


*World Bank-Austria Urban Partnership Program*  
*City to City Dialogue*  
**MUNICIPAL FINANCE, URBAN PLANNING AND LAND MANAGEMENT**  
November 14-15,2017 Skopje, Macedonia

# **MFSA COUNTRY REPORTS SUMMARY**



**Mihaly Kopanyi Ph. D.**  
**Municipal Finance Advisor**  
**World Bank retiree/consultant**



# Outline

**The synthesis report**

**The UPP region – macroeconomic landscape**

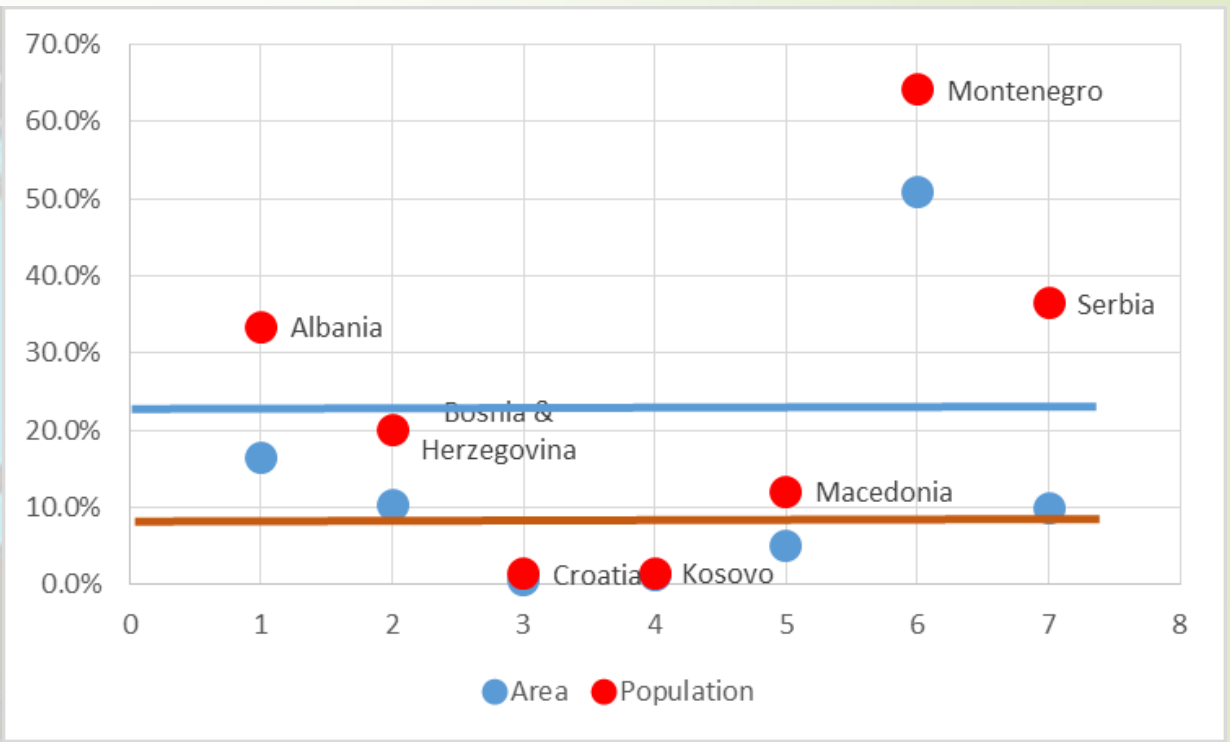
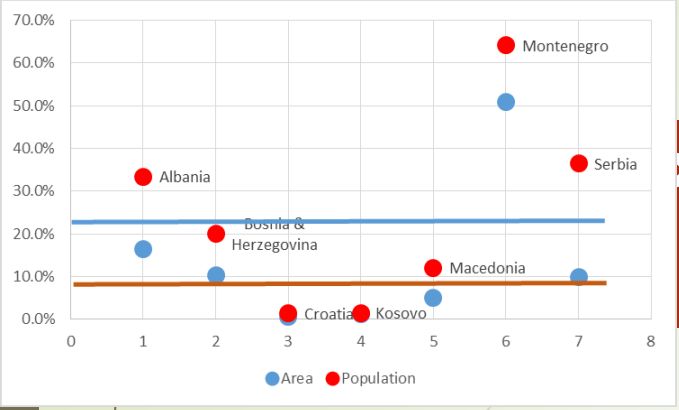
**Financial Snapshots**

**Key ratios**

**Action Plans**

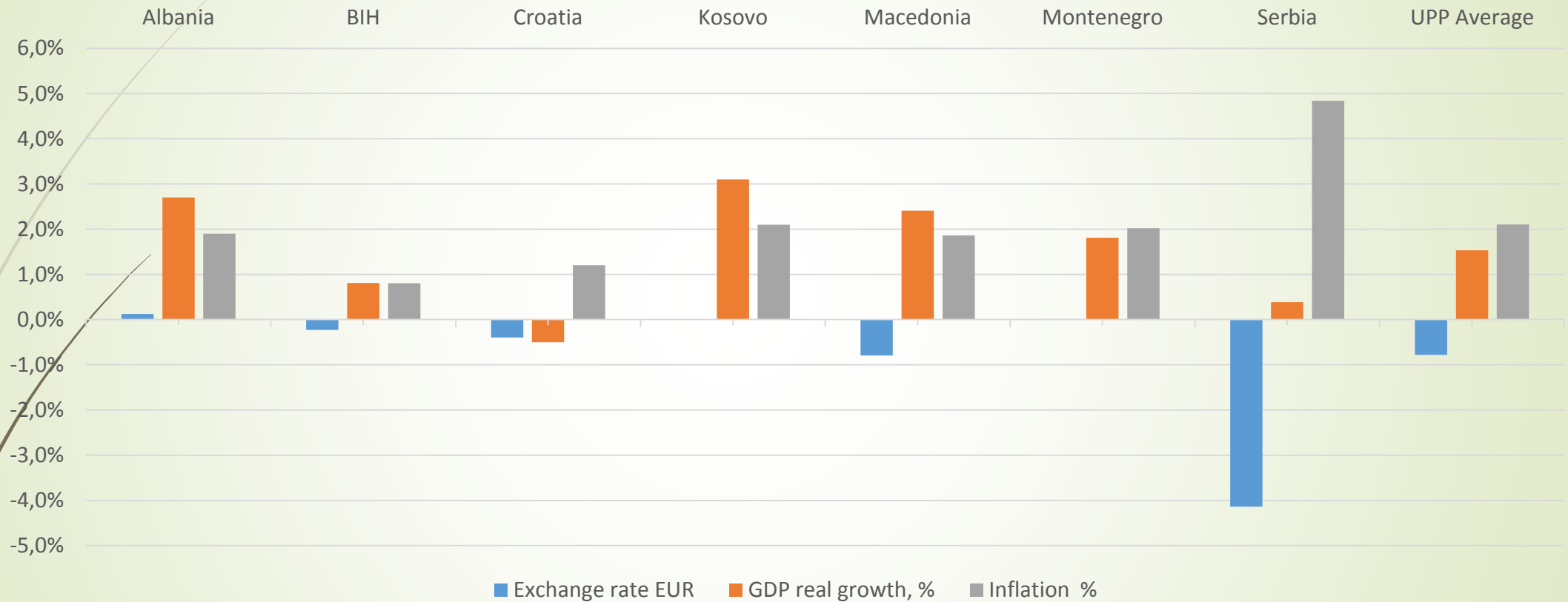


# UPP region and Share of Municipalities in UPP partner countries



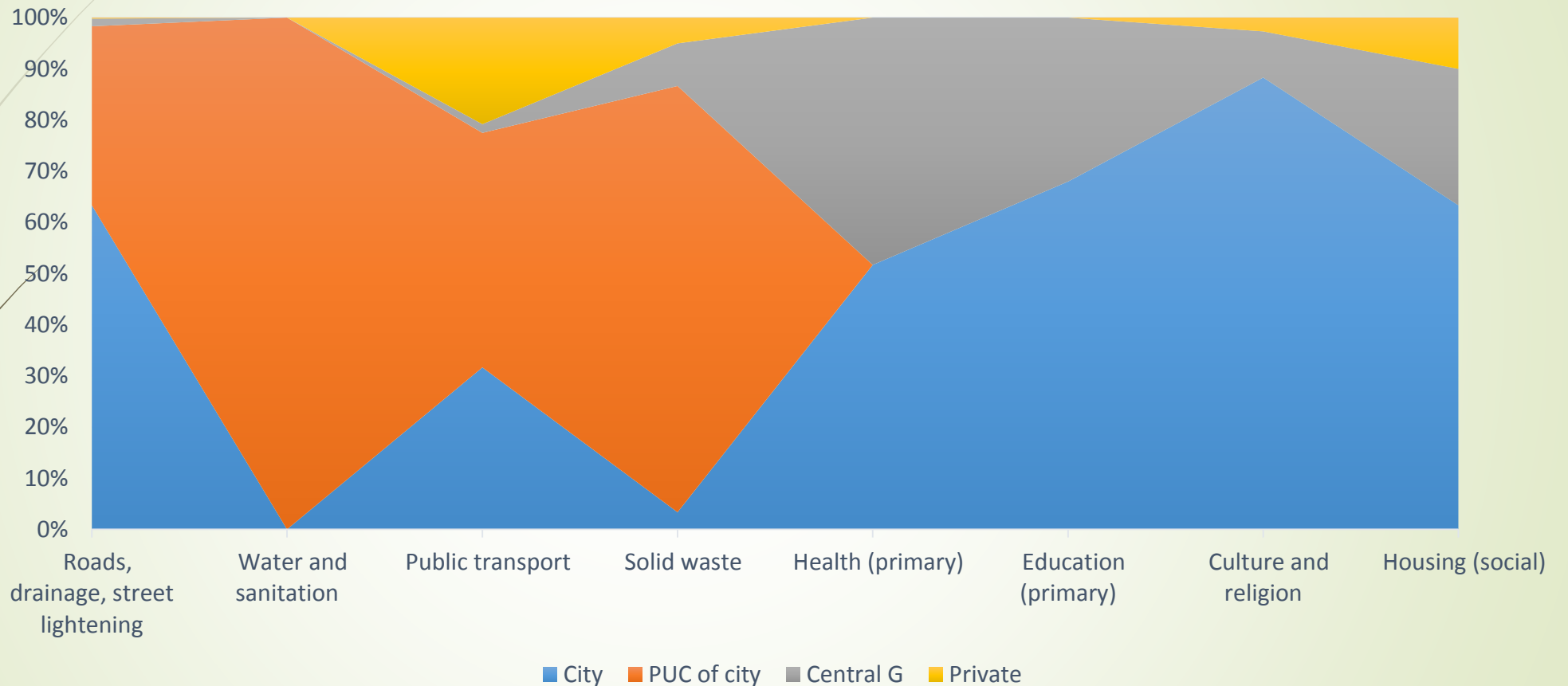
**HIGH REPRESENTATION:** UPP cities represent 9% of regional territory and 22.5% of population  
**COMPACT REGION:** underscores consolidated regional numbers  
**Good picture to draw lessons.**

# Main macroeconomic indicators 2011-15 %



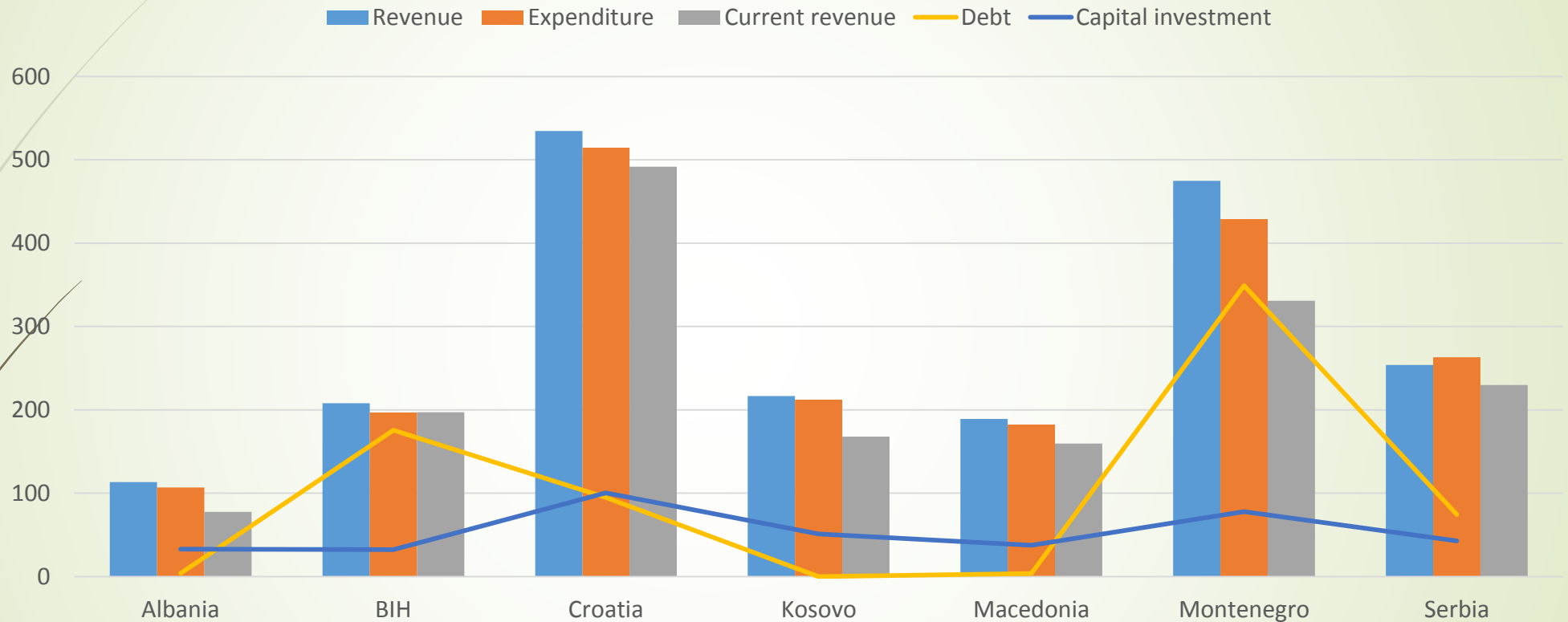
Post-crisis situation with emerging improvements

# Provision of Local Services



PUCs dominate urban services with substantial private contribution;  
Central governments still dominate social services;  
LG and Private contribution is substantial in public housing

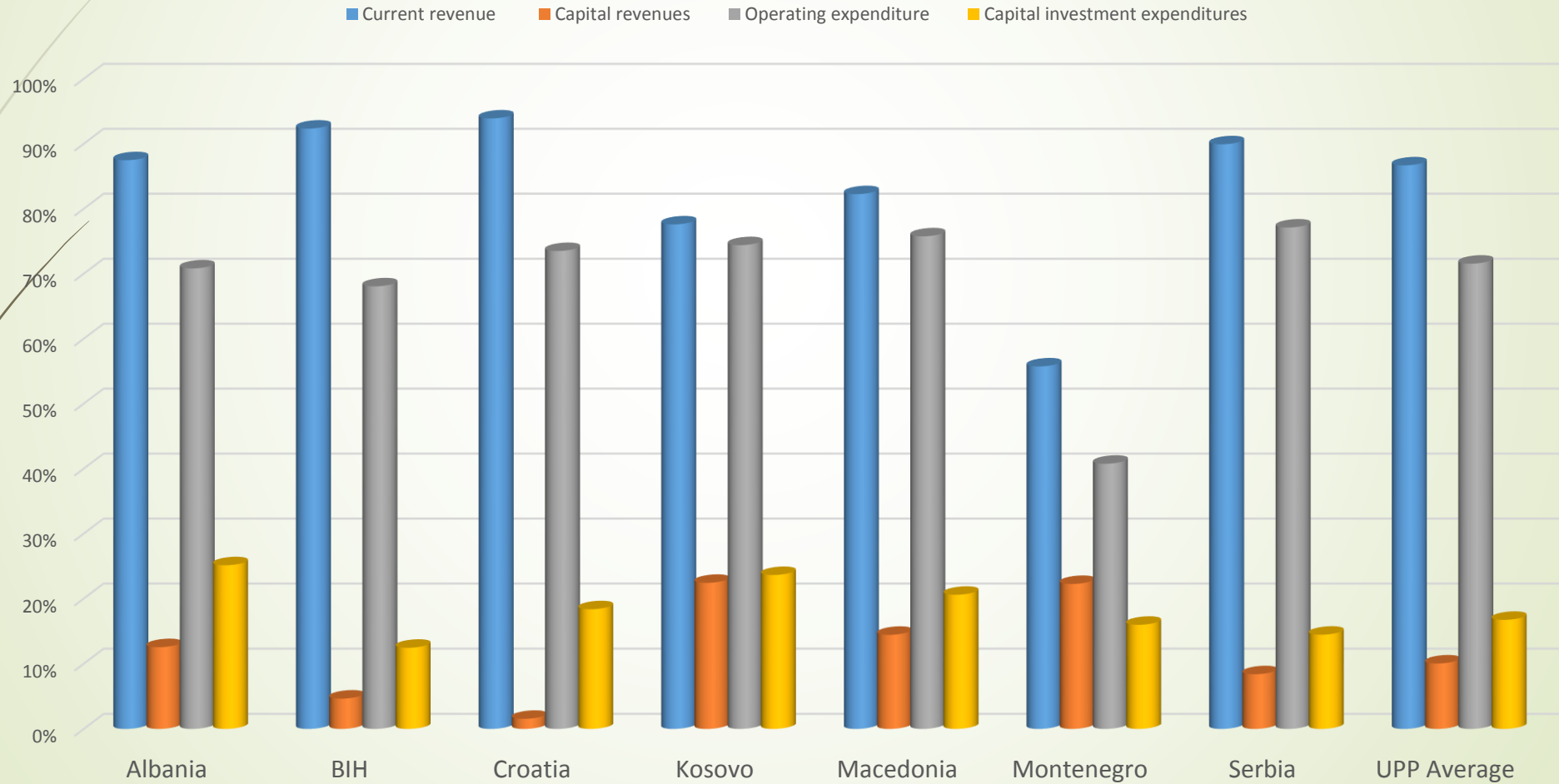
# Financial comparison of UPP cities (Euro per capita 2015)



Large disparities in per-capita financials

Extreme disparities in debt stocks (debts include both commercial debt and liabilities vis a vis central government in Montenegro)

# Main revenues and expenditures in % of total Revenues 2015



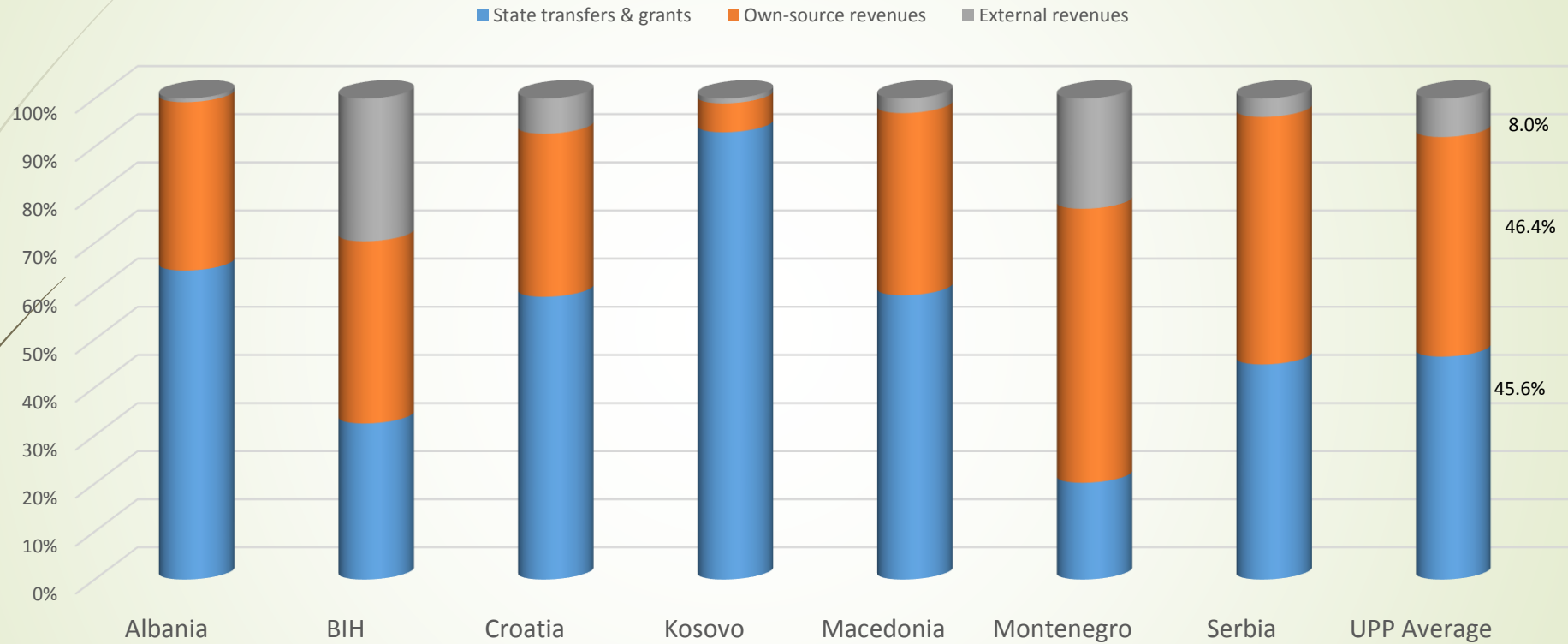
# Consolidated financial snapshot of UPP cities 2015

Items	Albania	BIH	Croatia	Kosovo	Macedonia	Montenegro	Serbia	UPP Average
Current revenue	87%	92%	94%	78%	82%	56%	90%	87%
Operating expenditure	71%	68%	73%	74%	76%	41%	77%	72%
<b>Gross operating balance</b>	<b>19%</b>	<b>24%</b>	<b>20%</b>	<b>3%</b>	<b>6%</b>	<b>15%</b>	<b>13%</b>	<b>16%</b>
Debt service and borrowing costs	1%	12%	4%	0%	1%	27%	9%	9%
<b>NET CURRENT BALANCE</b>	<b>16%</b>	<b>12%</b>	<b>16%</b>	<b>3%</b>	<b>6%</b>	<b>-12%</b>	<b>4%</b>	<b>6%</b>
Capital revenues	13%	5%	2%	22%	14%	22%	8%	10%
Own capital revenues	5%	2%	1%	2%	13%	20%	8%	8%
Investment grants and donations	8%	2%	0%	21%	1%	3%	0%	2%
Capital investment expenditures	25%	12%	18%	24%	21%	16%	14%	17%
<b>BALANCE AFTER INVESTMENTS</b>	<b>3%</b>	<b>4%</b>	<b>-1%</b>	<b>2%</b>	<b>0%</b>	<b>-6%</b>	<b>-2%</b>	<b>0%</b>
Cash reserves from previous years	12%	0%	3%	1%	2%	8%	10%	8%
Loan proceeds	0%	3%	2%	0%	2%	14%	4%	4%
<b>OVERALL CLOSING BALANCE</b>	<b>15%</b>	<b>7%</b>	<b>4%</b>	<b>3%</b>	<b>3%</b>	<b>16%</b>	<b>12%</b>	<b>12%</b>

Snapshot is an efficient instrument to summarize results and compare cities and countries  
 Solid balances (16% gross operating, 6% net, and 12% overall balance).  
 All positive balances, except Montenegro, due to ill-managed debt resolution program.

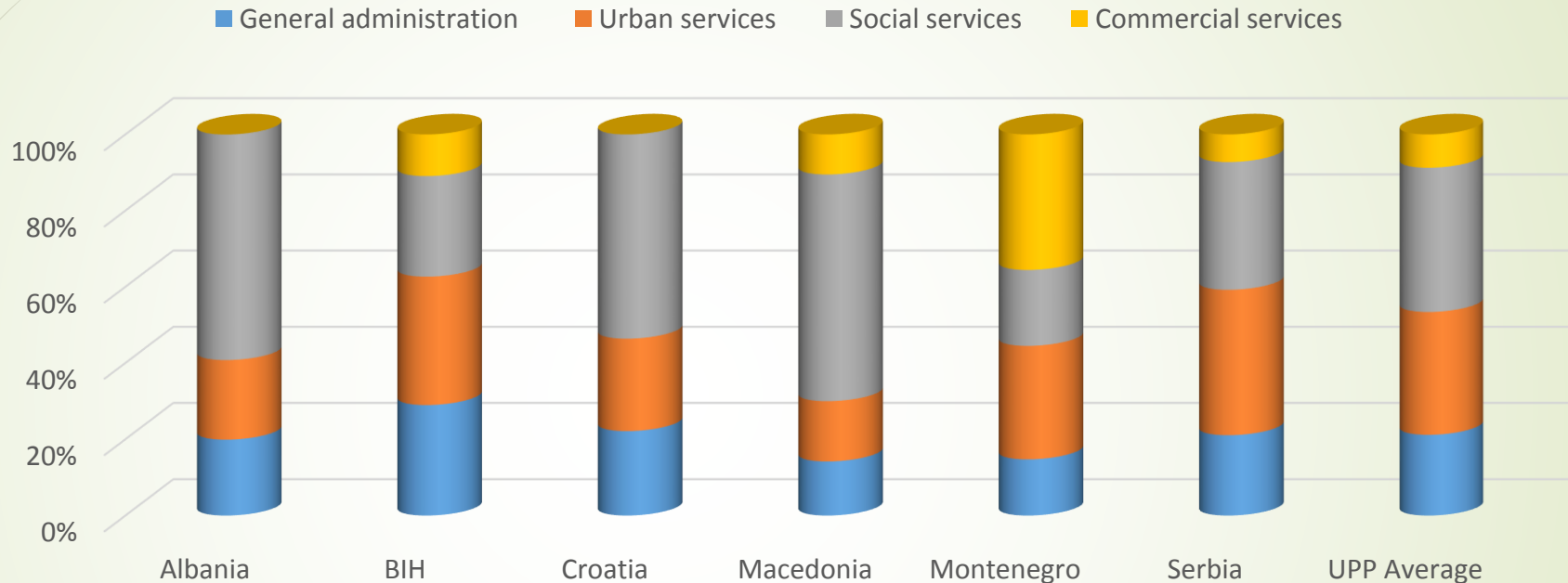


# Main revenue sources in UPP cities 2015



State transfers are very substantial and dominant in many countries, Kosovo extreme high, Montenegro extreme low, External revenues are moderate (8%)

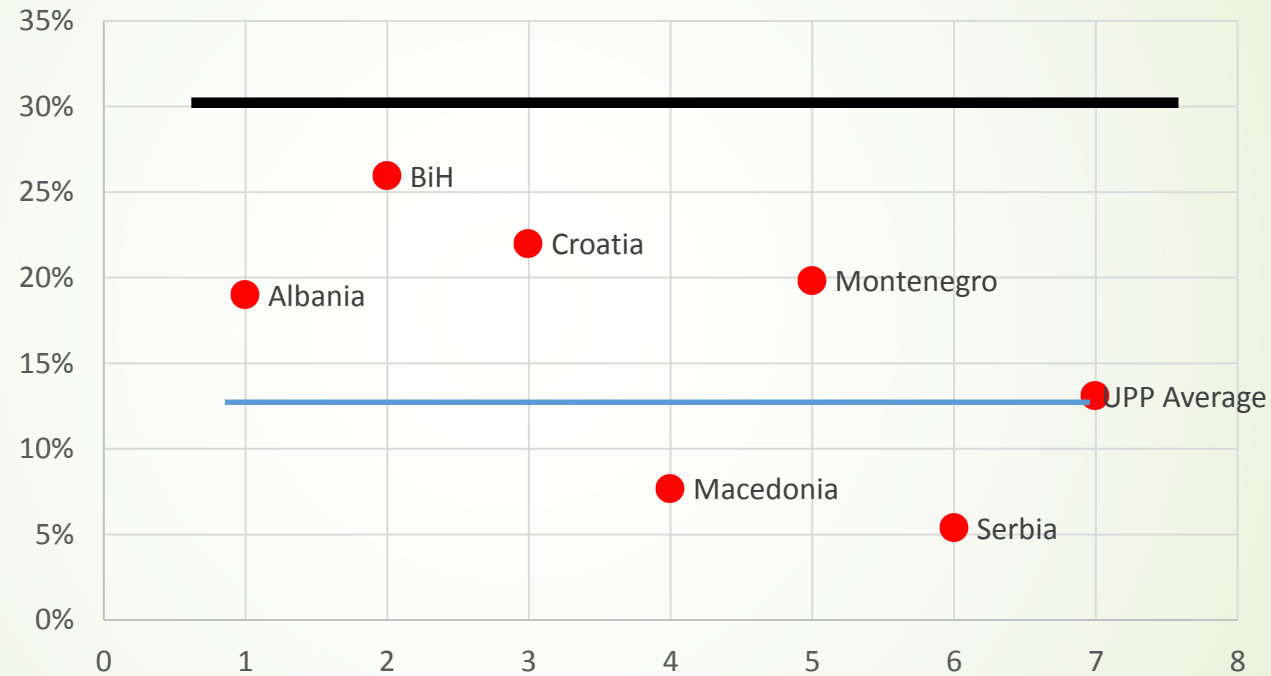
# Expenditures by functions 2015



General administration is low in middle-income countries, 21% average;  
Urban services are substantial, despite dominant provision by PUCs;  
Social services are comparably large;  
Commercial services are substantial (9% average) and extreme in Montenegro

# Creditworthiness in 2015

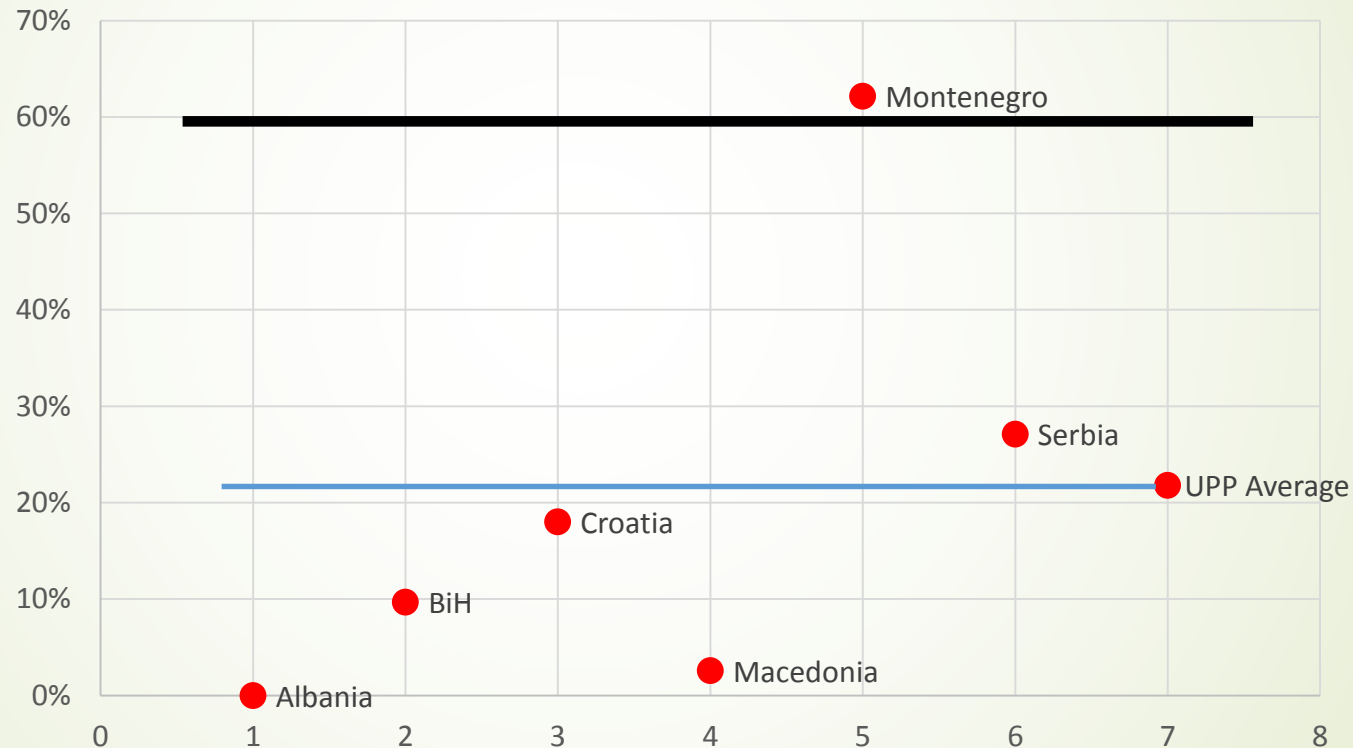
Gross operating savings / Current revenues >30%



All below benchmark – measured in one particular year only  
Moderate, but reasonably good in BiH, Croatia, Albania, Montenegro  
Low in Macedonia and Serbia

# Indebtedness

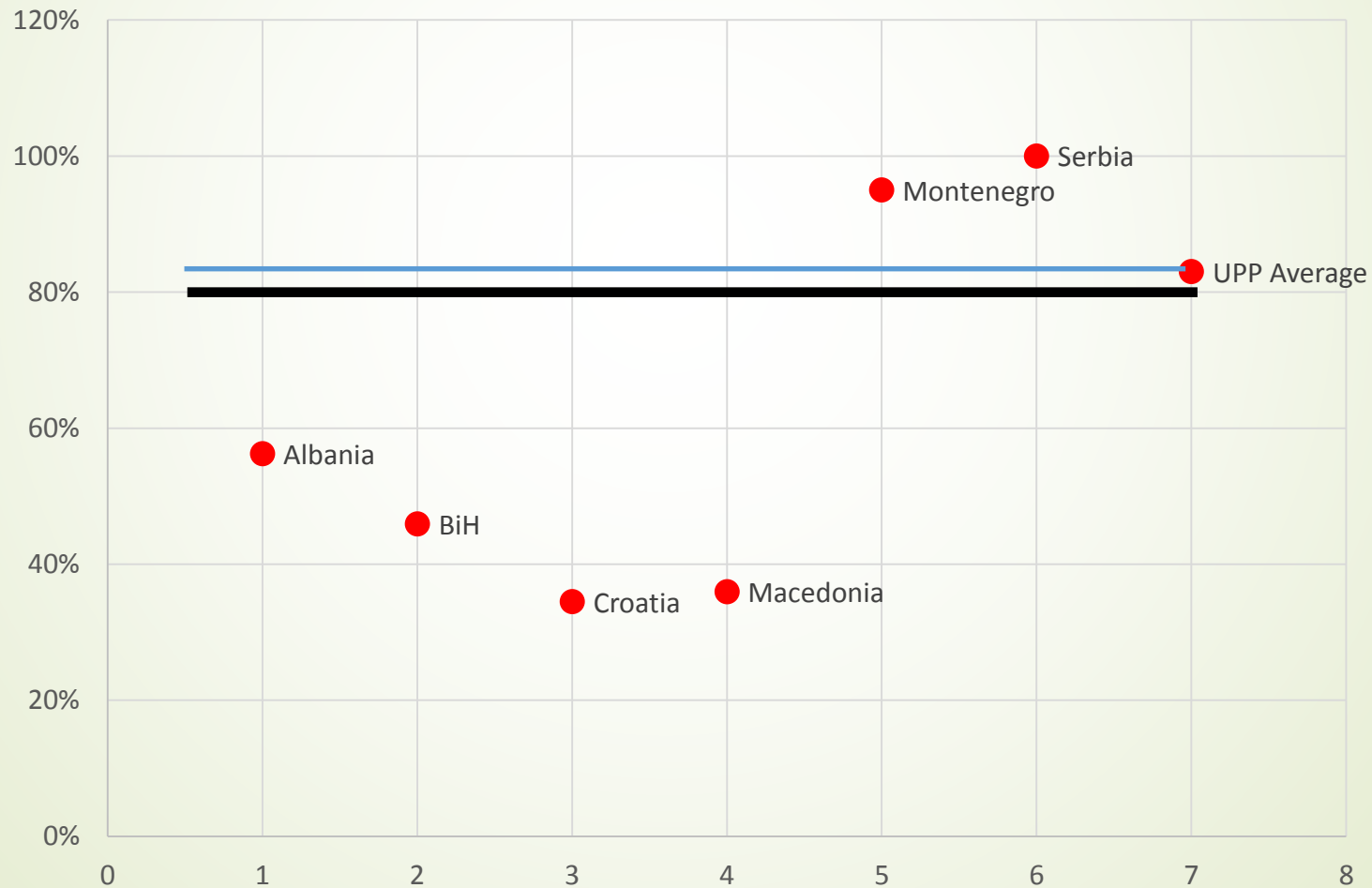
Debt stock/Total Budget <60%



Indebtedness is generally low compared to EU regulation benchmark  
Montenegro high indebtedness reflects national debt resolution and largely liabilities vis-a-vis central government

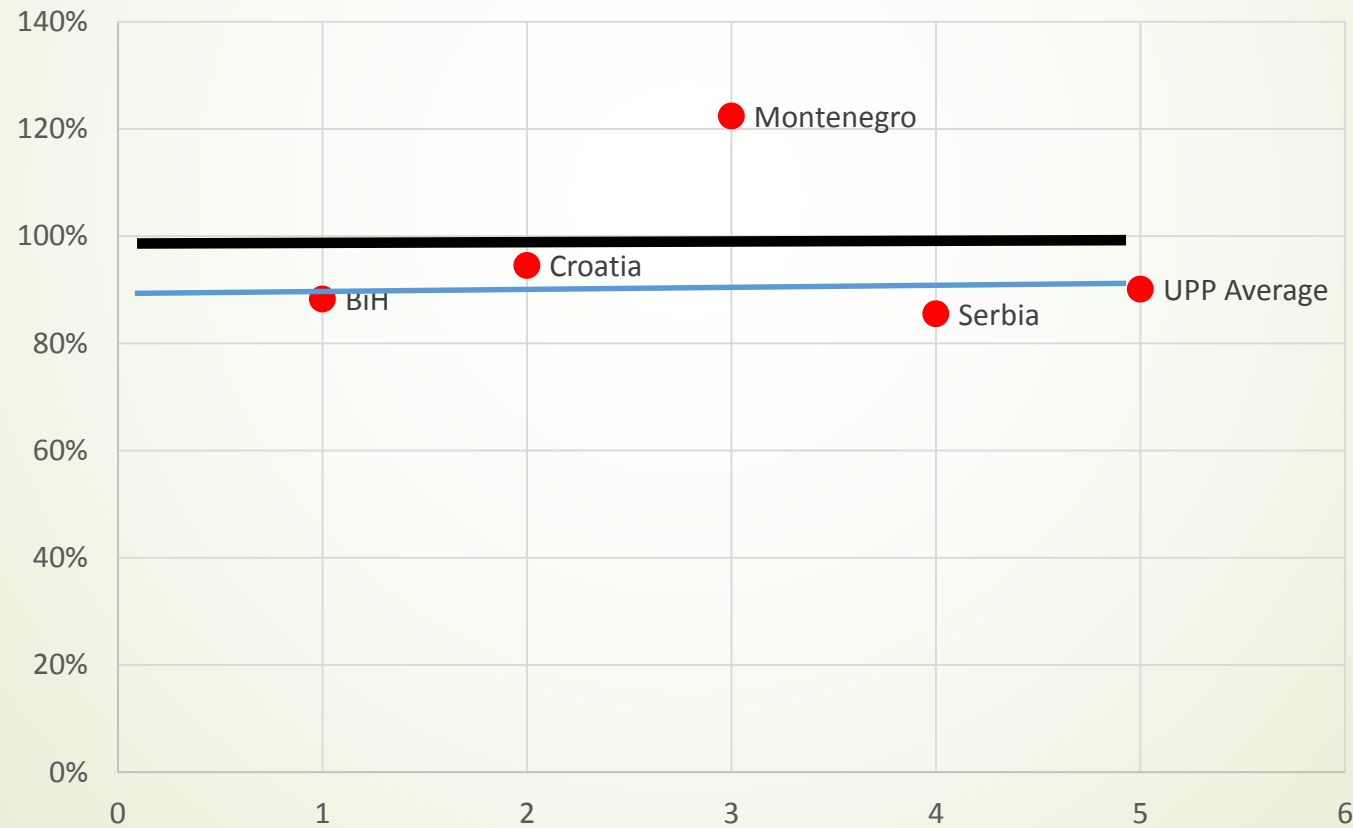
# Fiscal Autonomy

Current OSR + unconditional transfers > 80%



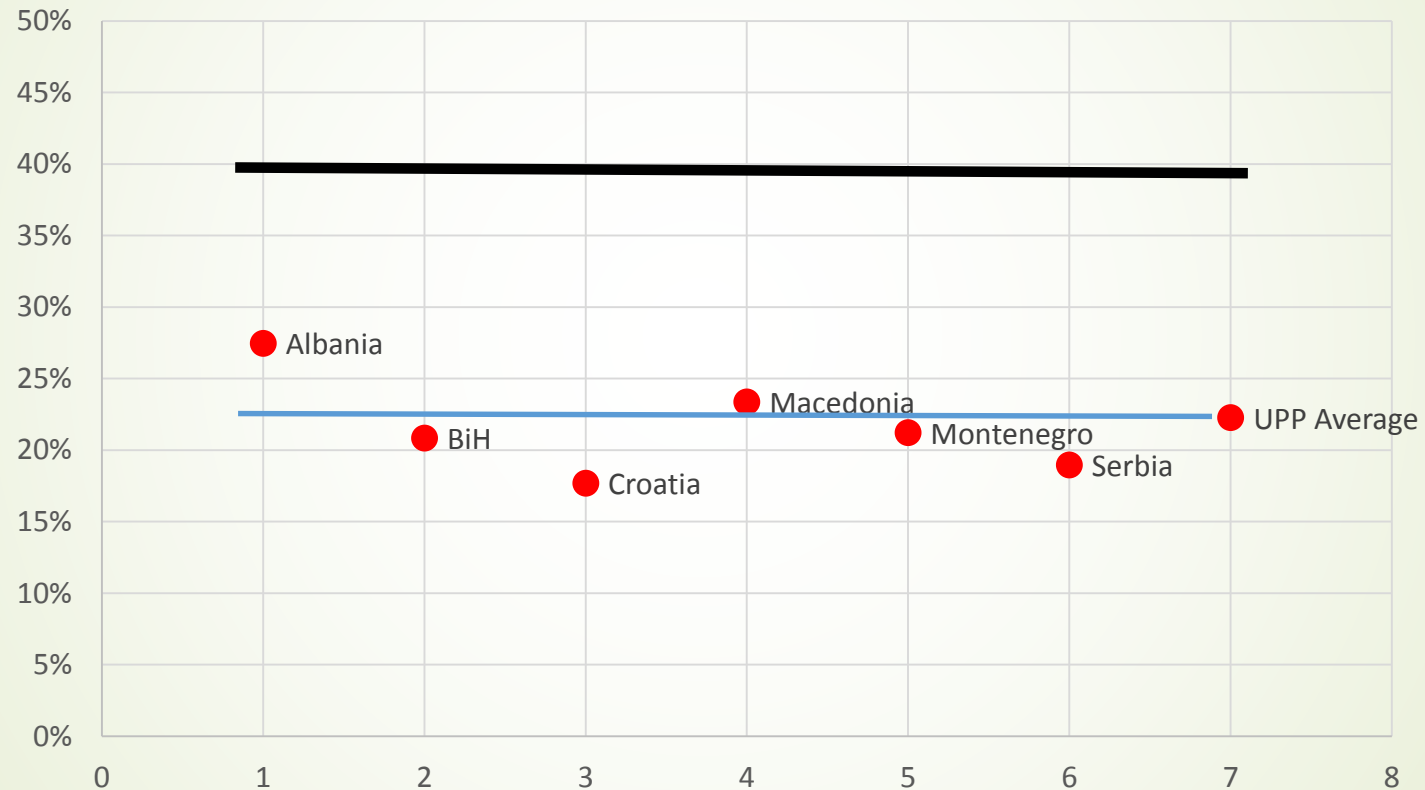
# Budget Reality

$95\% < \text{Actual revenue} / \text{Planned revenue} < 105\%$



# Service sustainability #1

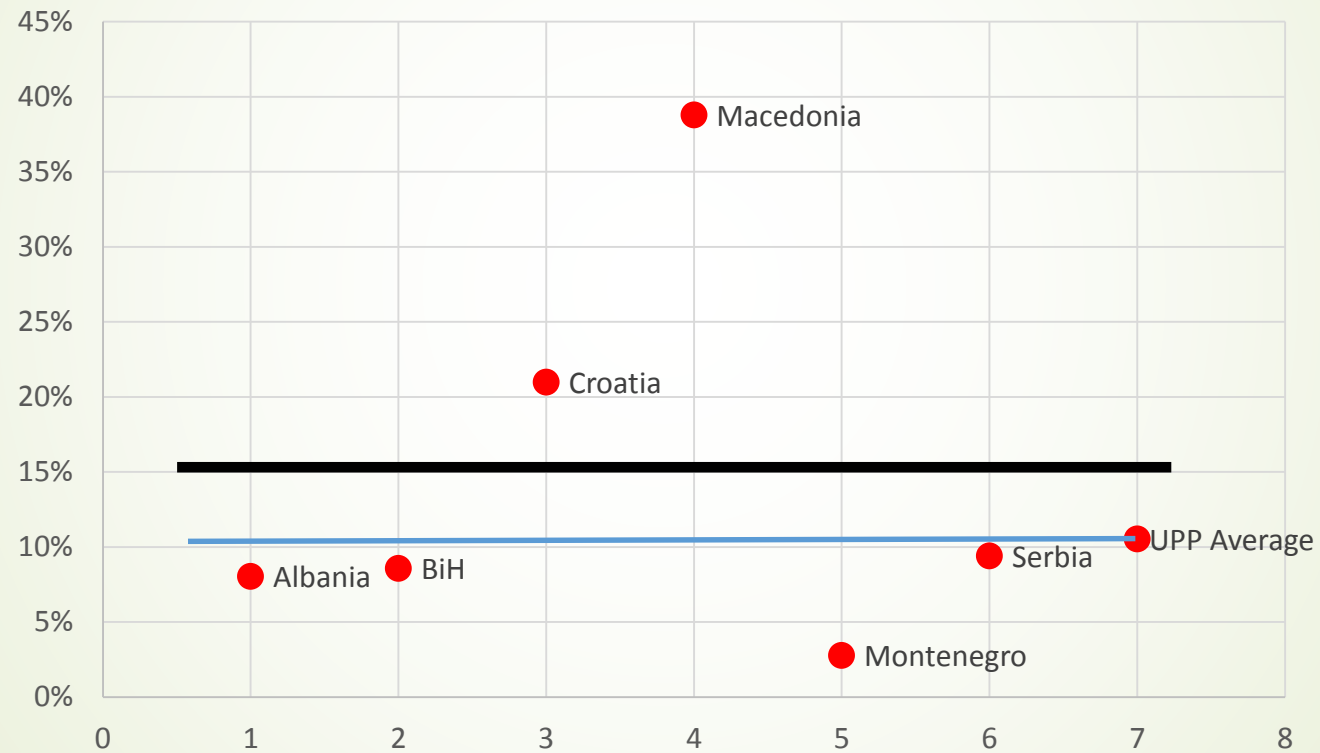
Capital investments/Current revenues >40%



Capital investments are way below benchmarks  
May reflect missed opportunities or weaknesses in expenditure priorities

# Service sustainability #2

Maintenance expenditures/Current expenditures > 15%



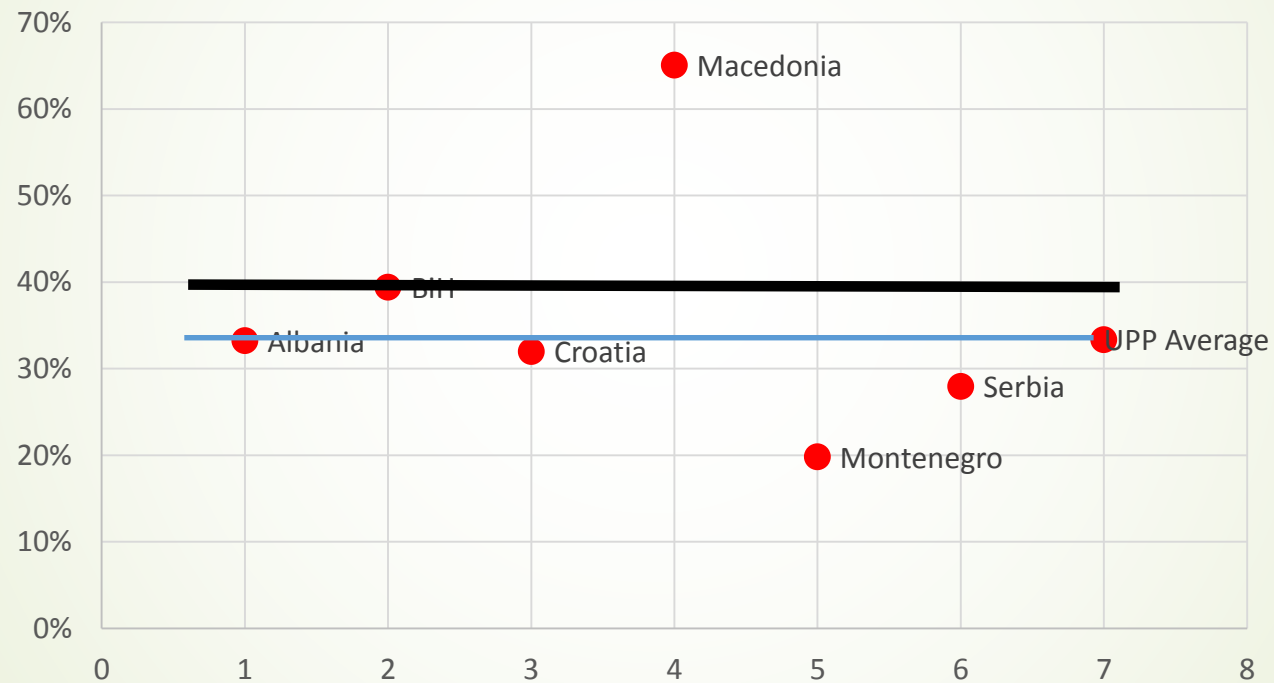
Service sustainability is low in maintenance on average,  
Good in Croatia;

Extreme in Macedonia – maybe classification issue or big restructuring program?



# Labor efficiency

Salaries and wages/Current expenditures < 40%



Labor efficiency is very good, except Macedonia  
Corresponds to the low level of number of municipal staff over 1000 citizens

# Action Plan

No	Items	Albania	BIH	Croatia	Macedonia	Montenegro	Serbia	UPP Average
1	Improve budget planning and execution with ICT		X	X	X	X	X	83%
2	Improve investment coordination and capital project planning			X	X		X	50%
3	Increase collection of revenues	X	X		X	X	X	83%
4	Increase collection of property and land tax	X			X	X		50%
5	Improve collection of tax arrears					X	X	33%
6	Improve commitment control and cash management			X		X	X	50%
7	Improve expenditure management, analysis and forecasting		X		X			33%
8	Improve debt management					X	X	33%
9	Improve internal control and audit					X	X	33%
10	Improve transparency, disclosure of budgets/financial reports			X		X		33%
11	Attract donations and grants				X			17%
12	Promote a new or changing Law on Local Governments	X				X		33%
13	Lobby for better revenue allocation for local governments		X					17%
14	Lobby to increase fiscal autonomy				X			17%
15	Lobby for more flexible local tax policies		X	X				33%
16	Lobby to Substitute conditional with unconditional grants			X				17%
17	Lobby to simplify and speed up borrowing approvals			X	X			33%

Dominant actions on revenue collection and budget planning and execution  
Substantial in expenditure control, internal audit, and transparency

# Action Plan Example – Republic of Srpska

Exemplary good Action plan:

- Clear issues
- Specific actions
- Measurable results w benefit estimates
- Cost estimates
- Clear responsibilities
- Emphasis on actions under municipalities' control

Objective	Specific action	Expected results	Timeframe	Cost estimate	Responsible entity
Increase Tax and Non-Tax Revenues	Initiate amending the Budget System Law, to amend the allocation of indirect taxes and the manner in which these revenues are distribute.	Revenues from indirect taxes by 1% to 2%.	2018	none	Cabinet of the Mayor; Finance Department
	Initiate amending the Law on the Budget System to increase the distribution of revenue from personal income tax and from independent activities (BL, PR)	Increase revenues from PIT by 16% per year.	2018	none	
	Take over activities and records from the Construction Institute (number of taxpayers, state of receivables, etc.). Compare databases with data of Geodetic and Property Legal Affairs, or public utility companies. Improve recording business premises owned by the city and revise renting and lease of business premises and garages. (BL, PR)	Increase in rental income by 10% and communal fees by 5%	2017-2018	BAM 25,000 (software purchase, admin costs)	Cabinet of the Mayor; Finance Department, and Monitoring Department
	Increase revenue from property tax. City organize collection, collection control and enforcement. Establish a special department for monitoring, administration, and realization of property tax. (BL, PR)	BAM annually (growth 15% per annum until 2020, after 5% per annum)	2018-2019	100,000 BAM software + new administrations	Department of Finance - Revenue Monitoring Department
Debt restructuring	Restructure city's BAM 71.5 million debt for a period of 10 years.	Estimated that 10 million BAM will be freed up annually	2017-2018	BAM 1.3 million	Mayor; Department of Finance, Fund Management and Payment
Public Private Partnership	Start identifying and structuring public-private partnerships, define the areas in which they can apply, start concrete implementation	Reduction of expenditures in the city budget	2017-2018	Up to BAM 50,000 (administrative costs)	Department for Local Economic Development and Strategic Planning
Asset Management	Develop a register for the total immovable property of the City for the purpose of efficient management	Increased revenue from the sale or renting of immovable property; maintenance expenses	2017-2018	50,000 BAM annually	Department for Local Economic Development and Strategic Planning
Improved execution of planned budget	Conduct public procurement at one central level for all users; introduce monitoring and new procedures for creating liabilities at the expense of the budget of the City Define the responsibility of managers for creating obligations that are not planned in the budget. Regular and frequent controls by the internal audit of the financial operations of the users of the budget and city administration	Realization of priority expenditures; avoiding deficits; creating space for capital investments	2017	none	Public procurement, IT, and Finance departments
	Collect all the receivables, write off doubtful and disputable and not recoverable receivables that distort the balance sheet. (BL, PR)	Improving liquidity enforcing budgetary obligations at maturity	2017-2020	None 7,500 PR	Department of Internal Audit, and Finance Finance and Legal Department
Improve budget policies	Adopt a new, financially sustainable, Capital Investment Plan and a new City Development Strategy.	Realization of priority investments in line with strategy.	2017 onward	none	Budget User Departments
Improve budget credibility	Application of more complex models of revenue and expenditure analysis and procedures for budget planning (BL, PR)	Improved budget realization, Revenues and Expenditures	2017	none	Finance and Budget Department
	Rationalization of the costs of the municipal administration through the harmonization of the organization (PR)	Reduction of labor cost by reducing the number of employees by 20%	2017-2019	BAM 170,000	Mayor
Sustainability of Services	Increase of current and investment maintenance expenditures gradually by 2020 (PR)	Better quality of services	2018-19	Increase of maintenance costs by 20%	Municipal Assembly Mayor Finance Department
	Audit of the cost of utility services provided by utility companies owned by the municipality (PR)	Accumulate depreciation funds, increase sustainability of utility companies	2018-20	none	