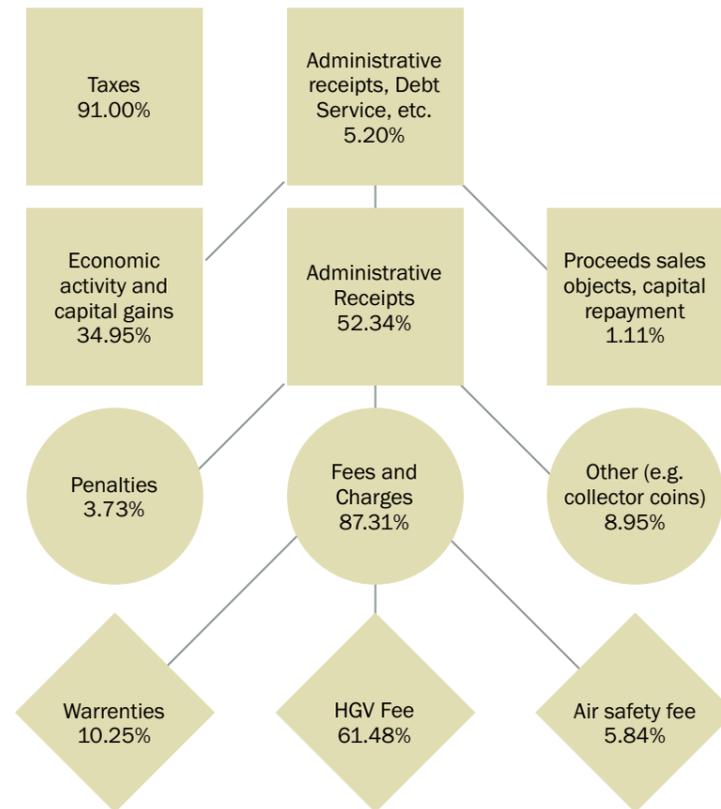


Figure 3: Revenues 2016 (target)



User fees

• Rational for fees

In Germany, fees are paid for services rendered by public administrative bodies or parastatal institutions, such as the Technical Inspection Association (TÜV) for vehicle registration and certification. Those fees are intended to cover the costs associated with the service rendered. Levying fees on certain public services reduces the overall tax burden. It sensitizes the public that public services are not free. Fees can incentivize economic behavior on the part of the administration and the citizens.

• Calculation

As per the General Administrative Provision in 2013 regarding the Federal Budget Code (provision No. 4 pertaining to Section 7 of the Budget Code) fees are calculated on the basis of the cost-performance-accounting system as stipulated in the “guidebook on cost-performance accounting in federal administrations”. The idea behind this approach to fee calculation is to make pricing and intended benefits more transparent.

• Earmarking

According to the German Budget Code (Section 7 HGrG, Section 8 BHO), the hypothecation/earmarking of taxes is in principle not allowed. Exceptions are, however, possible. In such cases these exceptions have to be enshrined in law and/or clearly defined by a budget memo in the national budget. Earmarking of revenues derived from fees is, however, a common practice, as can be seen by the usage of toll fee revenues for infrastructure project (see section 3 below).

BOX: PRINCIPLES COVERING THE LEVYING AND CALCULATION OF FEES AND CHARGES

Cost recovery principle

The cost recovery principle describes a system of charges recovering the costs for the utilization of public services (Franz, T., 2005). According to the General Fee Ordinance (*Allgemeine Gebührenverordnung*) and the Municipal Revenue Code (*Kommunalabgabengesetz*) public sector entities have the right to levy charges for the usage of deliverables. However, charges must not exceed estimated costs (overpricing). By contrast, it is allowable that fees do not cover the entire costs of a service rendered or to even offer public services free of charge. This is a political decision and basically implies that certain services are partially or fully covered by general tax revenues. One example would be Kindergarten fees, which are in most Länder partially payed out of their general budget. Two different calculation methods exist. Either charges are calculated based on working hours needed or based on a cost-performance-accounting system (*Kosten-Leistungsrechnung*).

According to Article 9 Water Framework Directive (2000) also the European Union adopted a cost recovery principle as a requirement for an effective and sustainable water policy. In addition to resource costs the cost accounting includes environmental costs. Based on the polluter-pays-principle the charges should work as incentives for economic and sustainable water use. This approach to externalities has also been adopted in EU directives regarding toll fee calculation, as will be shown further down.

In addition to the cost recovery principle further principles form the statutory framework of the General Fee Ordinance. Amongst others this includes the benefit principle (*Äquivalenzprinzip*) which justifies levying fees because a direct benefit for customers exists through public services. Fee levels should reflect the nature and extent of service utilization (*Leistungsproportionalität*). The non-discrimination precept (*Gebot der Gleichbehandlung*) is deduced from the constitutional principle of equality (*Gleichheitsgrundsatz*). Accordingly fees apply to everyone respectively to the extent of the demands of public services. Finally, the principle of necessity (*Grundsatz der Erforderlichkeit*) implies public institutions to calculate and act economically and efficiently to prevent inappropriate public expenditures with associated fees for citizens.

2. REVENUE MOBILIZATION IN THE GERMAN TRANSPORT SECTOR: THE CASE OF THE TOLL FEE

The Federal Ministry of Transport and Digital Infrastructure (BMV18) is with 6.0 billion EUR, or 1.9% of the 2016 summary budget, the largest sectoral contributor to the federal budget. Approximately 77% of the revenues stem from the highway sector, of which 99% are raised through the toll fee on Heavy Goods Vehicles (HGV) (BMF, 2016b). Because of its outstanding importance in relation to other fees and contribution, the focus of this section lies on the HGV Toll.

2.1. TOLL FEE ON HEAVY GOODS VEHICLES (HGV TOLL)

In 1999, the Pällmann Commission was put in place to develop a proposal to convert Germany's road financing from a tax-based system to usage-based funding. The Toll Fee on Heavy Goods Vehicles (HGV) became eventually effective by January 1, 2005. The Toll Fee Law⁸, provides the legal basis for the HGV Toll fee. By 2016, it has been subject to three amendments. Initially, all heavy goods vehicles from 12 tons¹⁰ were subject to the HGV Toll. With the implementation of the third amendment to the Toll Fee Law¹¹, the weight-related limit decreased to 7.5 tons by October 1, 2015. The toll road network (i.e. the roads subject to toll) includes the entire range of German highways (*Autobahnen*) and a number of frequently used main roads (*Bundesstraßen*), with a total of approximately 30,400 kilometres for both driving directions (Toll Collect, 2015).

Since the 1990s, the EC is striving to enhance equal opportunity for hauling companies in the EU. This was done for instance by a harmonization of vehicle and fuel taxes in the 1990s and the introduction of a eurovignette system in 1995 (for Germany, Belgium, the Netherlands, Luxembourg, and Denmark and Sweden)¹² It is important to note that there are EU directives (Directive 1999/62/EC as modified by Directive 2006/38/EC and by Directive 2011/76/EU) which set common rules on the application of toll fees and vignettes by EU member states with the goal to “reduce discrimination and barriers to trade by ensuring similar conditions across the internal market” (Broaddus & Gertz, 2009). Most important aspects of the directives are cited in the box below.

- Tolls must be levied according to the distance travelled and the type of vehicle; vignettes are scaled according to the duration of the use made of the infrastructure and to the vehicle's emission class;
- The directive does not permit to impose tolls and vignettes at the same time for the use of a single road section. Only as an exception can tolls be levied for the use of bridges, tunnels and mountain passes on networks where vignettes are applied;
- National tolls and vignettes must be non-discriminatory, excessive rebates on tolls are forbidden;
- Charging schemes should cause as little hindrance as possible to the free flow of traffic, avoiding mandatory checks at the EU's internal borders;
- The Directive also stipulates that the maximum average tolls must be set in relation to the costs of constructing, operating and developing the infrastructure concerned. New tolling schemes must be notified;
- Tolls may also include an “external cost charge” which reflects the cost of air pollution and of noise pollution provided that the external cost charges respect maximum values defined in the annex of the Directive;
- The revenue should preferably be used to develop the trans-European network.

Source: EC Mobility and Transport

⁸ Bundesministerium für Verkehr und digitale Infrastruktur

⁹ Gesetz über die Erhebung von streckenbezogenen Gebühren für die Benutzung von Bundesautobahnen und Bundesstraßen (Bundesfernstraßenmautgesetz - BFStrMG).

¹⁰ Except from buses, emergency vehicles, street maintenance vehicles, circus vehicles and vehicles for the transport of humanitarian goods (Section 1 (2) of the Toll Fee Law).

¹¹ Drittes Gesetz zur Änderung Bundesfernstraßenmautgesetzes.

¹² Originally Germany took part in the euovignette system. Now it only comprises Denmark, Luxembourg, the Netherlands and Sweden.

2.1.1. TOLL COLLECTION AND ADMINISTRATION

As outlined in the previous section, HGV Toll revenues are collected by the private limited company *Toll Collect GmbH* which is a consortium of *DaimlerChrysler Services*, *Deutsche Telekom* and the French highway company *Cofiroute S.A.* In 2002, the group has won the public tender for the introduction and maintenance of the toll collection system (European Commission, 2003). It was planned that the HGV Toll operated by Toll Collect would become effective by August 31, 2003. However, due to technical problems in the implementation of the different software systems, the introduction of the HGV Toll had to be postponed to January 2005. Estimates suggest that revenues foregone due to the delay amount to more than 10 billion USD (Budzier and Flyvbjerg, 2011). By operating the HGV Toll fee, Toll Collect is fully responsible for charging, collecting and transferring the revenues based on the toll rate outlined in the next section. In addition, Toll Collect provides the necessary technical equipment to the Federal Office for Goods Transport which is responsible for the control and enforcement of the fee.

The capital and operating costs are relatively high in Germany when compared to neighboring countries. This could be due to the relatively low average fee rate per kilometer as compared to other neighboring countries or because of higher compliance costs due to the large number of road users and breadth of the road network. The table below gives an overview of the costs as a percentage to the revenues collected in Germany, Austria and Switzerland.

Table 10: Comparison of Free-Flow HGV Tolling Systems (2014 and 2015)

	Austria	Germany	Switzerland
	2005 ¹⁴	2014	2014
Operating cost	€35 million	€560 million	€108 million
Operator	“ASFINAG” – Public Company	“Toll-collect” Public-private enterprise	Eidgenössische Zollverwaltung Federal Custom Administration
HGVs tolled	> 3.5 tons	> 7.5 tons	> 3.5 tons
Average toll	€0.28/km	€0.17/km	€0.69/km
Revenue	€770 million	€1.25 billion	€4.4 billion
Cost as % of revenue	9% operating	13.3% operating	7,3% operating

2.1.2. TOLL RATE

The rate of the HGV Toll fee is summed in below. Generally speaking, the tariff is based on the “polluter pays”-principle covering both the costs related to the use of infrastructure and air pollution. The basis for calculating the first component is the number of the vehicle's axles (from two to five and more)¹⁴. In addition, the toll rate includes a component related to the air pollution caused by the vehicle. This relatively smaller component is based on the European emission standards for heavy-duty diesel engines¹⁵ and has been introduced with the second amendment to the Toll Fee Law¹⁶ by January 1, 2015. Note that vehicles with the highest emission standard Euro VI (category A) are charged zero for air pollution¹⁷ Charging an additional fee on air pollution is in line with EU Directives as outlines in the box.

¹³ No recent figures could be found for Austria. We, therefore, rely on number from 2005 found in Broaddus, A. (2009).

¹⁴ 2 axles: 8.1 EUR cent / km; 3 axles: 11.3 EUR cent / km; 4 axles: 11.7 EUR cent / km; 5+ axles: 13.5 EUR cent / km.

¹⁵ For an overview see: <http://www.dieselnet.com/standards/eu/hd.php>

¹⁶ Zweites Gesetz zur Änderung des Bundesfernstraßenmautgesetzes.

¹⁷ Cat. A: 0.0 EUR cent / km; Cat. B: 2.1 EUR cent / km; Cat. C: 3.2 EUR cent. / km; Cat. D: 6.3 EUR cent / km; Cat. E: 7.3 EUR cent / km; Cat. F: 8.3 EUR cent / km.

Table 11: HGV rates

HGV toll rates					
Category	Emission Class	Toll (in EUR cent / km)			
		2 axles	3 axles	4 axles	5 axles+
A	Euro VI	8.1	11.3	11.7	13.5
B	Euro V EEVa	10.2	13.4	13.8	15.6
C	Euro IV Euro III (PMK II) ^b	11.3	14.5	14.9	16.7
D	Euro III Euro II (PMK I)	14.4	17.6	18.0	19.8
E	Euro II	15.4	18.6	19.0	20.8
F	Euro I / Euro 0	16.4	19.6	20.0	21.8

Notes: ^aEnhanced Environmentally Friendly Vehicle; ^bPMK II/I are standardized upgrades to reduce emissions; Source: BMVI (2015)

Example how to read the table: a vehicle with emission class Euro III (category D) and four axles is charged 18.0 EUR cent per kilometer.

2.1.3. ENFORCEMENT AND FINES

There are three principle ways to pay the HGV Toll: 1) automatic payment via a (voluntary) On-Board-Unit (OBU); 2) internet-based payment; and 3) payment via a physical toll terminal. To ensure compliance a comprehensive, mostly IT-based enforcement system is in place. In the majority of cases, controls are based on data stored in the OBU and unique identifiers such as the vehicle's license plate. Enforcement measures are implemented by the Federal Office for Goods Transport and include (BAG, 2016; Toll Collect, 2016):

- **Automatic enforcement.** Automatic controls are carried out with the help of 300 permanently installed gantries. Sensors read out the OBU data (if possible) and scan different parameters of the vehicle; there is an automatic check whether the Toll Fee has been paid correctly. Data is then transferred to BAG for a manual cross-check.
- **Stationary enforcement.** Stationary enforcements complement the automatic controls. Officers of the BAG are located at selected parking lots near the gantries. Based on wireless data received shortly after vehicles have passed the gantries, they manually inspect vehicles that are suspect of an incorrect payment.
- **Portable enforcement.** Portable enforcement is carried out by about 300 control vehicles. The technical equipment allows for reading out the OBU data while passing the HGV¹⁸. Stationary gantries can be used for a follow-up control.
- **On-site enforcement.** External audits at business premises are mainly carried out in case of repeated violations. Additionally, random audits are used on a regular basis.

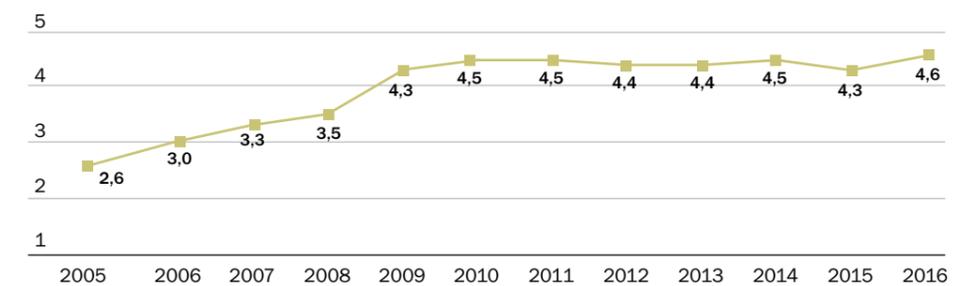
In case of non-compliance fines apply for both vehicle driver and operator. A specific catalogue of fines sets out the rates for different types of offenses which range from minimal exemplary fines of up to 40.00 EUR to a maximum of 480.00 EUR. Fines are always larger or at least equally large for the operator. In cases of negligence fines are reduced by 50% (BAG, 2015). Estimates of the Federal Office for Goods Transport suggest that enforcement and deterrence seem to be effective: out of the 20 million vehicles that are subject to control (about 10% of total HGV traffic), not even 1% fail to comply with the Toll Fee (Hassa et al., 2015). Complimentary data on fines and penalties is only available for the period from 2005 to 2012 and in sum, 46.5 million EUR had been charged by 05/2012 (German Bundestag, 2012).

18 For main roads controls are carried out from the roadside (BAG, 2016b).

2.2. UTILIZATION AND EARMARKING OF TOLL FEE REVENUES

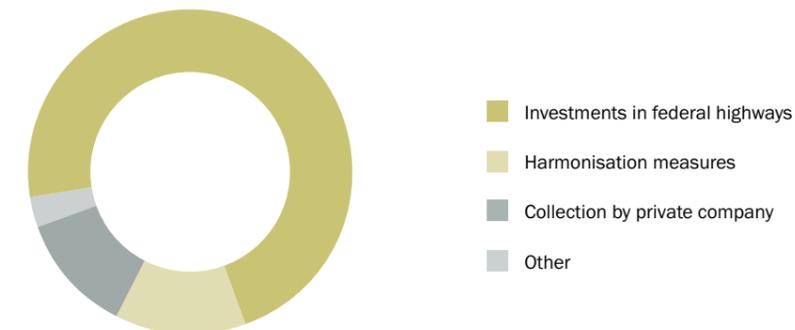
The HGV Toll is by far the most important single contributor to the Federal Budget with regard to fees and charges. The figures below give an overview of the annual revenue mobilisation through the HGV Toll from 2005 to 2016 (note that the figures for 2015 and 2016 are provisional). As depicted, revenues sharply increased between 2008 and 2009. This boost in revenues can be related to the higher toll rates¹⁹ which became effective on January 1, 2009.

Figure 4: HGV Toll revenues (in billion)



Regarding the spending of revenues, in 2015, about 70% of the HGV Toll revenues (3.1 billion EUR) were directly used to finance investments in federal highways. Another 536.9 million EUR were used to finance costs related to the collection of the HGV Toll through the private company Toll Collect (see section 3.1.3).

Figure 5: Usage of revenues (in million EUR), 2015



Harmonisation measures, which account for 546.6 million EUR, are taken to compensate the German road freight industry for possible disadvantages in the European competition. These include, among others, grants to promote security and environmental goals of companies in the road transport sector (265.5 million EUR) and grants related to training and qualification (118.0 million EUR).

As outlined previously, German budget principles do not allow for earmarking of taxes. For the transport sector this means that tax revenues cannot be exclusively used to finance transport-related public goods and services. In theory, this is in contradiction to the still applicable law regulating the financing of road construction and maintenance which was first published in 1960. Article 1 stipulates that 50% of revenues stemming from the mineral oil tax shall be used for road services. In 2006, the mineral oil tax has been replaced by the energy tax which is now the most important consumption tax, with revenues amounting to 39.6 billion EUR (6.4% of total tax revenues in 2015). In practice, however, this law is not applied, much to the chagrin of the motor vehicle lobby, such as the German auto club ADAC.

Earmarking revenues derived from fees and charges is, however, common practice. It often, as is the case with the toll fee, increases the acceptance by the public to pay fees for certain public ser-

19 See §1 of the Toll Rate Ordinance (*Mauthöheverordnung - MauthV*).

vices. Initially, the use of toll fee revenues was distributed quite differently from the figure presented above, reflecting the political economic environment during the time the toll fee was enacted in 2005. Although the Pällmann Commission had proposed to use the revenue for road maintenance solely, the Greens – at that time in a government coalition with the Social Democratic Party – had succeeded to earmark only 50% for road infrastructure and allocate 38% to rail and 12% to inland waterways development.

With a strong transport and automobile lobby in Germany, it might at first sight be surprising that the introduction of the toll fee system met little resistance from the hauling companies. This was mainly due to the fact that foreign haulers were perceived as not paying their fair share in using the German roads network, often times fueling up in neighboring countries and thus circumventing paying relatively high fuel taxes in Germany. Moreover, the trucking companies face/faced stark competition from neighboring countries due to lower labor costs, fuel and vehicle taxes. By introducing the toll fee, the German government concomitantly lowered the vehicle taxes and introduced a subsidy scheme to incentivize the replacement of old HGVs with low-emission vehicles, which receive a rebate (Broaddus & Gertz, 2009).

2.3. THE NEW GENERAL TOLL FEE PROPOSAL

In 2013, the new coalition government of the Social Democratic Party and the Christian Democratic Union (CDU/CSU) agreed to extend the user financing of federal motorways and highways (*Bundesfernstraßennetz*) to all road users. The goal is to increase revenues for road infrastructure projects and to make those investments less dependent on the federal budget allocations. The main driver for the toll fee reform was the Bavarian Christian Social Union (CSU). They explicitly sought to introduce a toll on foreign vehicles passing through Germany. This was quickly deemed contrary to EU law. Instead, in 2014, Alexander Dobrindt, Federal Minister of Transport and Digital Infrastructure, proposed a law under which all cars (domestic and foreign) would become subject to a toll fee on federal highways. It was, however, proposed that German drivers would be compensated through a reduction in the vehicle tax. The law was voted in June 2015 and foresaw the introduction of the general toll fee by 2016.

The European Commission has launched an infringement case against Germany. The EC is concerned that the new toll fee will indirectly discriminate other EU members using German roads due to (1) the reduction in vehicle taxes for cars registered in Germany and (2) the disproportionately higher price of short-term vignettes (European Commission, 2015). Also the German Supreme Audit Institution (*Bundesrechnungshof*) has since 2015 taken a closer look at the new toll fee law. It paid particular attention to the proposed timeframe, revenue and cost estimations by the BMVI. The following conclusions were drawn:

- The timeframe for introducing the toll fee was unrealistic from the start. For instance, BMVI estimated that the PPI contracting process would take 6 months, while experience shows that this takes on average 16 months.
- The revenue prognosis by the BMVI is based on 30 different assumptions that, according to the SAI are often not plausible and based on outdated statistics. This is especially the case for the assumptions regarding the behavior of foreign road users, which will be the main revenue source for the national budget as domestic road users (under the current scheme) will be compensated by offsetting toll fee charges by a reduction in vehicle taxes.
- As with the HGV toll fee, the BAG is supposed to enforce compliance of road users. It has commissioned a scientific review to estimate a control quota (how many road users should be controlled) and the needed capacity to ensure compliance. Yet, BMVI has downsized the advised enforcement capacity to such a degree that the BAG has voiced concern about the enforceability of the general toll fee.
- Costs for establishing the necessary infrastructure for collecting the general toll fee have been overestimated by 34 Mio. Euro.
- It is proposed to collect the general toll fee through a PPP. However, the BMVI has not carried out an economic efficiency analysis counterweighing a PPP option with a conventional procurement option, as stipulated in MoF guidelines (economic viability study).

CONCLUSION

The incoherent implementation of user fees throughout the German jurisdictions and a large amount of forgone revenues for the German budget had sparked the necessity to reform the law on fees and charges. Sector ministries had not consistently applied the underlying regulations for user charges and had failed to update the fee structures and coverage regularly. It was only after the insistence of the German SAI and the parliamentary accounts committee that ministries took action. However, this sluggishness had led to large fee increases once the fees were reconsidered, which could only be implemented over a lengthy time period as to maintain popular acceptance. With the new law on fees and charges it is hoped that a clearer legal framework will make it easier for sectors to keep on top of their fee coverage and structures. How well this will work remains to be seen in the coming years.

Yet, this research has shown that the implementation of fees and charges does not seem to receive a lot of attention within German government. While fees and charges only make up a relatively small amount of the national budget, the German SAI has repeatedly remarked that more care should be taken to adhere to the cost recovery principle and to correctly state fees and charges in the national budget. It is not quite clear whether the postponement of the implementation of the new law on fees and charges until 2019 is another indication for the limited attention at federal level to the correct implementation of user fees by its agencies and sub-national entities, or whether it is indeed due to unforeseen additions in coverage of the law. In any case, it was not possible to receive feedback from the responsible Federal Ministry for the Interior.

The HGV toll fee is the main fee revenue for the federal budget, with revenues amounting to about 4.6 bn. EUR in 2015. It is earmarked for road infrastructure and maintenance works. As any other user fees, the German HGV toll fee in theory has to comply with the above described principles (see box). The toll fee is, however, not directly affected by the reform of fees and charges (exemption clause under §2 of the law). One of the reasons might be that a full cost recovery of road infrastructure and maintenance is not feasible or acceptable via the toll fee. From an economic perspective, unilateral measures such as the HGV toll fee can cause distortions on the European market. For this reason, more than 500 million EUR of revenues are used to compensate for possible disadvantages of German freight industry in the European competition. Critics of the toll fee argue that the fee itself has not, as promised, led to an increase in investments in national roads, but has just alleviated national budget allocation by subtracting the fee revenues from infrastructure allocations. There are currently discussions underway – mainly pushed by environmental advocates – to extend the road network covered by the toll fee and to increase the fee rates. The main argument is that the current fee does not cover well enough the environmental costs and noise pollution caused especially by the HGV traffic. The Federal Ministry for the Environment (BMUB) seems to push in this direction as well. Moreover, the toll fee will in the near future be extended to also cover passenger vehicles.

The case of the toll fee in Germany shows the importance a single fee can have in a national budget system. It also depicts the various political and economic interests at play as could be witnessed by the shift in earmarking toll fee revenues, the EU infringement process and the discussion around better internalizing externalities.

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ANNEXES

ANNEX 1: PRINCIPLES OF BUDGETING IN GERMANY

Box 1.1 Principles of Budgeting in Germany

The constitutional and legal framework of Germany pays particular attention to a specification of the rules and principles under which budgeting is to be regulated and conducted. The key principles that can be abstracted from this framework are as follows:

Universality: each government entity is required to have a budget that deals comprehensively and authoritatively with all expenditures and revenues, subject only to very limited exceptions.

Specificity: Every budget chapter must be linked to a stated purpose, which prescribes and limits the uses to which the funds may be applied. Budget notes may specify items further.

Fungibility: All revenues raised are used to cover all expenditures via a single federal account. Ear-marking of funds is thus disallowed (other than for pensions and health insurance).

Formal annuality: the budget must deal with a one-year period or (in principle) a two-year period where each year is treated separately. In practice, the latter provision has not been applied to the federation.

Practical multi-annuality: the budget must be accompanied with a five-year Financial Plan showing (on a basis that is not formally binding) the evolution of the public finances.

Timeliness: the annual budget must be enacted before the start of the financial year.

Financial sufficiency and necessity: Funds should be budgeted in sufficient amount – but no more – to cover statutory purposes and other requirements of the budget period.

“Packaging prohibition”: The budget act may not deal with matters unrelated to the annual budget.

Efficiency and economy: Funds must be allocated and used having regard to these complementary principles, which deal respectively with the achievement of optimal results with allocated resources, and the reduction in resource utilisation in achieving results.

Budgetary balance: the recent debt brake rule (see section 2.1) re-casts and strengthens the former budgetary principle about maintaining a broad balance between expenditure and revenues. From this fundamental constitutional imperative, ancillary principles regarding the accuracy and reliability of the budget data, which are the key tools of fiscal management, might reasonably be inferred.

Democratic authorisation and accountability: The parliament (in particular the Bundestag or lower house) has full power to authorise and amend the budget, and to receive audited accounts of its implementation.

Source: OECD 2015

ANNEX 2:

Table: German Länder fiscal equalisation scheme & supplementary federal grants (Länderfinanzgleich/Bundesergänzungszuweisungen):

Federal States (Länder)	Receiving Länder		Contributing Länder		Supplementary Federal Grants (Bundesergänzungszuweisungen)	
	2014	2015	2014	2015	2014	2015
	Millionen Euro					
Total volume of fiscal transfers	9 019	9 595	9 019	9 595	10 585	10 187
Baden-Württemberg	-	-	2 356	2 313	-	-
Bayern	-	-	4 852	5 449	-	-
Brandenburg	510	495	-	-	1 252	1 148
Hessen	-	-	1 755	1 720	-	-
Mecklenburg-Vorpommern	463	473	-	-	954	884
Niedersachsen	276	418	-	-	126	220
Nordrhein-Westfalen	897	1 021	-	-	472	544
Rheinland-Pfalz	288	349	-	-	203	235
Saarland	144	152	-	-	133	136
Sachsen	1 034	1 023	-	-	2 205	2 020
Sachsen-Anhalt	585	597	-	-	1 346	1 240
Schleswig-Holstein	172	248	-	-	146	187
Thüringen	554	581	-	-	1 246	1 155
Berlin	3 491	3 613	-	-	2 247	2 156
Bremen	604	626	-	-	255	263
Hamburg	-	-	55	112	-	-

Source: <https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/OeffentlicheFinanzenSteuern/OeffentlicheFinanzen/AusgabenEinnahmen/Tabellen/Laenderfinanzgleich.html>

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We support capacity development for finance officials in South East Europe through learning.

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We work with our constituency by directly contributing to the design and implementation of their public financial management, tax policy and administration, and central banking reform efforts. We do this through innovative, participatory, and practical learning solutions. The CEF serves as a knowledge hub for the region: we combine topical expertise and in-depth knowledge of countries in the region with a good grasp of leadership skills required to manage reforms. We know how to nurture and deepen learning among individuals and institutions.

OUR HISTORY

We were established in 2001 under the Stability Pact for South East Europe by the Slovenian Government, at the initiative of the Slovenian Ministry of Finance and in close cooperation with other ministries of finance of former Yugoslav countries and Albania. In 2015, the CEF became an international organization after 14 very successful years as a regional institution.

OUR CONSTITUENCY

We primarily serve ministries of finance, tax administrations, and central banks in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Moldova, Montenegro, Romania, Serbia, Slovenia, and Turkey. We also address capacity development needs of other key stakeholders and are present in some other countries.



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Recently, governments around the world and international organizations have paid close attention to the design and management of national tax systems. Based on research and experience, a standard model has emerged that makes voluntary compliance with tax law as simple as possible. At the same time, governments have developed skills in identifying and counteracting a range of risks that give rise to evasion of legally due taxes. However, the topic of revenue raised at subordinate levels of government is much less explored. How much revenue is collected by line ministries, their agencies and by local government? What strategies are used and with what success?

This book takes a preliminary look at these questions, using the case of user fees and charges levied on citizens and businesses. The examples focus on health charges, water charges, road tolls and environmental levies in four countries. The initial findings suggest that limited success in bringing in the money due is caused by out-of-date laws, inadequate levels of charge, hostility on the part of those paying the charges, and, in many cases, creaky administrative machinery. Despite these flaws, the contribution made by fees and charges is worthwhile and can be improved.

Norman Gillanders, Associate Fellow of the Center of Excellence in Finance



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