

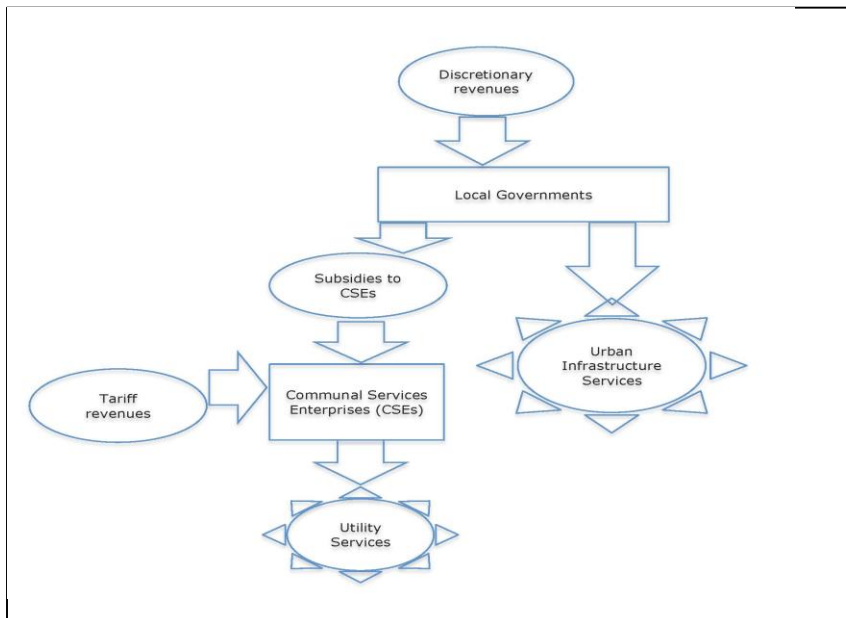
# Local Government Finance in the Western Balkans

# Structure of Subnational Government Varies

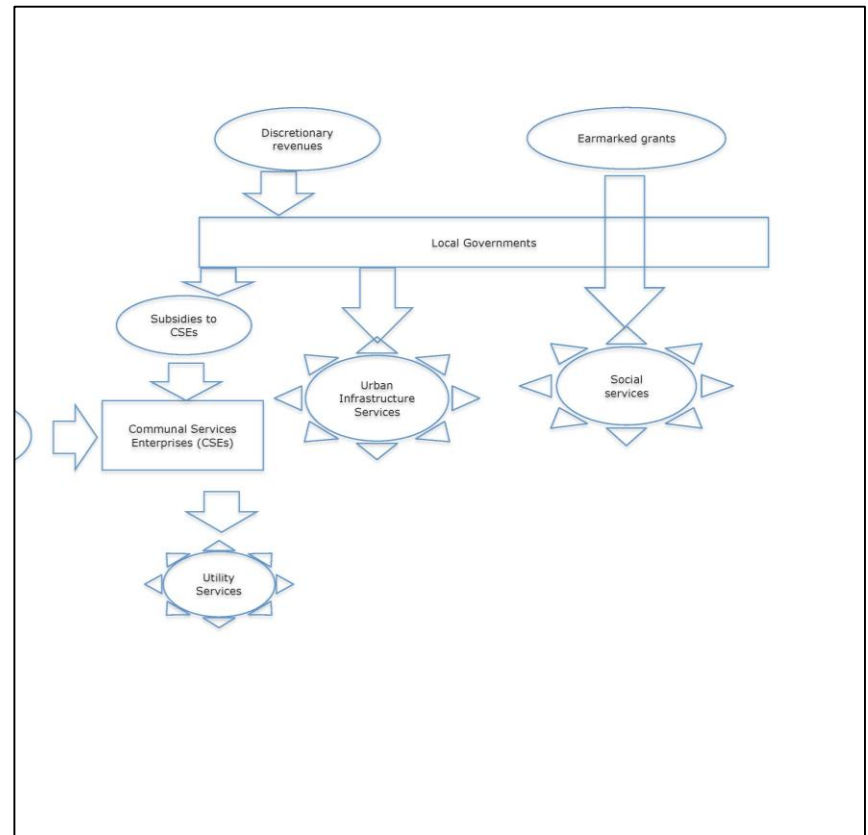
- Most W Balkan countries have single tier of local government
- Croatia, Albania also have counties
- Bosnia has unique structure

# Functions also Vary

## A. Local functions confined largely to infrastructure: Serbia, Croatia



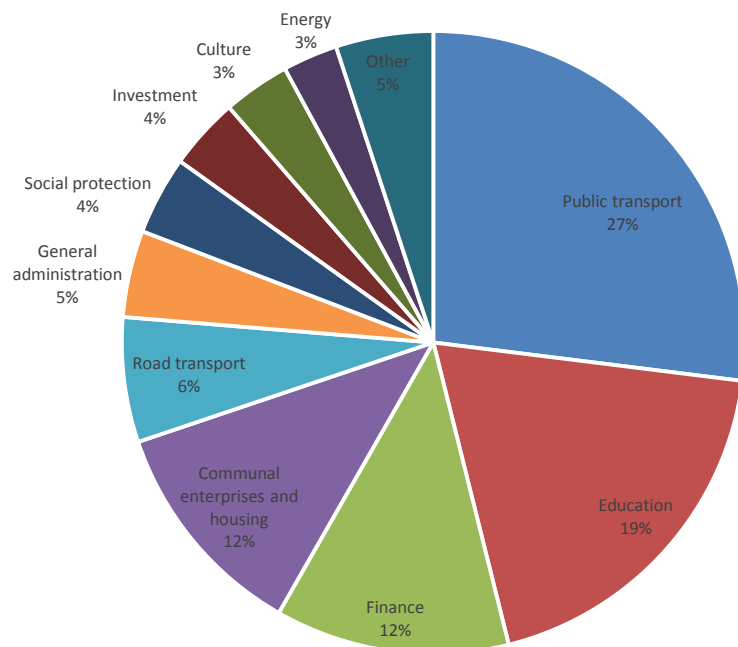
## B. Local functions also include social services: Macedonia, Albania



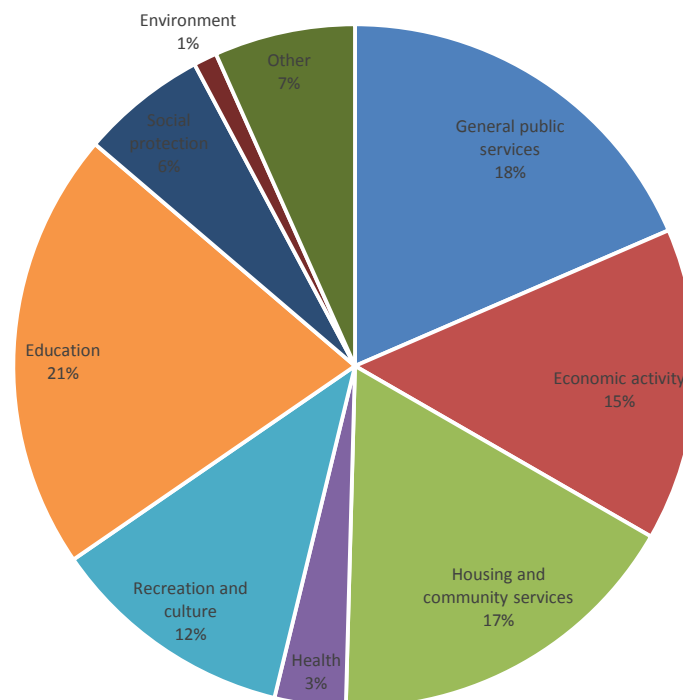
# Composition of Expenditures Reflects Functions

## Case of Serbia and Croatia

Belgrade

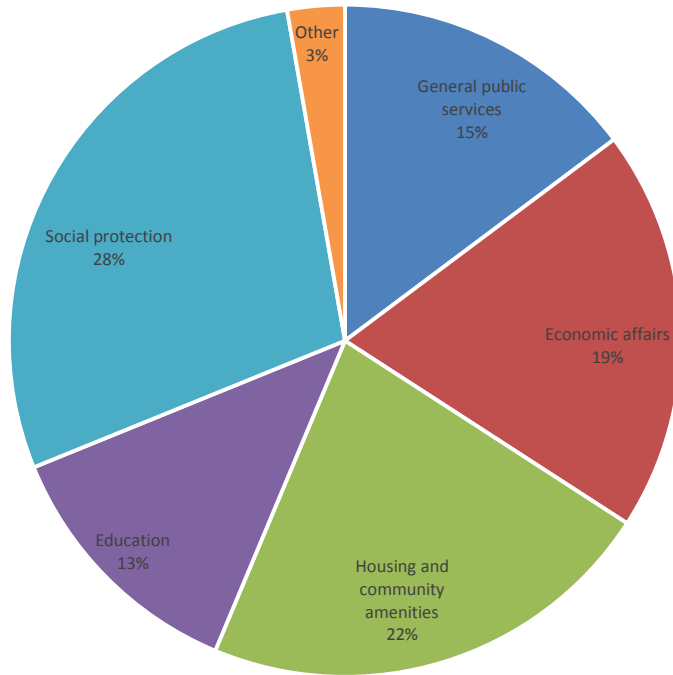


Croatia, all LGs

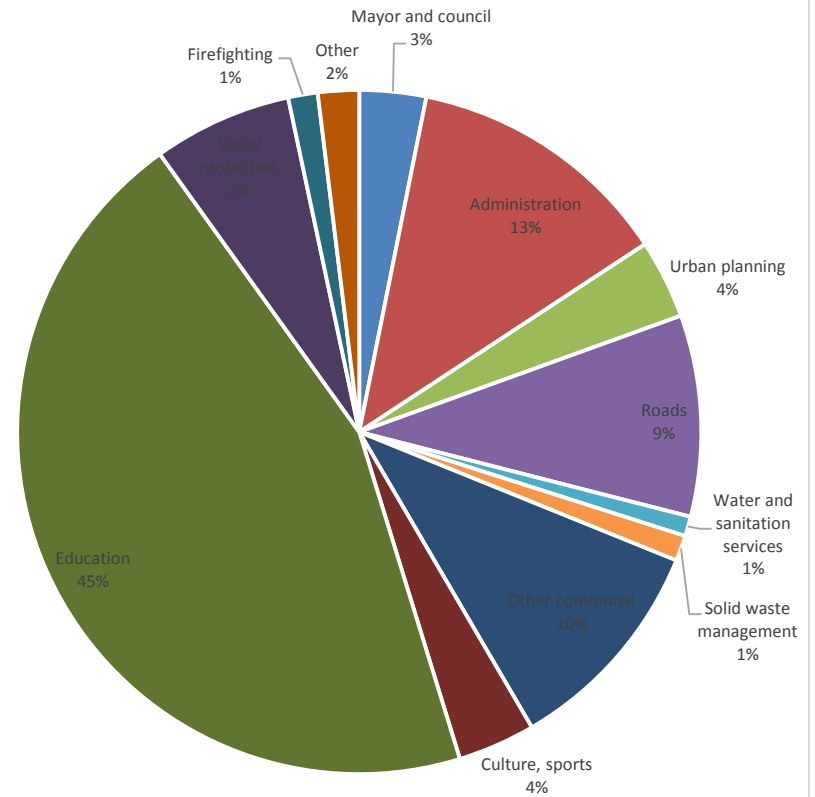


# Composition of Expenditures Albania and Macedonia

Albania, all LGs

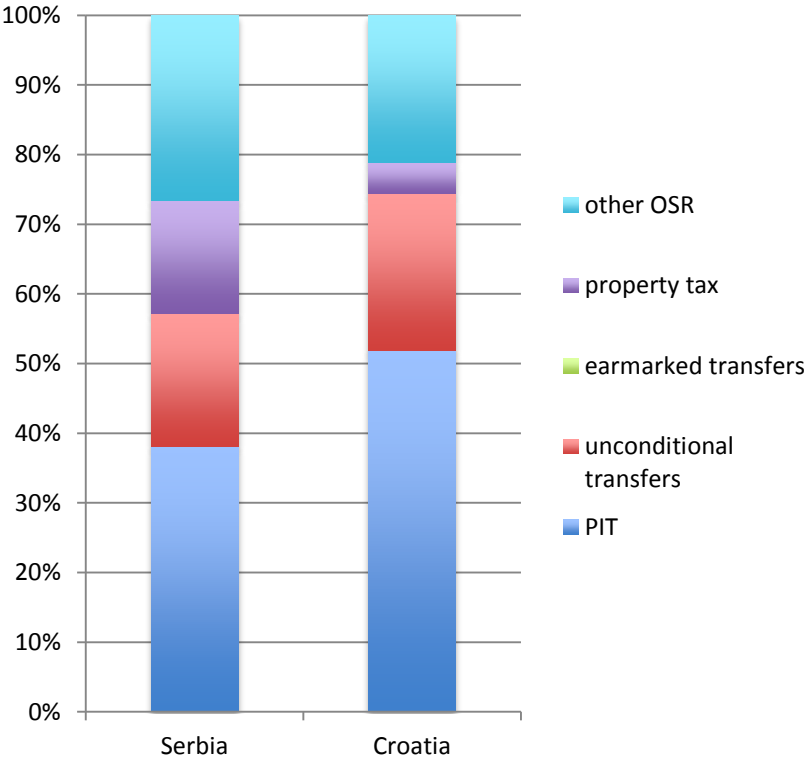


North Macedonia, all LGs

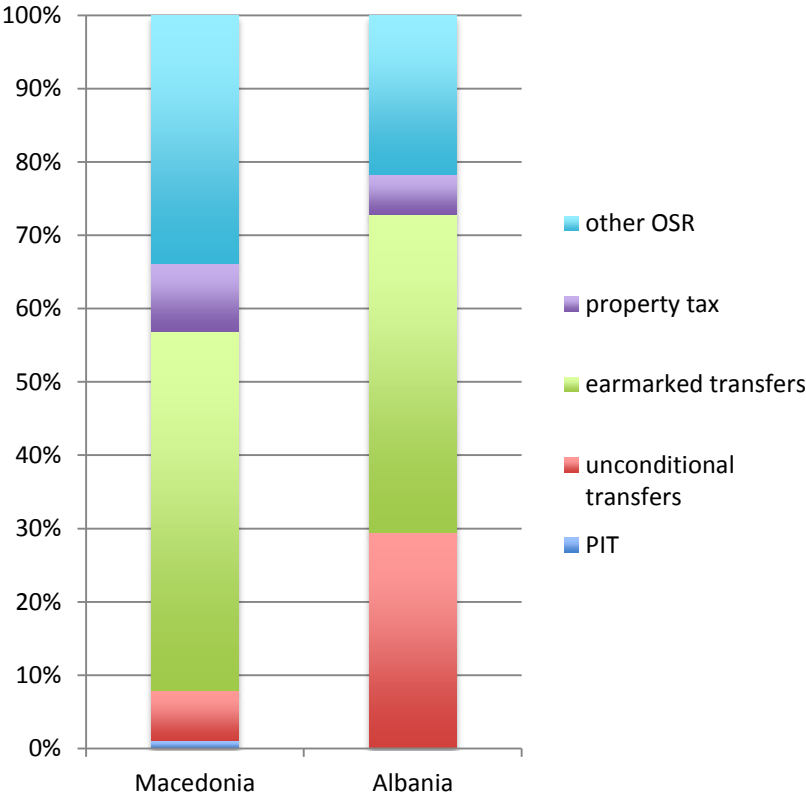


# Structure of Revenues Also Reflects Functions

### mainly infrastructure providers

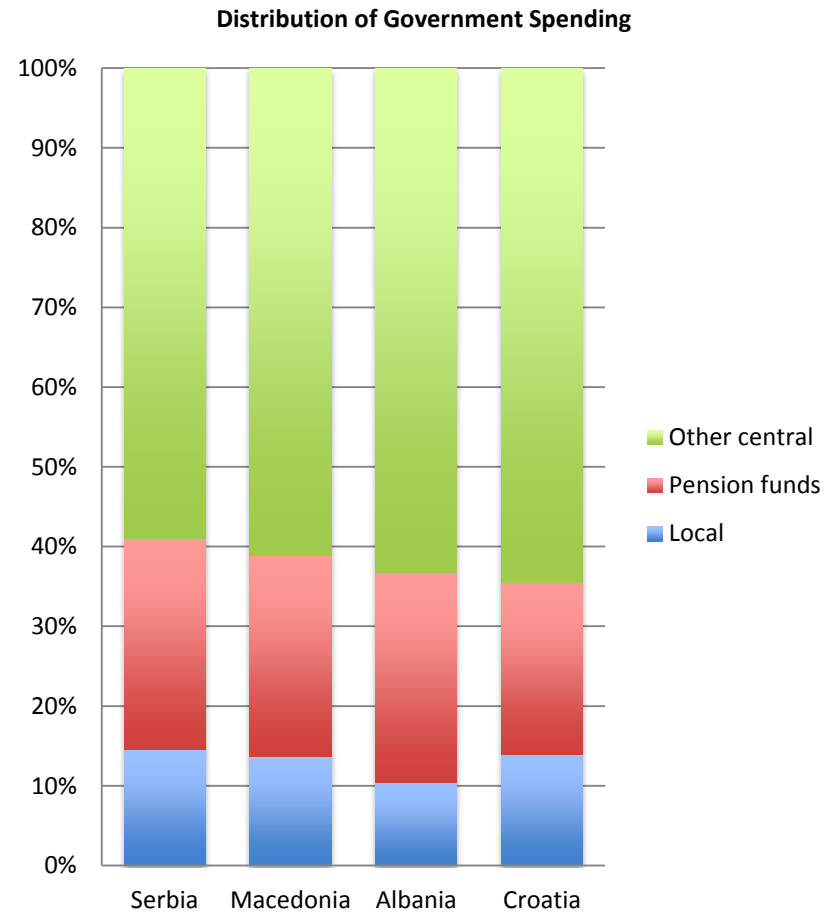


### infrastructure and social service providers



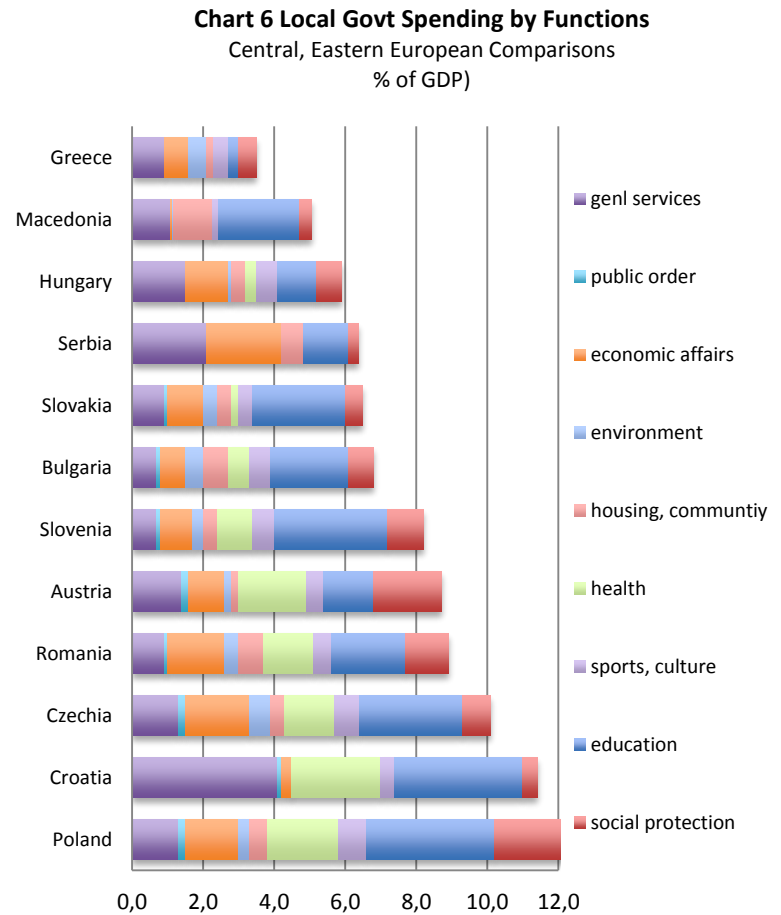
# Issue 1: Do LGs Deserve More Money?

- LGs account for 10-15 % of total govt spending



# The Case of Macedonia

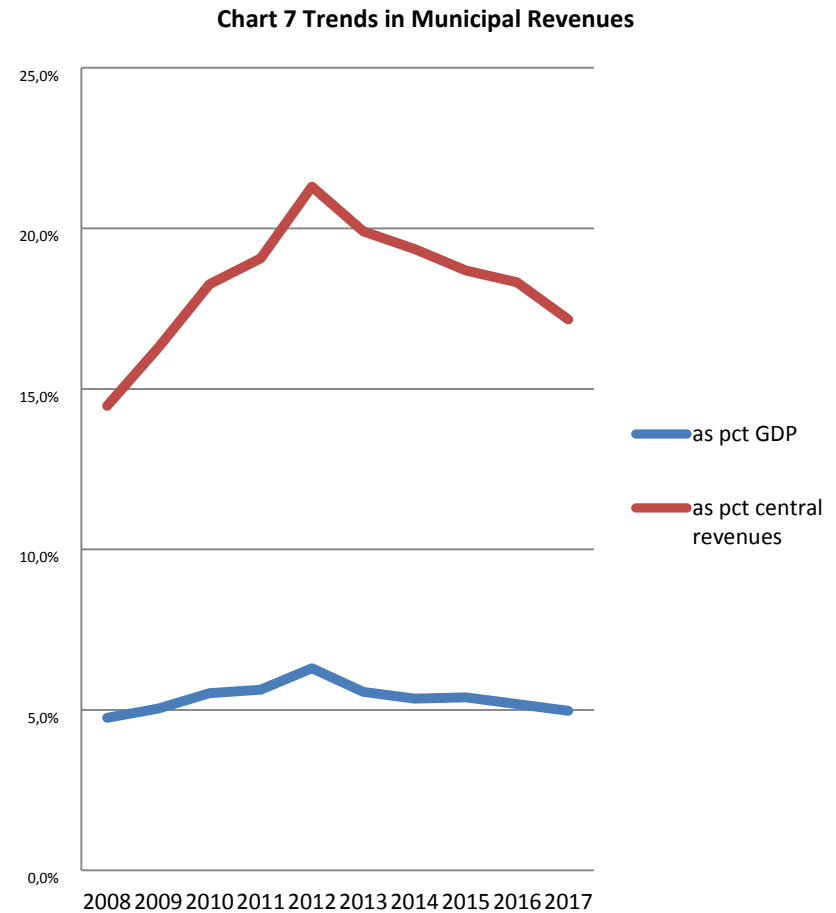
- LGs appear underfunded compared to neighbors
  - especially after considering social sector responsibilities





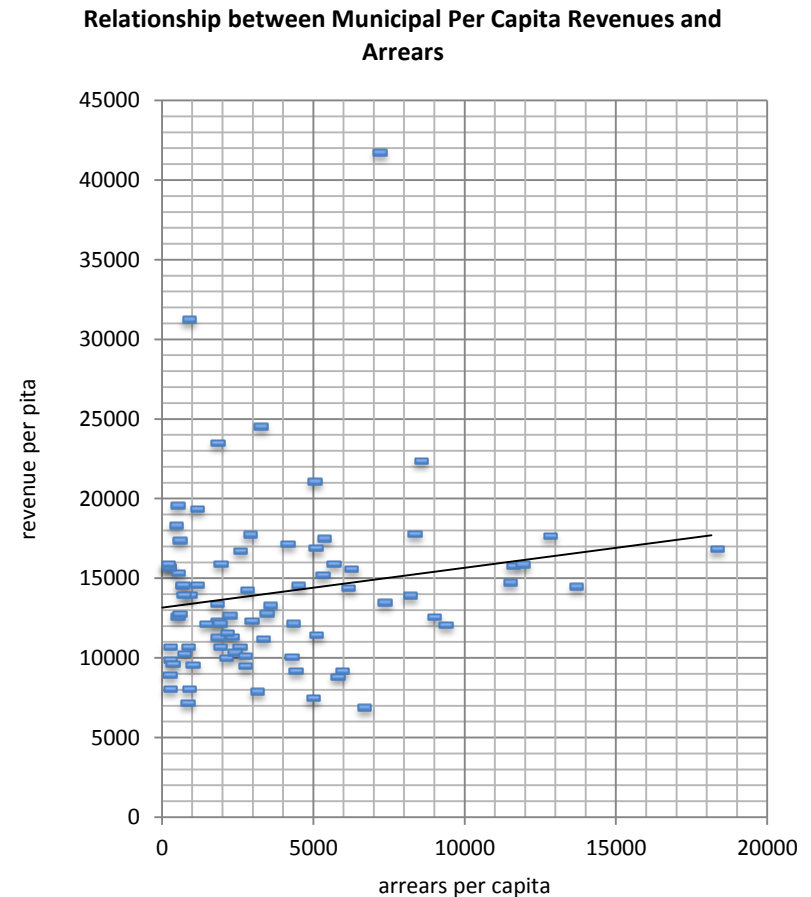
# Macedonia, continued

- LG revenues have declined from their peak



# Macedonia, continued

- LGs show evidence of fiscal distress
  - Since LG accounts are cash based and multi-year borrowing is rare, deficits are not evident
  - But the stock of arrears is large
    - municipal arrears were equal to 27 percent of municipal revenues in 2017.
- Analysis shows arrears do not represent widespread fiscal distress
  - Instead represent a few bad apples



# Bottom Line

- More funding for local governments implies either:
  - less funding for the central government
    - if the increase is financed through transfers
  - or less money in the pockets of taxpayers
    - if the increase is funded through local taxes and fees
  - So proceed carefully
    - But enable LGs to raise OSR if taxpayers are willing

# Issue 2: Are Fiscal Disparities Too Wide?

Capital cities are much richer, in per capita terms, than other jurisdictions

Figure 1 Serbia

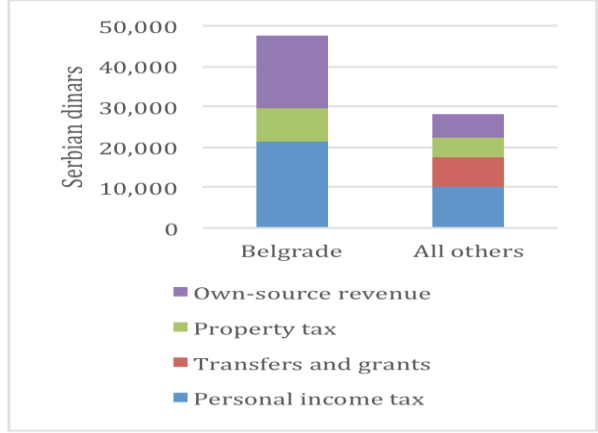


Figure 2 Croatia

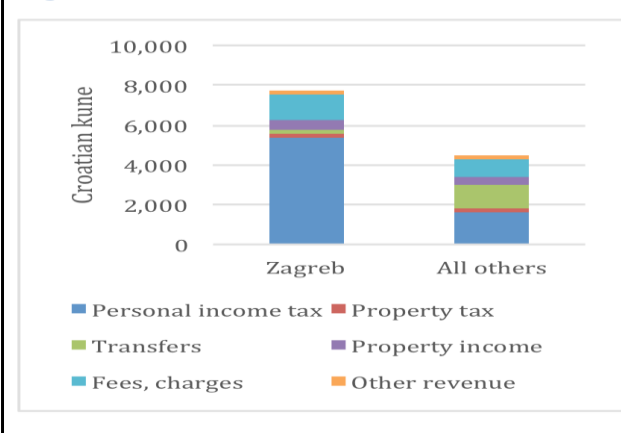


Figure 3 Albania

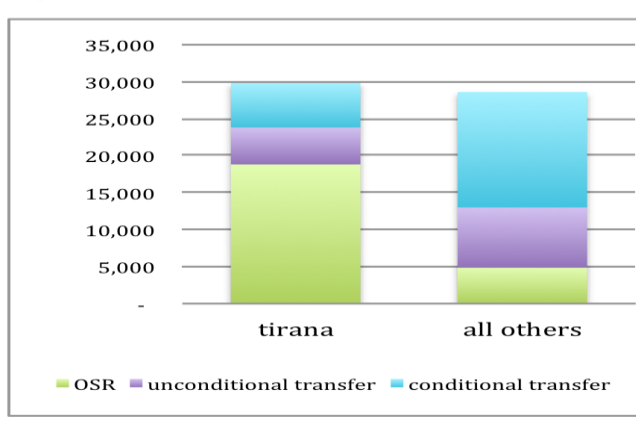
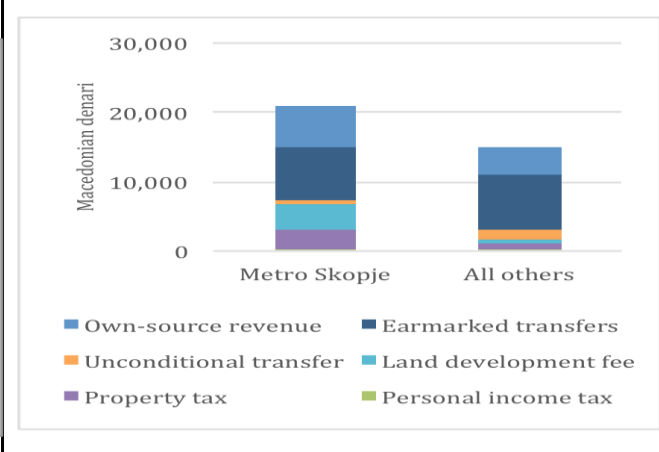
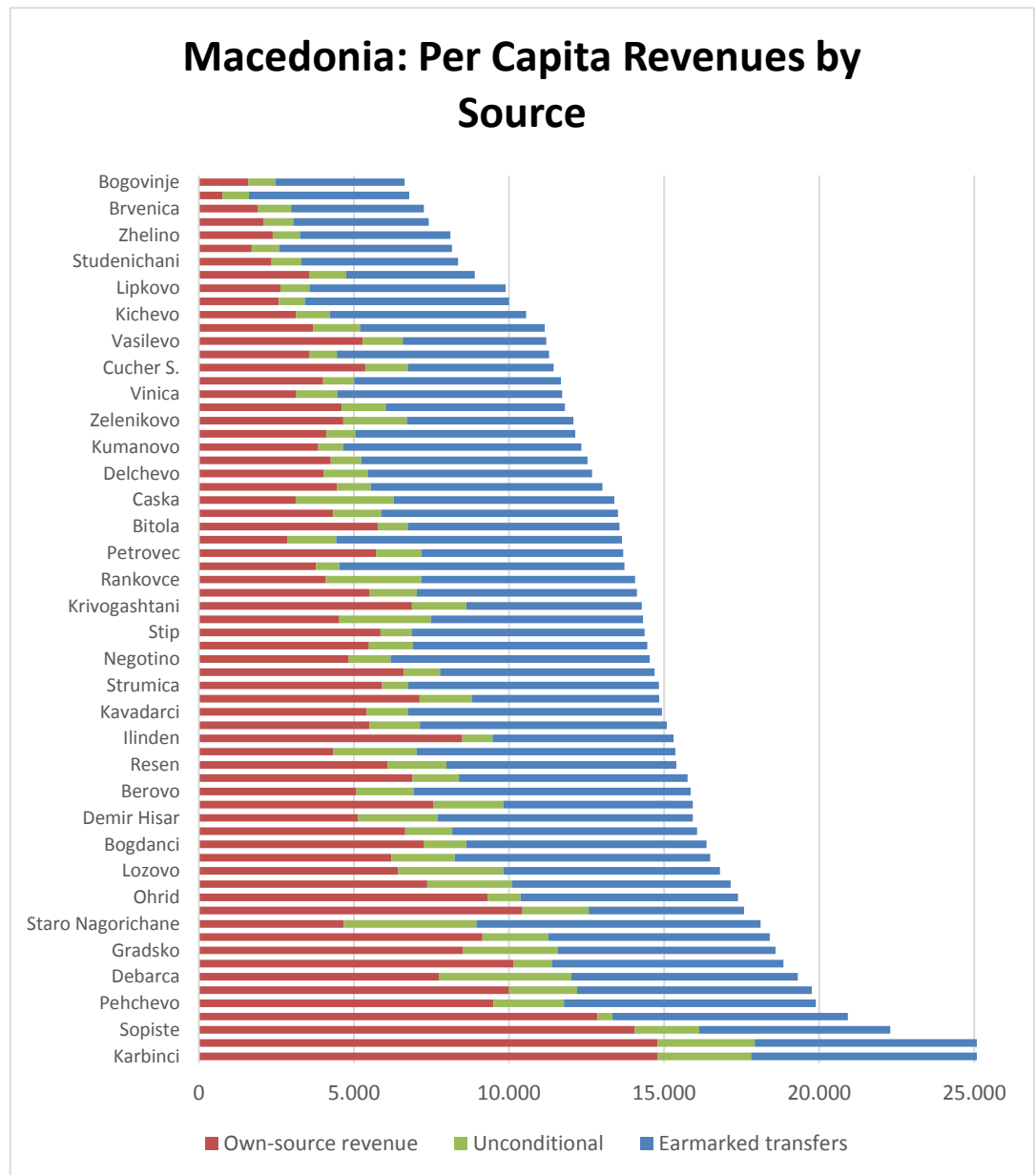


Figure 4 Macedonia



- Largely due to high levels of OSR and shared PIT
- These are offset in part by unconditional equalization transfers
- And, in some countries, earmarked transfers for social services



# Some Disparities Are Justified

- Disparities in discretionary resources\* may be justified
  - LGs rely on discretionary recurrent revenues to finance infrastructure investment
  - Since most population and economic growth is occurring in largest cities, need is greatest there

\*OSR, shared PIT, and unconditional transfers

## But Earmarked Transfers for Social Services Should Follow Beneficiaries

- Examples
  - Macedonia education transfers follows student
  - Albania social assistance transfer follows poor

# Bottom Line

- Existing systems of revenue assignment and transfers generally make sense
- Despite variations in per capita discretionary revenues
- Although there is always room for improvement.....