World Bank Institute

Improving Local Governments Capacity

The Experience of Municipal Finances Self-Assessment (MFSA) in South-East Europe

THE WORLD BANK

BMF Federal Ministry of Finance

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WORLD BANK–AUSTRIA URBAN PARTNERSHIP PROGRAM

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Foreword and Acknowledgements

We would like to acknowledge funding provided by the Austrian Federal Ministry of Finance under the World Bank-Austria Urban Partnership Program. This program, implemented by the World Bank, aims to strengthen the capacity of local governments in South-East Europe. It has helped finance a number of products and activities, including (a) seven City to City Dialogues in the region on Municipal Finances, Urban Planning and Land; (b) the customization and application of Local Governments Self-Assessments tools (MFSA, UPSA, Urban Audits) and (c) the development of an E-course on Municipal Finances.

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Last but not least, we would like to thank our partners from the National Associations of Local Governments, NALAS, and our clients from all participating cities and municipalities whose engagement in the Program and eagerness for knowledge, networking, and exchange of experiences within the SEE region and beyond made this Program a success.

This brochure includes three key sections:

- An overview of key challenges, MFSA innovations, approach, and results.
- A sample of city data summaries (based on MFSA): This sample does not include the whole set of participating municipalities but rather a representative segment (Bar, Belgrade, Budva, Crikvenica, Gazi Baba, Gostivar, Novo Sarajevo, Podgorica, Rijeka, Strumica, Sabac, Subotica, Tirana).
- A User Guide on the MFSA methodology.

For more information, the following additional resources are also available:
Municipal Finances: A Learning Program for Local Governments. The World Bank.
http://einstitute.worldbank.org/ei/course/municipal-finances-learning-program-local-governments

Municipal Finances: A Handbook for Local Governments. Edited by Catherine D. Farvacque-Vitkovic and Mihaly Kopanyi. Washington, DC: World Bank. Forthcoming February 2014.

Local Governments Self-Assessment Tools: The MFSA and the Urban Audit - World Bank publication (forthcoming)

Improving Local Governments Capacity
The Experience of Municipal Finances Self-Assessment in South-East Europe

I. Lessons from Municipal Finances Self-Assessment Initiatives in South-East Europe

Improving Local Government Capacity: Lessons from Municipal Finances Self-Assessment Initiatives in South-East Europe

World Bank–Austria Urban Partnership

The Urban Partnership Program is a unique initiative to strengthen local government capacity and to enhance cooperation among municipalities in seven South-East European countries: Croatia, Serbia, Montenegro, Bosnia and Herzegovina, Albania, Macedonia, and Kosovo. Municipal Finance, and how it relates to land management and infrastructure investment, was selected as a key topic. Starting in December 2011, a series of seven City to City Dialogues (C2Cs) brought together municipalities from the seven countries to discuss issues of common interest. The participants—from fifty cities—included elected municipal officials, staff from financial departments, technical service departments, and city planners, as well as representatives from central government ministries and local government associations such as the National Associations of Local Authorities from South-East Europe (SEE) and the Network of Local Authorities of South-East Europe (NALAS).

Under this initiative, participating municipalities were invited to engage, on a voluntary basis, in a process of self-assessment using the Municipal Finances Self-Assessment (MFSA) methodology.

The City to City Dialogues Series

Programs delivered to date include:

- **Improving Municipal Revenues**, *December 2011 in Budapest, Hungary.*
- **Modernizing Local Public Expenditures Management**, *May 2012 in Mavrovo, Macedonia.*
- **Modernizing Legal and Regulatory Framework for Urban Planning in SEE**, *June 2012 in Tirana, Albania.*
- **Guided Urban Development: Reconciling public and private Interests**, *November 2012 in Budva, Montenegro.*
- **Towards Greater Transparency and Accountability: A Mayors Dialogue**, *January 2013 in Vienna, Austria.*
- **From Local Government Self-Assessment to Implementation**, *June 2013 in Dubrovnik, Croatia.*
- **From MFSA to Municipal Investment Programming: The Urban Audit**, *December 2013 in Skopje, Macedonia*

Challenges

- Local government finances in South-East Europe remain under stress in the wake of the 2008 financial crisis. In recent years, the financial downturn has also been exacerbated by the slow-down in the implementation of policies formulated in the 1990s and designed to transfer power and financial resources from central to local governments, and by recent legislative reforms that have considerably reduced the share of fiscal revenues going to local governments, as in Serbia.
- Local government revenues still rely largely on intergovernmental transfers, with little autonomy granted by the State. Unconditional grants play a limited role because of the disproportionate size and wealth of the cities.
- Local revenues come mainly from land development fees that can vary considerably from year to year. Property taxation systems and tax administration tend to be weak in most South-Eastern European countries.
- Finally, the financing of capital investment expenditures continues to depend on the capacity of the local government to generate an operating surplus (including proceeds from the sale of land) and to receive investment subsidies from central governments. Local credit instruments are unevenly developed from country to country, with most still relying heavily on International Financial Institutions such as the World Bank, the European Bank for Reconstruction and Development, the European Investment Bank, and the European Union. The significant increase in public debt at the central level has reduced the fiscal space for local government capital investment.

MFSA Innovations

The MFSA has introduced some innovative features. First, it relies on municipal staff themselves, using an integrated approach, to assess the financial situation in their municipalities. Second, it puts city officials in the driver's seat in determining the best and most realistic actions to include in their improvement plans. Third, it encourages city officials to share their findings with other municipalities from the region. Fourth, it helps assess the extent to which such a monitoring tool or dashboard can be integrated into city management operations. This task is typically outsourced to external auditors so that local governments are not direct owners of the process. In addition, assessments are typically carried out on an ad hoc basis rather than being used as a regular monitoring tool. The MFSA is therefore a radical departure from normal practice; and it promotes the following mutually reinforcing objectives:

- To promote financial self-assessment at the municipal level as part of the management change process in local public administrations in South-East Europe: **Accountability.**
- To encourage local governments to share information with other municipalities, and to inform central

government, local government associations, and citizens about their current situation: **Visibility in the use of public funds.**

- To encourage financial and other relevant municipal departments—asset management, urban and strategic planning, and the mayor's cabinet—to work together on capital investment plans and municipal programs securely anchored in financial feasibility: **Prioritization.**
- To monitor the financial situation and act on a set of key initiatives to improve the mobilization of local resources, rationalize public expenditures, and improve financial management practices: **Efficiency and transparency.**
- To agree on a common set of concepts, methodologies, and internationally accepted indicators, and to improve communications and negotiations with banking institutions and donors: **Access to external funding**.

MFSA Approach

The MFSA methodology was developed by the World Bank and has been customized for South-East Europe by the World Bank with the support of international and local experts. This adaptation required a common understanding of terminology and a clear definition of budget items (categories) on both the revenue and the expenditure sides. The template or framework of analysis, which was developed and validated by all stakeholders, includes eight steps, distributed in four complementary modules:

- *Module 1,* Steps 1 & 2: Collect and organize relevant information on city finance and urban management issues (the City Profile).
- *Module 2,* Steps 3 to 5: Perform an historical analysis and create summary tables on revenues, expenditures, and the financial situation.
- *Module 3,* Step 6: Perform financial projections.
- *Module 4,* Steps 7 and 8: Evaluate their financial management tools and processes and prepare a Municipal Finances Improvement Action Plan.

Outcomes

1. One important lesson from the MFSA process is the recognition by participating municipalities of the need for municipal departments and staff to share information and data among the Technical Departments, the Public Utility Companies (PUCs) in charge of service delivery, Tax Services, State Treasury, and so forth. This has typically not been the case. Creditworthiness assessments, municipal finance projections, and financing strategies require data inputs from various sources that are not reported in any of the typical mandatory accounting reports. The MFSA provides a platform for consolidating and reconciling these information sources.

2. The C2C dialogues and the embedded MFSA process helped make a vital connection between financing, urban planning, land management, and ultimately investment programming and service delivery. The series of seven City to City Dialogues was structured in a way that helped close that loop. Several factors have a fundamental impact on the way cities urbanize and on the future of urban investments: the fact that a large share of local revenues come from land development, that these revenues are highly volatile and subject to global financial stress, that there is a pressure to sell and develop land, and that urban planning functions and issuance of building permits have been quickly devolved to largely unprepared local governments. It is essential that the region start a conversation on these important issues—a conversation that should include all levels of government, the citizens, the service providers, the private sector, and the donor community. The C2C series has helped launch this conversation in a forum where these issues could be discussed safely, problems could be unbundled, and solutions could be identified. The MFSA process clarified the need for a more global and integrated approach that combines MFSA with Urban Audits (Land, Infrastructure and Services Self-Assessment), which a number of municipalities have begun to pursue.

3. The debates launched as part of the MFSA-Urban Audit, as well as the findings of the NALAS Fiscal Decentralization Study and the World Bank Municipal Finance Review underlined the need to assess the progress of fiscal decentralization in the region.

4. The municipal staff from some 25 cities and municipalities in the region (including capital cities) took part in this experience and more municipalities have expressed a desire to join in. Scaling up and institutionalizing these tools are the next steps to be taken in collaboration with regional, national, and local stakeholders.

Legend

1. City Profile	• Summarize through key data the institutional position of the city • Complete with preliminary data from Urban Audit methodology • List the main urban management & development challenges
2. Basic database for MFSA	• Put together basic data to perform self-evaluation • Involve the different municipal departments
3. Generic Financial Framework	• Assess the ability to generate gross saving and operating surplus • Calculate capital investment effort
4. Historical Analysis	• Conduct a detailed analysis of revenues and expenditures composition and trends • Assess the level of financial autonomy • Assess the level of service provided
5. Ratio Analysis	• Review the economic & financial performance through main indicators • Compare with benchmarks
6. Financial Projections	• Identify budgetary applications of the policy decisions (ex: investment plan, recurrent costs, tax pressure, etc.) • Fix the financing needs for investment • Identify the expected changes in existing regulation with impact on the city budget
7. Financial Management Assessment	• Review briefly budget credibility (Based on PEFA methodology) • And quality of the reporting: Comprehensiveness, transparency, predictability
8. Finance Improvement Plan	• List the key measures to qdopt to improve financial management and financial performance

Additional Resources :

For more information, the following additional resources are also available:
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http://einstitute.worldbank.org/ei/course/municipal-finances-learning-program-local-governments

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II. MFSA City Data Profiles

BAR

1. City Profile

Territorial organization: The Municipality of Bar is divided into 12 communes (mjesna zajednica) and 83 settlements.

Population: 42,068 (2011 census) of which 17,727 inhabitants live within the city of Bar itself. The total area is 598 km^2. The population density is 67.0/km^2.

Economy: The economy of Bar depends mainly on the Port of Bar, the Belgrade to Bar railway which opened in 1976, and the Sozina tunnel. The municipality's economic growth is generated from revenues raised from tourism. Bar has a ferry line that connects it with the Italian cities of Bari and Ancona in Italy. The ferries are operated by the Montenegro Lines naval company.

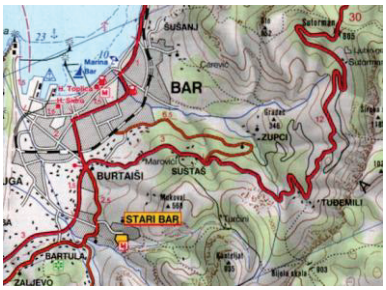
Decentralized Functions at the city level: City-performed functions include water supply, wastewater, construction, rehabilitation and maintenance of local roads, sidewalks and squares, public lighting, public transport, and solid waste. Some of the shared functions include maintaining public order and civil protection.

Utilities management: The JP "Vodovod i kanalizacija" company is in charge of water supply and wastewater.

Municipal staff: 285 of which 28 are contractual workers.

Existing Project Investment Plan: The total investment plan for the period 2013-2015 is about EUR51 millions of which EUR35 million for the reconstruction of sewerage and storm sewers and water supply. Other projects are tourism-related: quay wall and beach, cultural center, olympic pool, and so forth.

Urban issues & challenges: Bar's future lies in the development of small- and medium-sized companies, in the creation of new industrial zones, and in creating a Custom Free Zone.

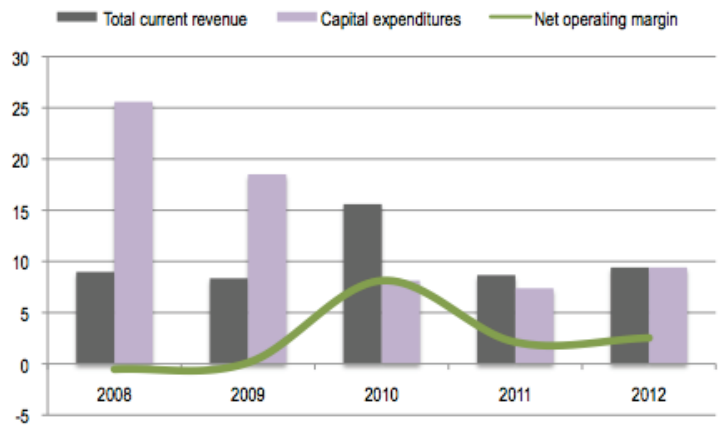


2. Financial Situation

Currency: EUR
Inflation index: 2008: +8.3%; 2009: -0.9%; 2010: +1.6%; 2011: +3.9%; 2012: +4.7%

Million EURO

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	Growth 2008-12
Total current revenue	**9**	**8**	**16**	**9**	**9**	1 %
Balance Y-1 (if surplus)	0	0	3	0	0	-30 %
Current revenue year N	9	8	12	9	9	2 %
Operating expenditure	**9**	**8**	**7**	**6**	**7**	-8 %
Operating margin	0	0	8	2	3	
Debt repayment (Principal + interest)	0	0	0	0	0	
Net operating margin	**-1**	**0**	**8**	**2**	**3**	
Capital expenditures	**26**	**19**	**8**	**7**	**9**	-22 %
Financing						
- Own capital investment rev.	26	19	8	5	7	-28 %
- Loan						
- Investment grants central government						
Overall closing balance	**0**	**0**	**8**	**0**	**0**	
Cumulated	0	0	8	8	8	

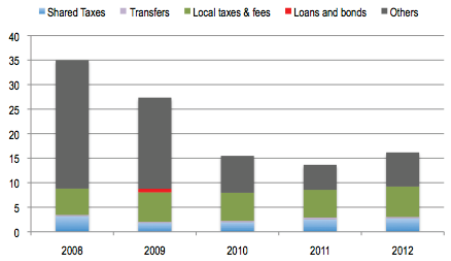


- **2012 actual budget** of the Municipality of Bar is about EUR16 million with stable current revenues since 2009 of about 9 million. Capital investment spending is at the same level as current revenue and investments are funded with the municipality's own-source revenues.
- **Net operating margin** in 2012 was one third of the current revenue, or EUR3 million, generated by decreasing operating expenditures and limited debt service.
- **Annual investment capacity** has decreased slightly since 2008-2009 and is less than EUR10 million a year.
- **Investment financing** comes mainly from real estate proceeds accumulated in a reserve fund over several years; in 2011 and 2012, operating surplus financed one third of capital investment expenditure.
- **Debt service.** Two soft loans (about EUR250,000) were made by KFW Development Bank in 2009 with a five-year grace period. A municipal bond for about EUR75 000 was also issued in 2010, then again in 2011.
- **The overall closing balance** was at zero in 2012.

3. Historical Analysis: Revenues & Expenditures

Million EURO

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	Growth 2008-12
TOTAL CURRENT REVENUES	**9**	**8**	**16**	**9**	**9**	1 %
State Transfers	**3**	**2**	**2**	**3**	**3**	-3 %
- Shared taxes (PIT & tax on real estate)	3	2	2	3	3	-4 %
- Unconditional transfers	0	0	0	0	0	-100 %
- Earmarked and block transfers	0	0	0	0	0	8 %
Own revenue	**5**	**6**	**6**	**6**	**6**	4 %
- Local taxes	4	5	5	5	6	6 %
- Local fees	0	0	0	0	0	-2 %
- Local non-tax revenues (assets revenues)	0	1	0	0	0	-15 %
CAPITAL INVESTMENT REVENUES	**26**	**19**	**8**	**5**	**7**	-28 %
State Transfers and grants						
Own revenue	**26**	**19**	**8**	**5**	**7**	-28 %
External revenue	**0**	**0**	**0**	**0**	**0**	
- Loans proceeds	0	0	0	0	0	
- Municipal bonds	0	1	0	0	0	
- Donation	0	0	0	0	0	

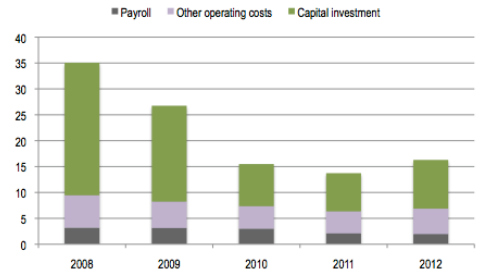


Current revenues. Own-source revenues account for two thirds of current revenues, and the remaining third comes from shared taxes. Property tax represented about 40% of total current revenues in 2012. The property tax collection rate improved rapidly: from EUR1.7 million collected in 2008 to EUR4 million in 2012.

The number of tax payers is about 30,000, including household, commercial, and business taxpayers combined. The growth in current revenues has been low (even negative in constant price): +1% annually on average for the period under review. The main reason is the decrease in intergovernmental transfers: -3% every year since 2008.

Million EURO

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	Growth 2008-12
OPERATING EXPENDITURES	**9**	**8**	**7**	**6**	**7**	-8 %
Payroll (incl. employees benefits & misc.)	3	3	3	2	2	-11 %
Operating costs	**6**	**5**	**4**	**4**	**5**	-6 %
Of which						
- Transfers to institutions, NGOs & public sectors	4	4	3	3	3	-10 %
DEBT SERVICE	**0**	**0**	**0**	**0**	**0**	
CAPITAL INVESTMENT EXPENDITURES	**26**	**19**	**8**	**7**	**9**	-22 %
- Local infrastructure	15	8	4	2	3	-31 %
- Construction facilities	2	3	1	1	1	-27 %
- Land development	3	2	1	1	0	-40 %
- Equipement purchase	2	0	0	0	0	-51 %
- Investment maintenance	3	4	1	2	1	-20 %



Expenditures. As mentioned, capital expenditures are higher than operating expenditures. Payroll, as well as other operating costs, has been decreasing since 2008. Capital investment expenditures, although the largest expenditure in the budget, are only EUR8 to 9 million per year over the last three years. Local infrastructure accounts for about one third of the total.

4. Ratio Analysis

Criteria / Indicator	Benchmark	2008	2009	2010	2011	2012
1. Credit worthiness						
Operating savings before interests / Current revenue	> 30%	-5%	1%	53%	27%	27%
revenue	> 20%	-6%	1%	52%	24%	27%
2. Indebtedness						
Debt outstanding / operating surplus	< 10 years	0	3,3	0,1	2,4	1,26
Debt service / Total current revenue	< 12 %	1%	0%	1%	2%	0%
3. Fiscal autonomy						
Own taxes & unconditional grants / Current actual revenue	> 80 %	60%	72%	37%	65%	66%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	> 40 %	292%	223%	48%	59%	74%
5. Level of service						
Maintenance works expenditure / Operating expenditures	> 30 %	5%	6%	6%	7%	9%
6. Others						
Salaries / Operating actual expense	> 40 %	34%	38%	41%	33%	29%
Actual revenue / Estimated revenue	> 95 %	97%	97%	93%	96%	97%
Arrears amount / net cash end of the year	> 1	0.77	10,6	0.25	1,15	
Total financial resources / Total financial obligations	1.02	1,0	1,0	1,5	1,0	1,0

- **Credit worthiness** of the Municipality of Bar has been improving since 2009-2010, despite stagnation of current revenues. See above re: decreasing operating expenditures.
- **Indebtedness** is low, because of the low level of current revenues and the limited surplus.
- **Fiscal autonomy** is at 66% but is increasing with the diminution of intergovernmental transfers.
- Despite a difficult situation, the **capital investment effort** is still high at 74% in 2012.
- It has been funded mainly by the **reserve fund** fed by land sales and lease proceeds.

5. Financial projections / Investment programming

The city has a three-year rolling Plan with fiscal projections. The main assumptions for projections are the historical analysis and the assumptions behind the budget circular from the central government. The city implemented an Urban Audit in 2013 to improve its investment programming.

6. Municipal Finance Improvement Plan

The municipality advocates a more balanced sharing of tax proceeds between the state level and the municipal level. It is also asking for more visibility and more flexibility in implementing the local tax system such as the collection of environmental fees. The municipality plans to implement an asset management system to improve cost-effectiveness and to prepare more realistic budgets.

Contact Person: **Nevenka Plantak** | Website: ***www.bar.me***

BELGRADE

1. City Profile

Territorial organization: Capital City, center of the District of Belgrade, consists of 17 sub-municipalities. Total area of the city: 360 km². Total area of the District: 3,227 km². Regulated by a special law (2007) with vertical and horizontal coordination mechanisms.

Population: 1,774,000 (District); Annual growth: +4%. Density (city): 35/ha; Density (District): 5.5/ha.

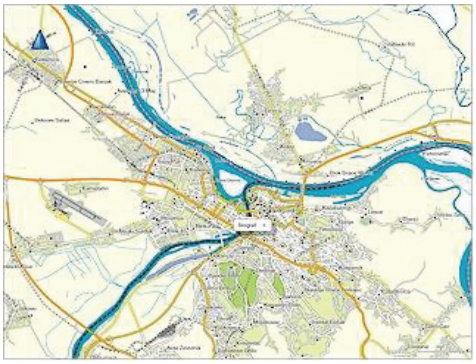
Economy: GDP per capita: 6,749 EUR (estimate 2012). Belgrade holds 64,090 business entities, not including individual entrepreneurs, and a labor force of 1,144,886, or 69% of the population (2011). The unemployment rate in 2012 was 15.3%. Located on the Danube and Corridors 7 and 10, it has the highest concentration in the Republic of Serbia (RS) of scientific, intellectual, cultural, and service capacities, with a well-developed infrastructure and with potential in the areas of information and communications technologies. It also boasts highly cumulative and creative industries, services, and public services.

Utilities management: The city created 9 public enterprises, 1 organization, and 11 public utility companies covering water supply & sewerage, heating, funeral services, marketplaces, landscaping, sanitation, parking, public lighting, public transport, road maintenance, city housing, utility fee collection, and so forth. Autonomous Public Utility Companies (PUCs) operate in the 7 suburban municipalities.

Municipal staff: 12,343: 4,021 in city administration and 8,322 in preschool administration.

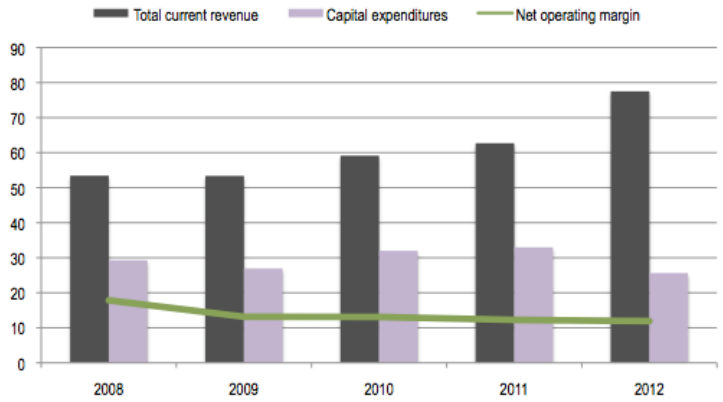
Current Project Investment Plan: The first three-year capital expenditure plan was adopted for the period 2013-2015 in accordance with the **Development Strategy** ending in 2016, the **Regional Spatial Plan** of the Belgrade Administrative Area, and the **Belgrade Master Plan.** **Planned investments in billions of RSD: 30.4** (2013), **35.2** (2014), **34.2** (2015). The current structure of investments: 59% for transport and utility infrastructure; 49% for housing, education, social welfare and health care, and sports and culture.

Urban issues and challenges: Upgrading the City of Belgrade to rank high among the capitals of Central, East, and South-East Europe, with respect to sustained economic growth, advances in technology, greater territorial cohesion within the city, greater accessibility, established polycentrism and decentralization, and a developed urban identity (Source: *Development Strategy 2008*).



2. Financial Situation

Items	2008 actual (Million RSD)	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual (Million EUR)	Growth 2008-12
Total current revenue	53,417	53,357	59,137	62,690	77,497	683	9,7 %
Balance Y-1 (if surplus)	5,64	6,583	3,965	2,878	2,785	25	
Current revenue year N	47,777	46,774	55,172	59,812	74,712	658	11,8 %
Operating expenditure	34,656	38,941	43,971	47,579	61,653	543	15,5 %
Operating margin	18,761	14,416	15,166	15,111	15,844	140	-4,1 %
Debt repayment (Principal + interest)	0,921	1,255	2,071	2,857	3,931	35	43,7 %
Net operating margin	17,840	13,161	13,095	12,254	11,913	105	-9,6 %
Capital expenditures	29,282	26,932	31,975	32,971	25,622	226	-3,3 %
Financing							
- Own capital investment rev.	14,225	10,806	10,060	8,901	7,883	69	-13,7 %
- Loan	3,650	5,616	11,547	14,217	7,956	70	21,5 %
- Investment grants central government	0,036	0,102	0,414	0,358	0,372	3	79,3 %
Overall closing balance	6,469	2,753	3,141	2,759	2,502	22	-21,1 %
Cumulated	6,469	9,222	12,363	15,122	17,624	155	28,5 %

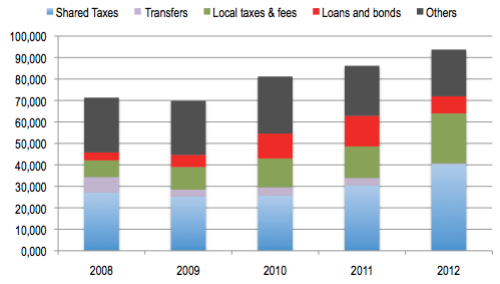


Exchange: 1 RSD = 0.00881 EUR / 1 EUR = 113.47 RSD (Dec. 2012)
Inflation index: 2008: +6.8%; 2009: +6.6%; 2010: +10.3%; 2011: +7%; 2012: +12.2%

- **2012** actual budget of the City of Belgrade **is EUR817 million** of which **EUR676 million** from current revenues. **Average annual growth** of current revenues in the period under review was +9.7% which is below the inflation rate + annual population growth rate.
- The rapid rise in **debt service** (+56% during the period) significantly reduced the net margin (-9.6%). The same is true for the **overall surplus,** which shows a downward trend.
- **The current expenditure** increased rapidly during the recession, because of increased social transfers and subsidies.
- **Investment effort** was rather stable in the period at about 30 billion RSD or EUR223 million)about 40% of which was funded with net margin, 30% by loan proceeds from the EIB, EBRD and local commercial banks, and 30% from capital revenue (mostly land development and lease fees).

3. Historical Analysis: Revenues & Expenditures

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	MillionRSD					Million EUR	
TOTAL CURRENT REVENUES	**53,417**	**53,357**	**59,137**	**62,690**	**77,497**	**683**	**9,7 %**
State Transfers	**34,329**	**28,508**	29,595	**33,913**	**40,770**	**359**	**4,4 %**
- Shared taxes	27,252	25,215	25,773	30,494	40,370	356	10,3 %
- Unconditional transfers	7,015	2,960	3,485	3,246	0,000	0	-100,0 %
- Conditional transfers	0,062	0,333	0,337	0,173	0,400	4	59,4 %
Own revenue	**13,447**	**18,266**	**25,578**	**25,899**	**33,942**	**299**	**26,0 %**
- Local taxes	4,798	5,458	7,038	8,552	9,106	80	17,4 %
- Local fees	2,722	4,883	5,257	5,993	13,310	117	48,7 %
- Local assets revenues	5,630	7,757	12,161	11,177	10,710	94	17,4 %
- Local-mixed revenues	0,297	0,168	1,122	0,177	0,816	7	28,7 %
CAPITAL REVENUE & PROCEEDS	**17,911**	**16,524**	**22,021**	**23,476**	**16,211**	**143**	**-2,5 %**

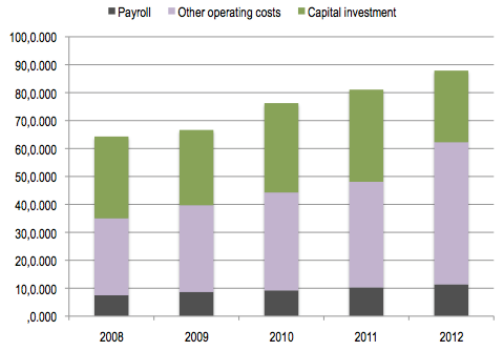


Current Revenues. The most significant sources of current revenue are shared taxes (55%), local taxes and fees (22%), and asset revenues (15%).

The highest share of current revenue comes from the PIT (personal income tax) with an average share of 38%. Local property tax with an average share of only 6% has the potential to be increased in the future. Revenue from state transfers showed a high volatility and modest annual growth of 5%, while own-source local revenue recorded an average annual growth of 27%. Until 2011, current revenue represented on average 74% of the total budget, and capital revenues and proceeds from borrowing represented 26%. In 2012, the city lost its unconditional transfer from the state because of the change in legislation governing local government financing. Also, the share of current revenues increased to 83% because the city portion of the Republic's salary tax was increased from 40% to 70%.

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million MKD					Million EUR	
OPERATING EXPENDITURES	**34,650**	**39,168**	**43,501**	**46,626**	**60,008**	**529**	**14,7 %**
Payroll (including employees beenfits & misc.)	7,469	8,651	9,223	10,282	11,369	100	11,1 %
Goods & services	11,436	12,391	12,924	14,446	17,057	150	10,5 %
Current subsidies, grants & transfers	14,367	16,726	19,876	20,321	29,811	263	20,0 %
Other current expenditures	1,378	1,400	1,478	1,577	1,771	16	6,5 %
DEBT SERVICE	**0,921**	**1,255**	**2,071**	**2,857**	**3,931**	**35**	**43,7 %**
CAPITAL INVESTMENT EXPENDITURES	**29,282**	**26,932**	**31,975**	**32,971**	**25,622**	**226**	**-3,3 %**

The shares of current expenses for payroll (12%), and for goods and services (18%) were stable and accounted for 30% of total budget expenditure. Current transfers and subsidies rose from 22% to 34%, because of increased social transfers to citizens and subsidies to public companies during the recession. Capital expenditures dropped from 46% in 2008 to 29% in 2012 because of budget reallocations in favor of social transfers and subsidies to public companies.



4. Ratio Analysis

Criteria / Indicator	Benchmark	2008	2009	2010	2011	2012
1. Credit worthiness						
Operating savings before interests / Current revenue	> 30%	39%	30%	28%	27%	23%
Net operating surplus (net margin) / Current actual revenue	> 20%	37%	28%	24%	20%	16%
2. Indebtedness						
Debt outstanding / operating surplus	< 10 years	0.5	1.0	1.7	2.6	3.0
Debt service / Total current revenue	< 12 %	1%	2%	2%	3%	7%
3. Fiscal autonomy						
Own taxes & unconditional grants / Current actual revenue	> 80 %	82%	72%	66%	71%	66%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	> 40 %	61%	58%	58%	55%	34%
5. Level of service						
Maintenance works expenditure / Operating expenditures	> 30 %	8%	8%	6%	7%	6%
6. Others						
Salaries / Operating actual expense	> 40 %	21%	22%	21%	21%	18%
Actual revenue / Estimated revenue	> 95 %	98%	101%	93%	85%	85%
Arrears amount / net cash end of the year	> 1	0.3	0.6	1.0	0.4	1.8
Total financial resources / Total financial obligations	1.02	1.07	1.01	1.02	1.02	0.98

- **Operating margin** decreased from 39% to 23% of current revenues.
- **The debt burden** increased significantly but is still manageable, and still below the generally accepted benchmarks.
- However, the **net margin** deteriorated and needs close monitoring.
- Ratio analysis indicates a need to increase the city's **fiscal autonomy**, with the aim of enhancing its creditworthiness and its service levels.
- Under the current way of financing **City investments, debt service expenditures** are high, because of the loans from the EIB, EBRD, and domestic commercial banks.

5. Financial projections / Investment programming

Need to align the urban development vision and the municipal finance system. The main assumptions for projections are the historical analysis and the assumptions behind the budget circular from the central government.

6. Municipal Finance Improvement Plan

The MFSA confirmed the priorities presented in the city's 2016 Strategy: (i) **Financially sustainable capital investment planning** with the aim to implement the city's strategic goals; timeframe: 2014–2015; (ii) **Asset management**; timeframe 2014–2016; (iii) **An advanced model of program budgeting** with the aim to monitor the implementation of strategic goals; timeframe 2013–2015; (iv) **Internal audit**; timeframe 2013–2015; (v) **Monitoring the operational, technical and institutional practices of public utility companies**; timeframe 2013–2015; (vi) **Public-private partnerships**; timeframe 2013–2016; (vii) **Improving cooperation between the city administration and budget beneficiaries to coordinate the implementation of projects by sector**; timeframe 2013–2016. *Financing will be shared by the city budget and funds from the EU and international donors.*

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BUDVA

1. City Profile

Territorial organization: Budva is the metropolis of Montenegrin tourism thanks to the great number of beaches that make it a desirable tourist destination and its existing cultural tourism potential. 50% of the tourists visiting Montenegro stay in Budva, + 15 % per year.

Population: 19,218 (2011). Annual growth: 6.2%. Density: 130.40 persons/km², 3.10% of the country population.

Economy: Tourist center of Montenegro. Budva accounts for almost half of the total tourist traffic in Montenegro. Due to the facilities and catering the city offer, Budva is a leader in the region and a favorite tourist destination. Most of the small & medium sized enterprises are involved in tourism industry. Real Estate sales and Cultural tourism (old town and other spots) also add to the economy. Unemployed: 13.21% (2011).

Decentralized Functions at the city level: Own functions - water supply, wastewater, construction, rehabilitation and maintenance of local roads, sidewalks and squares, public lighting, public transport, and solid waste. Shared functions: maintaining public order and civil protection.

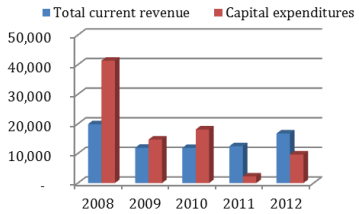
Utilities management: Water supply, wastewater, and solid waste organized as public companies. A cost of the utility services for water supply and wastewater is determined by the Administrative Committee of the Public Enterprise "Water and Sewerage", and passed by the Assembly of the Municipality of Budva. No consolidated financial reporting of the budget of the Municipality and public utilities. Utility financial accounts adopted by the local Assembly.

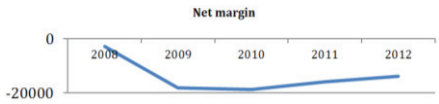
Municipal staff: 509 of which 341 in general administration, and 149 in technical departments; 19 are contractual workers. 20 municipal employees per 1000 inhabitants.

Existing Project Investment Plan: Draft Strategic Development Plan 2012-2017 prepared in accordance with the Law on Regional Development (2011).

Urban issues & challenges: Long term solution for waste disposal; sewage treatment; Construction of a detour.

2. Financial Situation





Million EURO

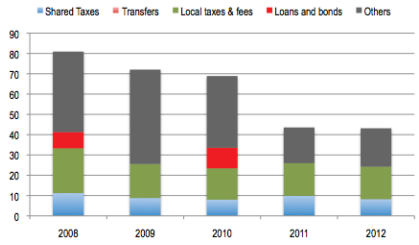
Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	Average annual growth
Total current revenue	19.901	11.918	11.858	12.465	16.742	134
Balance N-1 (if surplus)	5.339	122	18.190	14.659	20	0
Current revenue year N	14.562	11.796	- 6.333	- 2.195	16.722	- 762
Operating expenditure	14.531	9.520	8.776	7.322	7.904	108
Operating margin	5.370	2.399	3.082	5.143	8.838	172
Debt repayment	8.099	20.438	21.779	21.028	22.619	108
Net margin	- 2.729	- 18.039	- 18.697	- 15.885	-13.781	87
Capital expenditures	41.337	14.702	18.098	2.263	9.646	426
Financing requirements	44.066	32.741	36.795	18.148	23.427	129
- Own capital revenues	40.178	27.617	36.809	17.034	23.465	138
- Investment grants						
- Loans	3.889	5.124	- 15	1.114	-38	- 3
Investment balance	-	-	-	-	0	
Overall closing balance	8.099	20.438	21.779	21.028	22.619	108

Currency: EUR
Inflation index: 2008: +8.3%; 2009: -0.9%; 2010: +1.6%; 2011: +3.9%; 2012: +4.7%

- **2012 actual budget** of the Municipality of Budva was about EUR38 million, showing a significant decrease after 2008 due to the impact of the financial crisis and changes in legislation that led to abolishment of local taxes and fees. The situation is improving in 2012 showing signs of recovery. The capital expenditures dropped significantly, reaching the lowest level in 2011 with a negative net operating margin.
- **Operating expenditures** have been reduced after 2008 and stayed relatively stable over the period with an 8% increase in 2012.
- **Annual investment capacity** has been decreasing with only EUR2.2 million in 2012 compared to EUR 41 million in 2008, then EUR18 million in 2010. However, this is quite high relative to current revenue and operating expenses.
- **Investment financing** is relatively disconnected from operating surplus and comes mainly from land sale proceeds because of significant land development projects, and from Medium/Long-term credits and municipal bonds (domestic banks, State Development Fund, municipal bonds).
- Due to the economic crisis, followed by the inability of local governments to obtain soft loans from international financial institutions, and because of the fiscal resources reduction and increasing needs for public goods, local governments can envisage a private-public partnership.
- **Debt service** is high and shows great dependency on loans in the past five years.

3. Historical Analysis: Revenues & Expenditures

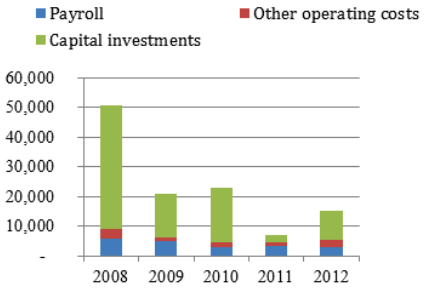
Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	Growth 2012/2011
TOTAL CURRENT REVENUE	**19.901**	**11.918**	**11.858**	**12.465**	**16.741**	34%
State Transfers	**5.891**	**2.814**	**2.439**	**3.126**	3.060	-2,10%
- Shared taxes	5.891	2.814	2.439	3.126	3.060	-2,10%
- Unconditional transfers						
- Conditional operating transfers						
Own revenue	**8.671**	**8.982**	**9.401**	**9.324**	**13.661**	46,50%
- Local taxes & levies	5.757	6.452	7.161	7.156	8.814	23%
- Local fees	1.870	695	162	135	114	-15,60%
- Local (non-tax) revenues asset revenues	1.043	1.835	2.078	2.033	4.733	133%
TOTAL NON-CURRENT REVENUE	**69.883**	**32.759**	**36.809**	**18.170**	**23.465**	
State Transfers and grants	**25.720**			**30**		
- Unconditional transfers						
- Conditional operating transfers						
Own revenue	**40.178**	**27.617**	**36.809**	**17.040**	**23.465**	37,70%
- Asset sales	40.178	27.617	36.809	17.040	23.465	37,70%
- Long term leases						
External revenue	**3.985**	**5.142**	-	-		
- Loans proceeds	3.985	5.142		1.100		
- Municipal bonds						
- Donation						



Current revenues: 81% of the revenues are own-source revenues. 90% are generated by land sales and land use taxes; Budva receives no direct transfers by the state government, only as non-earmarked transfer of shared revenues mainly the personal income tax (PIT), and of the property rights.

Local government revenue structure is dominated by own source revenues (current and investment revenues)Property tax accounts for 20% of the own revenues and 18% of the total revenues. The local business tax is negligible and was abolished in 2009. All the revenues have been decreasing slightly during the period under review, except for property tax proceeds (+37% in 2012 relative to 2011). 2009 legal amendments led to abolishment of consumption tax, business tax, and tax on games of chance which until then have all been local revenues but poorly collected. The Law assigned more shared revenues (PIT from 10%-12%, property turnover tax from 50%-80%, concession fees from 30%-70%) in order to compensate for the loss municipalities experienced due to abolishment of these taxes.

	Million EURO					
	2008	2009	2010	2011	2012	Growth 2012/2011
Operating expenditure	14.531	9.520	8.776	7.322	7.904	8%
Payroll (including employees beenfits & misc.)	6.030	4.952	2.867	3.538	3.115	-11,90%
Operating costs	3.266	1.299	1.920	1.286	2.485	93,20%
Contracts (outsourcing)	1.922	930	1.568	1.007	1.768	75,60%
Transfers to institutions, individuals, NGOs and public sector	3.603	2.888	3.365	1.646	1.812	10,00%
Total capital investment costs	**41.337**	**14.702**	**18.098**	**2.263**	**9.646**	326,00%
Local infrastructure	30.360	8.750	11.950	1.938	9.334	382,00%
Construction facilities	10.733	5.930	6.134	300	261	-13,00%
Construction land and local road developments						
Equipment	218	17	14	25	51	104,00%
Investment maintenance	26	5		-	-	



Expenditures have been stable during the period, decreasing at consistent prices. Payroll cost reduced over the period by almost 50% and accounts for only 10% of total operating expenditures in 2012. 74% of the budget in 2012 accounted for debt service while only 8% accounted for operating costs; 21% of capital investment revenue is from land development, and has risen during the period. 58% of the total revenues/receipts come from the asset sale.

4. Ratio Analysis

Criteria/indicator	Benchmark	2008	2009	2010	2011	2012
1 Credit worthiness						
Operating Savings before	> 30%	0,9	0,8	0,7	0,4	0,5
Net Operating Surplus	> 20%	-0,18	-1,53	-1,58	-7,2	-0,8
Cash (end of the year) /	90 days	86	1	0	0	45
2 Indebtedness						
Debt outstanding /	< 10 years	15	0,24	0,03	-3,1	-1,6
Debt service / Total	< 10 %	36,00%	68,00%	71,00%	169,00%	135,00%
3 Fiscal autonomy						
Own tax receipts +	> 80 %	89%	93%	95%	75%	82%
Tax pressure (Tax	< 70 %	74%	74,00%	77,00%	70%	72%
4 Capital investment effort						
Capital investment	> 40 %	75%	37%	37%	18%	58%
Capital investment	> 50 %	0	0	0	0	0
5 Level of service						
Maintenance works	> 30 %	3,11%	0,14%	0,41%	0,78%	0,44%
6 Others						
Salaries & wages / Operating actual expense	> 40 %	41%	52%	33%	48%	45%
Actual revenue /	> 95 %	98,70	100,98	99,83	89,39	102
Arrears amount	>1	0	0	0	2,67	989

- **Credit worthiness** was seriously affected by the financial crisis beginning in 2008. The operating budget shows a small deficit widened by the increasing debt service on loans and arrears made in 2008 and up to 2009.
- However, the **debt service** is objectively very high and the main issue is a **revenue shortage** because of the local taxation system including the decrease in shared taxes by half since 2008.
- Municipality of Budva does not receive any unconditional or conditional transfers from the State.
- **Investment financing** is generated mostly by land development proceeds, and heavily dependent on the performance of the real estate market.
- Globally, the municipality has been able to balance its budget thanks to its control of operating expenditures (payroll, maintenance, other operating costs).

5. Financial projections / Investment programming

The city has a three-year rolling Plan with fiscal projections. The major investments include: Wastewater treatment plant - design and construction, financing, management for 30 years through public-private partnership; Electric power substations; construction of the boulevard, water and sewerage infrastructure, rural infrastructure, kindergarten, school, garage, construction of public lighting.

6. Municipal Finance Improvement Plan

Increase fiscal autonomy from the State Government: more locally administered and controlled revenues; increase municipal reliance on own source revenues; Improve data on tax payers (data base, number of tax inspectors, cooperation with state cadastre, raising awareness among citizens); taxation of illegal construction**. Asset management system:** to be set up**. Budget preparation process:** Reduce the influence of politics at the budget planning stage; reject unrealistic requests when it comes to capital budget investments. **Improve forecast reliability; Expenditure management**: fully implement a treasury system; pay invoices on time; extend no privileges in budget execution; implement commitment controls; reduce non-compliance in the use of resources by preparing written procedures and strict rules with sanctions to ensure "fiscal accountability" among officials; introduce cash flow forecasts.

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CRIKVENICA

1. City profile

Territorial organization: The city comprises four settlements: Crikvenica, Selce, Dramalj, and Jadranovo. Total area of the city: 57.90 km². Crikvenica is located in the North Adriatic region, 37 km from Rijeka—the regional centre.

Population: Total resident population (2011 census): 11,122. Annual population growth: -0.00137%. Rank in the country (in population): 62nd. Vital index: 53.8. Population density: 397/km²

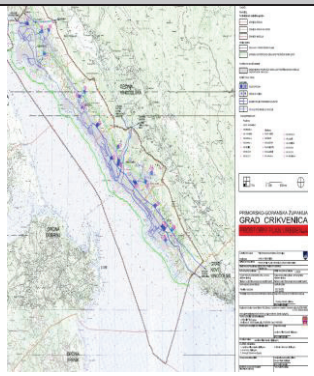
Economy: The economy of Crikvenica is based on tourism. Gross income per capita in 2010 was EUR8,778. Net income per capita in 2010: EUR6,086. The economic activity rate in 2011 came in at 11.8%.The unemployment rate (% active population) stood at 11.6%, while the national human development index was 100-125%.

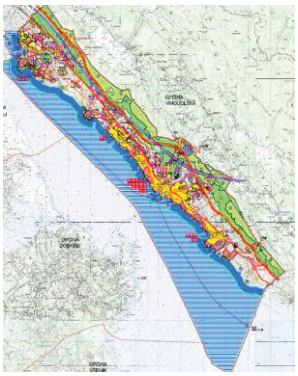
Utilities management: City utility (communal) companies: 2. Utility company "Vodovod Irnovnica" (water supply, heating, gas supply, parking, and so forth.)
Utility company "MURVICA" (drainage and wastewater treatment, collection and disposal of waste, municipal cemeteries, city market, city park, city beach, city gym, maintenance of public spaces).

Municipal staff: General administration: 38. Tehnical service unit: 1. Representatives: 3. Part-time officers: 2.

Existing Project Investment Plan: Main capital projects over the period 2012-2014 cost more than EUR10 million: building a school sports hall EUR1.2 M; capital investment in culture EUR0.5 M; continued investment in the main town square EUR7 million; investment in water and sanitation EUR1 million; construction of a new city cemetery EUR8 million; investment in the agro-zone EUR1 million.

Urban issues & challenges:
Issues: Overbuilt urban spaces.
Challenges: Rehabilitation and improvement of the living conditions in the urban spaces.





2. Financial Situation

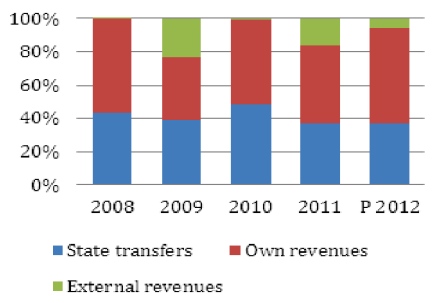
	in 000 euro	2008	2009	2010	2011	2012
1	Total current revenue	9.744	8.856	8.370	8.782	10.316
2	Balance N-1 (if surplus)	0	0	0	0	506
3	Current revenue year N	9.744	8.856	8.370	8.782	9.703
4	Operating expenditure	8.472	8.294	7.007	6.902	7.312
5	Operating margin	1.272	562	1.362	1.880	2.391
6	Debt repayment	582	745	391	465	571
7	Net margin	690	-183	971	1.415	1.820
8	Capital expenditure	2.976	3.113	1.462	2.941	1.820
9	Financing	2.286	3296	491	1.526	0
10	- Own capital investment rev.	867	117	491	429	0
11	- Investment grants	0	0	0	0	0
12	- Loan	1429	2996	0	1.097	0
13	Investment balance	0	0	0	0	0
14	Overall closing balance	582	745	391	465	571

Exchange: 1 EURO = 7,51734 HRK .
Inflation index. 2008: 6.1. 2009: 2.4. 2010: 1.1 2011: 2.3. 2012: 3.4. Source: *CSO and Ministry of Finance*.

- The budget for 2012 was EUR10.8 million. Current revenues were EUR10.3 million. Revenue growth from 2008 to 2012 was 11.1%, indicating a recovery of the local economy and local finance.
- Capital expenditures in 2012 amounted to EUR1.8 million. This was a decrease of 30.7% from 2008 because of the economic crisis, while 2013 recorded significant growth in investment activities.

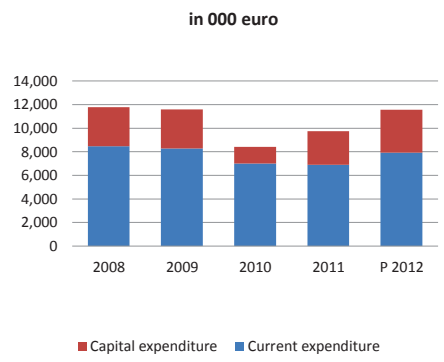
3. Historical Analysis: Revenues & Expenditures

in 000 euro	2008	2009	2010	2011	2012	structure 2008-12 average
CURRENT REVENUE	9.702	8.287	8.247	8.529	**10.316**	84%
1 State Transfers	4.779	4.283	4.052	3.739	4.009	39%
- Shared taxes	4.375	3.866	3.657	3.337	3.548	35%
- Conditional operating transfers	405	417	395	402	461	4%
2 Own revenue	4.922	4.004	4.195	4.790	**6.307**	45%
- Local taxes & levies	697	611	611	586	637	6%
- Local fees	3.450	2.674	2.584	3.328	4.438	31%
- Local asset revenues	775	718	1.000	876	1.232	8%
NON-CURRENT REVENUE	1.490	2.739	267	1.766	508	16%
1 State Transfers and grants	28	16	80	55	43	1%
2 Own revenue	1.429	120	107	26	428	5%
3 External revenue	34	2.603	80	1.685	34	10%
- Loans proceeds	19	2.050	38	1.487	7	8%
- Donation	15	553	42	199	27	2%
TOTAL REVENUE	11.192	11.026	8.514	10.295	10.828	100%
1 State transfers	4.807	4.299	4.133	3.794	4.052	40%
2 Own revenues	6.351	4.124	4.302	4.816	6.735	50%
3 External revenues	34	2.603	80	1.685	34	10%



The most significant revenue sources are shared taxes, asset revenues, and local fees: shared (income) taxes (35%), local fees (31%) and property revenue (31%). Own (local fees) revenue was the main source of funding. State conditional operating transfers accounted for only 5% of total budget revenue.

	2008	2009	2010	2011	2012	structure 2008-12 average
CURRENT EXPENDITURE	8.472	8.294	7.007	6.902	**7.312**	73%
1 Payroll (including employees' benefits & misc.)	2.333	2.503	2.318	2.372	2.431	23%
2 Operating costs	4.443	4.374	3.336	3.289	3.554	37%
- Compensation of employees	109	116	113	97	83	1%
- Office supplies	75	76	81	64	87	1%
- Electricity	191	210	243	248	272	2%
- Communication (telephone, etc.)	163	195	199	201	237	2%
- Fuel & gas	12	9	11	15	21	0%
- other goods	68	71	68	68	65	1%
- other services	0	0	1.000	1.017	702	6%
- other current expenditure	3.826	3.698	1.623	1.579	2.087	24%
3 Maintenance costs	1.696	1.417	1.353	1.241	**1.327**	13%
CAPITAL INVESTMENT EXPENDITURE	3.305	3.314	1.417	2.849	**1.820**	27%
- Civil Works	1.546	3.140	663	1.172	1.459	17%
- Equipment purchase	99	123	126	113	112	1%
- Others	1.660	51	629	1.564	249	9%
TOTAL EXPENDITURE	11.777	11.608	8.425	9.751	10.827	100%



Capital investment has increased since 2011, and in 2013 reached the same level as in 2008. Current expenditure decreased slightly. Capital expenditure was 27% of total expenditure. There has been a significant drop in investment activities since 2010–capital expenditure decreased by 57% compared with 2008.

4. Ratio Analysis

Indicator	Objective	benchmark	City index 2008	2009	2010	2011
1. Credit worthiness						
Operating Savings before interests / Current actual revenue	The LG has the capacity to borrow and to invest	> 0.3	0.13	0.06	0.16	0.2
Net Operating Surplus (after debt service including capital repayment) / Current actual revenue	The LG has the capacity to borrow more	> 0.2	0.05	0	0.11	0.2
Cash (end of the year) / current liabilities (divided by 365 days)	The LG ability to meet its short-term obligations	90 days	174	25	40	183
2. Indebtedness						
Debt outstanding / operating surplus (capacity to clear its debt)	The LG capacity to clear its debt with operating surplus	< 10 years	1.5	3.9	0.7	1.6
Debt service / Total current revenue	The annual debt burden is correct regarding current revenue	< 10 %	5.6	8	4.1	4.7
3. Fiscal autonomy						
Own tax receipts + unconditional grants / Current actual revenue	The LG has the ability to increase its revenue	> 80 %	7.2	6.9	7.3	6.7
Tax pressure (Tax receipts/Tax potential)		< 70 %	95	93	98	90
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	The LG favours development expenses	> 40 %	30.5	35.2	17.5	33.5
Capital investment expenditure delegated by State / Total investment expenditure	The LG functions are still weak	> 50 %	0	0	0	0
5. Level of service						
Maintenance works expenditure / Operating expenditures	The LG has important non-current assets to maintain and make it a priority	> 30 %	20	17.1	19.3	18
6. Other						
Total number of municipal employees / population	The LG has limited room for financing maintenance & capital investment	> 25 employees for 1000 inhabitants	4	4	4	4
Salaries & wages / Operating actual expense		> 40 %				
Actual revenue / Estimated revenue	The LG has a good visibility and Budget is reliable	> 95 %	95.1	86	90.2	85.1
Arrears amount / net cash (end of the year)	The LG accumulate short term debt and reduces its credibility towards contractors	> 1		4.9	5.5	185

- **Operating margin** increased from 0.13 per 0.2 current revenues.
- **Gearing ratio** is at the 2008 level, but the annual burden is sustainable given the level of operating revenues.
- **Fiscal autonomy** is extremely low. Capital investments are on the rise, and will continue to grow in the coming years.
- The **level of service** reflects a decreasing trend compared to 2008. The total number of employees per 1,000 inhabitants is constant and low, which indicates sound decision making by the city administration, since the level of realized revenue in relation to planned revenue points to the need for realistic planning.
- The amount of **arrears** significantly exceeds the cash balance at the end of the year, which indicates a liquidity problem.

5. Financial projections / Investment programming

Need to align the urban development vision and municipal finance system. Main assumptions for projections are the historical analysis and the assumptions behind the budget circular from the central government.

6. Municipal Finance Improvement Plan

Improve the municipality's financial situation: Replace conditional grants with unconditional grants or shared taxes, introduce a property tax. Seek more flexibility on local tax policy and better coordination with the tax administration for local tax collection. **Improve the municipality's financial management** including the following**:** forecast reliability, cost analysis of the main (larger) expenditures, expenditure control, budget execution (for example, program contracts based on performance indicators); increase monitoring and analysis; improve budget execution--introduce city treasury, drafting of terms of reference for IT support, and mapping of business processes.

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GAZI BABA

1. City Profile

Territorial organization: Member of the City of Skopje as a special Unit of Local Government (comprises 10 municipalities). Tax Sharing system with the City of Skopje.

Population: 76,458; Annual growth: 0.1%. Density: 8.3/ha (low because of the large city area). Percent of Skopje's population: 12% (of 668,000).

Economy: Leading industrial center of Macedonia (Makstil Steel Plant, Skopsko brewery, Skopski Saem). Business park along the highway Belgrade-Thessaloniki and airport. Land in agriculture: 65%. Labor force: 29,127. Unemployed: 9,501.

Decentralized Functions at the City level: Child care (kindergartens), primary education (secondary education for the City of Skopje), local roads (some local roads for City of Skopje), rural solid waste collection (transportation and landfill for the City of Skopje), water supply and wastewater disposal for the City of Skopje.

Utilities management: Water Supply and Wastewater disposal: Public Enterprise Water Supply & Sewerage (Shareholders: City of Skopje); Electricity: EVN (Private Co. – Agreement with Gov. level); Urban heating: Skopje Sever and Energy Sector ESM for the industrial zone.

Municipal staff: 913 of whom 604 are in primary education, 178 in kindergartens and senior citizens home, and 131 in communal services.

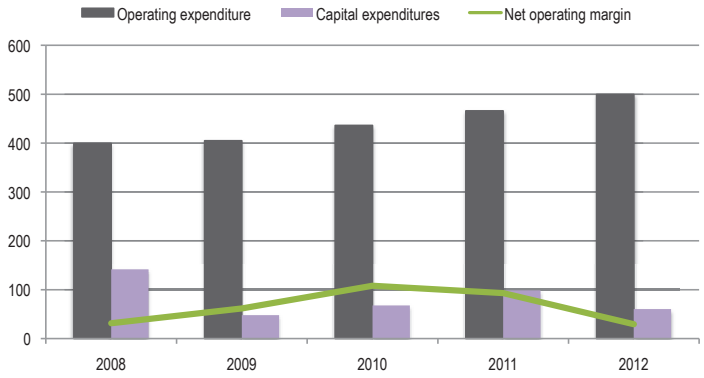
Existing Project Investment Plan: 3-year rolling plan financed by the city budget + State grants: MKD110 million: wastewater system (100% City budget); MKD18 millions: Jurumleri new kindergarten (88% Stage grant and 12% City).

Urban issues & challenges: Improve the quality of life through capital investments. Key areas: Roads, water supply, sewerage, school facilities (new construction and rehabilitation). Main issue: Geographic Information System and land management implementation.

2. Financial Situation

Exchange: 1 MKD = 0.01622 EUR / 1 EUR = 61.62 MKD (Dec. 2012)
Inflation index: 2008: +8.3%; 2009: -0.9% ; 2010: +1.6%; 2011: +3.9%; 2012: +4.7%

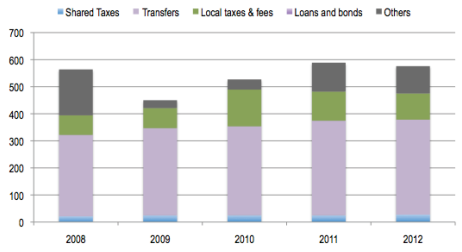
	Million MKD					Million EUR	
Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
Total current revenue	431	467	544	559	529	8,6	5,3 %
Balance N-1 (if surplus)	26	38	27	29	24		
Current revenue year N	405	429	517	530	505	8,2	5,7 %
Operating expenditure	399	405	436	466	500	8,1	5,8 %
Operating margin	31	62	108	93	29	0,5	-1,7 %
Debt repayment (Principal + interest)	0	0	0	0	0	0,0	
Net operating margin	31	62	108	93	29	0,5	-1,7 %
Capital expenditures	142	48	68	99	60	1,0	-19,2 %
Financing							
- Own capital investment rev.	127	126	126	126	128	2,1	0,1 %
- Loan	0	0	0	0	0	0,0	
- Investment grants central government	32	15	5	20	8	0,1	-28,5 %
Overall closing balance	49	155	171	140	105	1,7	21,2 %
Cumulated	0	155	326	467	572	9,3	



- **The 2012 Actual Budget** of the City of Gazi Baba reflected a decrease of 5%, after an average annual increase of **+9%** over the period 2008-2011, which was greater than the annual inflation index and the population growth.
- The budget is approximately **EUR10 million** which is a small portion of the budget of the Skopje municipality.
- **Operating expenditures** consumed more than 85% of current revenues during the period and provided an operating margin of about 12% of current revenues. Revenues have grown at the same pace as operating expenditure for the period under review except in 2012 when current expenditures increased while revenues declined.
- **There was no debt outstanding** at the city level in 2012. But the city is part of the World Bank funded Municipal Service Improvement Project and should record debt repayment in 2013.
- **The annual investment effort** is about EUR1.5 million per year funded by land sales and proceeds from leases, and by net margin.
- The budget is balanced and has generated an increasing overall surplus.

3. Historical Analysis: Revenues & Expenditures

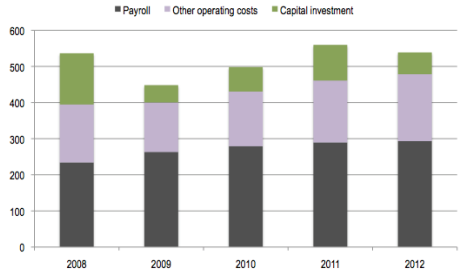
Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million MKD					Million EUR	
CURRENT REVENUES	**431**	**467**	**544**	**559**	**529**	**8,6**	**5,3 %**
State Transfers	**290**	**332**	**349**	**354**	**370**	**6,0**	6,3 %
- Shared PIT taxes	9	11	11	11	11	0,2	5,0 %
- Unconditional VAT transfers	12	14	15	14	16	0,3	7,8 %
- Earmarked and block transfers	269	307	323	330	343	5,6	6,2 %
Own revenue	**115**	**97**	**169**	**176**	**135**	**2,2**	**4,2 %**
- Local taxes	69	72	133	101	95	1,5	8,2 %
- Local fees	3	2	3	6	2	0,0	-14,2 %
- Local non-tax revenues	42	22	33	68	38	0,6	-2,5 %
CAPITAL INVESTMENT REVENUES	**159**	**22**	**10**	**59**	**71**	**1,2**	**-18,3 %**
State Transfers and grants	**32**	**15**	**5**	**20**	**8**	**0,1**	**-28,5 %**
Own revenue	**126**	**6**	**5**	**39**	**61**	**1,0**	**-16,6 %**
External revenue	**1**	**0**	**0**	**0**	**2**	**0,0**	**5,6 %**
- Loans proceeds	0	0	0	0	0	0,0	
- Municipal bonds	0	0	0	0	0	0,0	
- Donation	1	0	0	0	2	0,0	**5,6 %**



Current revenues: 60% of current revenues are earmarked grants allocated by the Ministry of Finance to pay for education staff. The PIT (personal income tax) is shared with the State level (3%) and with the municipality of Skopje (20% of the 3%). VAT transfer accounts for less than 5% of the total current revenue. Own-source revenues account for 30% of total current revenue, with 5% from the Property tax.

Own-source revenues are shared with the Municipality of Skopje: 50% for property tax, 40% for land development fee. Own revenues grow slower than State transfers. Investment grants are limited and the City doesn't have access to bank loans. Proceeds from land sales and leases are erratic.

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million MKD					Million EUR	
OPERATING EXPENDITURES	**395**	**400**	**430**	**461**	**478**	**7,8**	**4,9 %**
Payroll (incl. employees benefits & mis	**234**	**263**	**279**	**290**	**293**	**4,8**	5,8 %
- Administrative staff	31	38	35	37	40	0,7	7,0 %
- Kindergartens	40	43	44	47	46	0,7	3,8 %
- Schools	164	181	200	205	207	3,4	6,0 %
Operating costs	**161**	**137**	**151**	**171**	**185**	**3,0**	**3,6 %**
- Goods and services	125	102	125	136	153	2,5	5,1 %
- Self financing activities	35	35	26	35	32	0,5	-2,1 %
CAPITAL INVESTMENT EXPENDITURES	**142**	**48**	**68**	**99**	**60**	**1,0**	**-19,2 %**
- Civil Works	139	48	67	97	85	1,4	-11,5 %
- Equipment purchase	3	2	1	1	73	1,2	127,7 %
- ! ther assets	0	0	0	1	0	0,0	20,6 %



Expenditures: Payroll accounts for 63% of current revenues and 52% of total City revenues. Most expenditures are for school staff and are offset by an earmarked operating grant. Capital investment expenditures accounted for 12% of total expenditures in the period under review. Their volume decreased over the period, most of the investment capacity being concentrated in the Skopje Municipality. Capital investments are for civil works (road maintenance and water supply and sewerage, and construction and maintenance of schools).

4. Ratio Analysis

Criteria / Indicator	Benchmark	2008	2009	2010	2011	2012
1. Credit worthiness						
Operating savings before interests / Current revenue	> 30%	7%	13%	20%	17%	6%
Net operating surplus (net margin) / Current actual revenue	> 20%	7%	13%	20%	17%	6%
2. Indebtedness						
Debt outstanding / operating surplus	< 10 years	No Debt				
Debt service / Total current revenue	< 12 %					
3. Fiscal autonomy						
Own taxes & unconditional grants / Current actual revenue	> 80 %	32%	28%	31%	37%	32%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	> 40 %	33%	10%	12%	18%	11%
5. Level of service						
Maintenance works expenditure / Operating expenditures	> 30 %	31%	13%	23%	25%	15%
6. Others						
Salaries / Operating actual expense	> 40 %	59%	66%	65%	63%	61%
Actual revenue / Estimated revenue	> 95 %	90%	77%	89%	78%	78%
Arrears amount / net cash end of the year	> 1				0,30	0,19

- **Net operating surplus** is relatively volatile, because of the changes in the amount of State transfers.
- There is no **debt burden** at this stage and the net margin can be used for capital investment.
- **Fiscal autonomy** is limited: about 30% because of the intergovernmental system in Macedonia and to the specific situation of Gazi Baba as district of the capital city, Skopje.
- The **payroll** takes up more than 60% of the budget but includes education staff whose salaries are paid by a State grant.
- **Direct Investment effort** is limited because of Gazi Baba's administrative situation.
- **Visibility** has deteriorated over the last four years because of the impact of the financial crisis on public finance management.

5. Financial projections / Investment programming

The City has a three-year rolling Plan with fiscal projections. The main assumptions underlying the projections are the historical analysis and the assumptions behind the budget circular from the central government. The City implemented an Urban Audit in 2013 to improve investment programming.

6. Municipal Finance Improvement Plan

1. Actions to be taken directly by the OGB in the short term and at low cost: **(i) Increasing local tax collection, (ii) Get more donations.**
2. Actions that require Central Government involvement (medium term): Change the **tax sharing system** in Skopje between the City and the municipal levels.
3. Actions that require greater funding and donor or investor involvement: **Specific multiyear investment program financing.**

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GOSTIVAR

1. City Profile

Territorial organization: Main city of the Polog Region (Northwest Macedonia). Inner city and suburbs.

Population: 81,042 (2002); 83,018 (estimate of December 2012) of which 35,000 in the inner city; Annual growth: +0.2%. Total area: 519 km^2; Density: 15/ha.

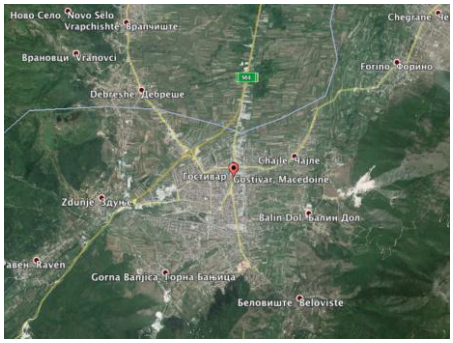
Economy: **Labor force**: 7,964 (24.19% of the population) of which 5,477 or 68.74% work in economic facilities, and 2,487 or 31.23% in noneconomic facilities. **Unemployed persons**: 10,379. 2,821 enterprises, 1,229 independent workers, 103 others are registered within the city.

Utilities management: Water Supply and Wastewater: PE Water Supply & Sewage, Electricity: EVN (Private Co. – Agreement with Gov. level).

Municipal staff: 1,701 of which 797 work in primary education, 429 in secondary education. General administration: 89; Communal services: 268; fire unit: 29: kindergartens and retirement homes: 55; and contractual workers: 34.

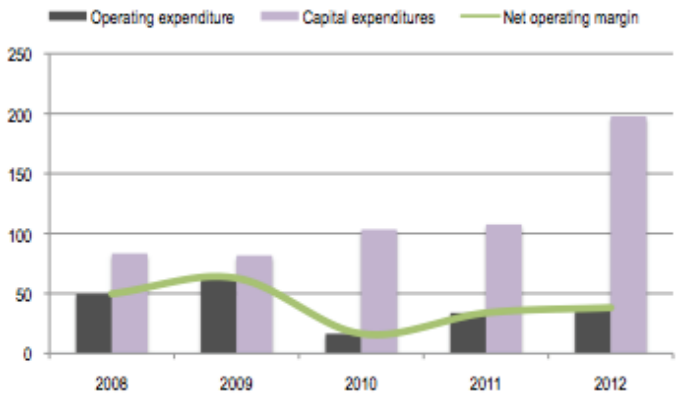
Current Project Investment Plan: 2014 Development Plan financed by the city budget + State grants and loans: MKD135 million capital expenditure from the City Budget; MKD88 million capital expenditure financed by donations from other institution or agencies; MKD697 million financed from other financial institutions capital expenditure from the central government, loans, and so forth; World Bank loan on-lent by the Ministry of Finance for the purchase of motor vehicles for public enterprise maintenance of public hygiene and street lighting-cost savings (Municipal Service Improvement Project (MSIP). Construction of water supply facilities; Reconstruction of streets and roads and other facilities.

Urban issues & challenges: Improve the quality of life through capital investments. Key areas: Roads, water supply, sewerage, school facilities (new construction and rehabilitation). Main issue: Geographic Information System and land management implementation.



2. Financial Situation

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million MKD					Million EUR	
Total current revenue	609	689	712	727	800	13,0	7,0 %
Balance N-1 (if surplus)	7	11	25	13	1		
Current revenue year N	602	678	687	715	799	13,0	7,3 %
Operating expenditure	560	626	695	694	762	12,4	8,0 %
Operating margin	50	63	16	34	38	0,6	-6,4 %
Debt repayment (Principal + interest)	0	0	0	0	0	0,0	
Net operating margin	50	63	16	34	38	0,6	-6,4 %
Capital expenditures	83	82	103	108	198	3,2	24,1 %
Financing							
- Own capital investment rev.	1	32	50	100	117	1,9	214,2 %
- Loan	0	0	15	0	52	0,8	
- Investment grants central government	36	4	11	8	5	0,1	-37,7 %
Overall closing balance	3	17	-11	34	14	0,2	44,9 %
Cumulated	0	17	7	41	55	0,9	

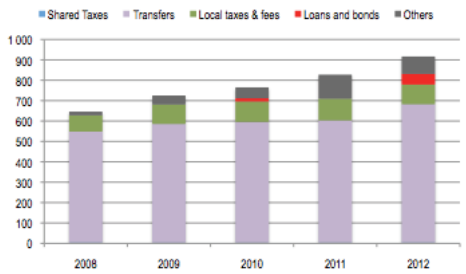


Exchange: 1 MKD = 0.01622 EUR / 1 EUR = 61.62 MKD (December 2012)
Inflation index: 2008: +8.3%; 2009: -0.9%; 2010: +1.6%; 2011: +3.9%; 2012: +4.7%

- In 2011 The city gets a B1 credit rating from **Moody's**.
- **The 2012 Actual Budget** of the City of Gostivar was about **EUR15 million** with a +7 % annual growth since 2008 which is quite high compared to the inflation index and the city population increase.
- **Operating expenditure** is increasing faster (+8%) than current revenue, gradually reducing the operating margin.
- There was no city **debt service** in 2012 despite small loans taken out in 2010. A soft loan from MSIP in 2013-2014 should be easily absorbed.
- Average annual investment capacity: about **EUR2.6 million** (about 20% of current revenue) with a major part funded directly by the Municipality of Gostivar. Investment grants were almost nonexistent in the period under review.
- Overall balance is small, showing an optimal use of revenues.
- The City Budget planned for 2014 is **EUR16.5 million.**

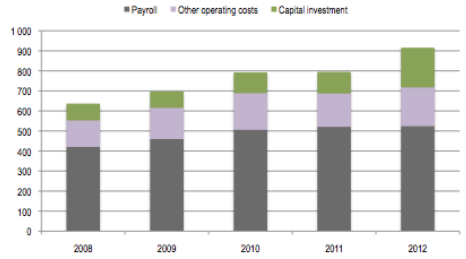
3. Historical Analysis: Revenues & Expenditures

Items	2008 actual (Million MKD)	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual (Million EUR)	Growth 2008-12
CURRENT REVENUES	**609**	**689**	**712**	**727**	**800**	**13,0**	**7,0 %**
State Transfers	**513**	**582**	**592**	**603**	**683**	**11,1**	**7,4 %**
- Shared PIT taxes	5	4	5	5	5	0,1	0,6 %
- Unconditional VAT transfers	34	40	36	37	43	0,7	6,1 %
- Earmarked and block transfers	474	537	551	561	634	10,3	7,6 %
Own revenue	**97**	**107**	**119**	**124**	**117**	**1,9**	**5,0 %**
- Local taxes	78	93	98	102	95	1,5	5,2 %
- Local fees	2	2	3	5	2	0,0	2,9 %
- Local non-tax revenues	17	12	19	18	20	0,3	4,2 %
CAPITAL INVESTMENT REVENUES	**37**	**36**	**54**	**100**	**117**	**1,9**	**33,4 %**
State Transfers and grants	**36**	**4**	**4**	**0**	**0**	**0,0**	
Own revenue	**1**	**32**	**50**	**100**	**117**	**1,9**	**214,2 %**
External revenue	**0**	**0**	**0**	**0**	**0**	**0,0**	**5,6 %**
- Loans proceeds	0	0	15	0	52	0,8	
- Municipal bonds	0	0	0	0	0	0,0	
- Donation	0	0	8	9	6	0,1	



Current revenues: 75.9% of current revenues are earmarked grants allocated by the Ministry of Finance to finance in the following: priority education, secondary education, kindergarten, and the fire unit. The PIT (personal income tax) is shared with the State level (3%). Along with the VAT transfer (only 4% shared with the State in 2012), it accounts for 5% of total current revenue. Own-source revenues account for 16.81% of total current revenue, with 13.77% from Local taxes. In the period under review, average annual growth in own revenue was +5% compared to +7.4% for State transfers.

Items	2008 actual (Million MKD)	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual (Million EUR)	Growth 2008-12
OPERATING EXPENDITURES	**560**	**626**	**695**	**694**	**762**	**12,4**	**8,0 %**
Payroll (incl. employees benefits & misc	**421**	**460**	**507**	**521**	**525**	**8,5**	**5,7 %**
- Administrative staff	35	36	35	38	45	0,7	6,3 %
- Kindergartens	13	14	14	15	16	0,3	4,7 %
- Schools	362	398	446	457	456	7,4	5,9 %
- Firefighting	10	11	11	11	8	0,1	-5,9 %
Operating costs	**133**	**156**	**182**	**166**	**193**	**3,1**	**9,9 %**
- Goods and services	120	147	168	155	180	2,9	10,7 %
- Self financing activities	13	10	15	11	13	0,2	0,8 %
CAPITAL INVESTMENT EXPENDITURES	**83**	**82**	**103**	**108**	**198**	**3,2**	**24,1 %**
- Civil Works	4	1	3	3	3	0,0	-5,2 %
- Equipment purchase	80	81	100	104	109	1,8	8,1 %
- ! ther assets							



Expenditures: Payroll takes up 65% of current revenues. Most of it goes for school staff (primary and secondary), the fire unit, and kindergartens; they are offset by an earmarked grant. Capital investment expenditures accounted for 14% of total expenditures over the period. They include mainly civil works (road maintenance and water supply and sewerage, school construction and maintenance and road construction, financed by the city).

4. Ratio Analysis

Criteria / Indicator	Benchmark	2008	2009	2010	2011	2012
1. Credit worthiness						
Operating savings before interests / Current revenue	> 30%	8%	9%	2%	5%	5%
Net operating surplus (net margin) / Current actual revenue	> 20%	8%	9%	2%	5%	5%
2. Indebtedness						
Debt outstanding / operating surplus	< 10 years	No Debt				
Debt service / Total current revenue	< 12 %					
3. Fiscal autonomy						
Own taxes & unconditional grants / Current actual revenue	> 80 %	21%	21%	22%	22%	20%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	> 40 %	14%	12%	15%	15%	25%
5. Level of service						
Maintenance works expenditure / Operating expenditures	> 30 %					
6. Others						
Salaries / Operating actual expense	> 40 %	75%	73%	73%	75%	69%
Actual revenue / Estimated revenue	> 95 %					
Arrears amount / net cash end of the year	> 1					

- **Operating margin** is about 5% of current revenue, which is quite low.
- There was **no debt service in 2012** but the city is engaged with the MSIP and will have to reimburse a soft loan in the next few years.
- **Fiscal autonomy** is low with a major part of the revenue coming from transfers and shared taxes.
- **Capital investment** is optimal considering the balance of the budget.
- **Salaries and wages** represent more than 70% of current expenses because of the high education payroll costs.

5. Financial projections / Investment programming

Need to align the urban development vision and the municipal finance system. Main assumptions for projections are historical analysis and the assumptions behind the budget circular from the central government.

6. Municipal Finance Improvement Plan

Actions to be carried out directly by the OGB in the short term and at low cost: **(i) Increasing local tax collection, tax potential, (ii) Get more donations, apply for IPA (Instrument for Pre-Accession) funds.** Actions which require Central Government involvement (medium term): **Change the percentage for PIT and VAT tax sharing for the municipalities; get clear criteria for capital investment transfers for the municipalities, approve in general the Law for Regional Development at the State level; initiatives for changing the Property Tax Law and the methods for evaluating property tax (association of the LGS),** and so forth**.** Actions that require greater funding and donor or investor involvement: **Specific multiyear investment program financing.**

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NOVO SARAJEVO

1. City Profile

Territorial organization: Novo Sarajevo is one of the four municipalities of the City of Sarajevo, and one of the nine municipalities that form Canton Sarajevo. The Novo Sarajevo municipality is made up of 18 local communes (bos. "mjesna zajednica").

Population: 73,394 (est). New data will be published in 2014, based on the Oct. 2013 Census, the first since 1991. Area: 9.9 km^2. Density: 74/ha. Percent of Sarajevo population: 17%.

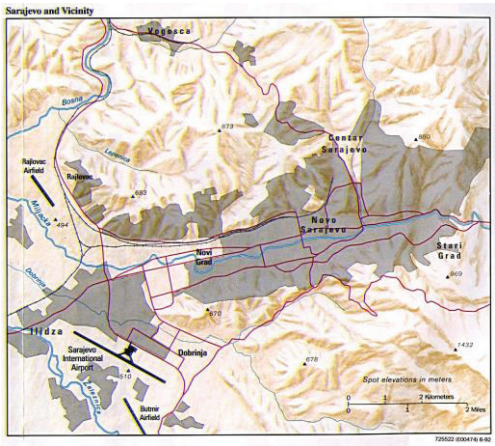
Economy: GDP per capita: EUR5,500 (second highest in the Federation of Bosnia and Herzegovina, FBIH, after Sarajevo Center). Labor market activity rate is higher in Novo Sarajevo compared to FBiH and BiH averages (70% in Novo Sarajevo compared to 48% in BiH), with a higher employment rate and a lower registered unemployment rate. Number of employed persons: 25,406 (52% of the 15-64 year-old population). Number of unemployed persons is 8,752 (26% of the labor force).

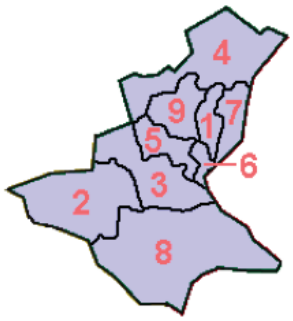
Utilities management: None of the utility companies are included in the municipal budget. However, in some cases, the municipality transfers funds to some utility companies for specific projects.

Municipal staff: 230 employees distributed over 12 Service Departments. Part of the services are shared with the City and/or the Canton. Administration Service Department (47 employees), General Service Department (26 employees) and Service Department for Housing and Amenities, Reconstruction, Development and Environment Protection (24 employees).

Existing Project Investment Plan: The Development Strategy of the Novo Sarajevo Municipality covers the period up to 2015 and includes detailed situational analyses by sector, SWOT analysis, vision, six strategic objectives, and 32 strategic programs each of which has defined projects. The Strategy is supported by an Action Plan. There are more than 100 ongoing and planned investment projects, around half of which are currently under implementation. Preparation of a new Development Strategy for Novo Sarajevo is under way. It will take into account the new statistical data that will be available when the Census data is published, and will include an update of the investment plan.

Urban issues & challenges: Novo Sarajevo is engaged in a modernization effort. Problems include local asset management and illegal construction issues. The issue with assets is that they are not recorded as being owned by the municipality. Therefore some capital investments are recorded as transfers which complicates investment and asset management, as well as budget management.

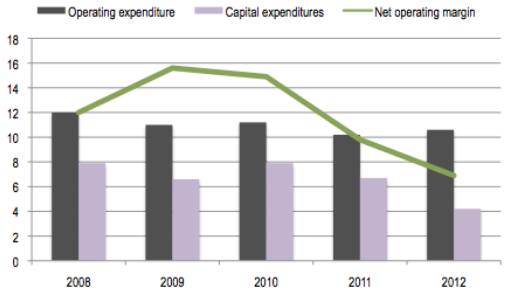




1. Centar
2. Hadžići
3. Ilidža
4. Ilijaš
5. Novi Grad
6. Novo Sarajevo
7. Stari Grad
8. Trnovo
9. Vogošća

2. Financial Situation

Items	2008 actual (Million BAM)	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual (Million EUR)	Growth 2008-12
Total current revenue	24	27	26	20	18	8,9	-7,6 %
Balance N-1 (if surplus)	11	15	15	10	6		
Current revenue year N	14	12	11	10	11	5,8	-4,1 %
Operating expenditure	12	11	11	10	11	5,4	-3,1 %
Operating margin	12	16	15	10	7	3,5	-12,9 %
Debt repayment (Principal + interest)	0	0	0	0	0	0,0	
Net operating margin	12	16	15	10	7	3,5	-12,9 %
Capital expenditures	8	7	8	7	4	2,1	-14,6 %
Financing							
- Own capital investment rev.	8,3	5,2	2,4	2,8	1,5	0,8	-34,8 %
- Loan	0	0	0	0	0	0,0	
- Investment grants central government	2,5	1,1	0,3	0,3	1,1	0,6	-18,6 %
Overall closing balance	15	15	10	6	5	2,7	-22,8 %
Cumulated	15	30	40	46	51	26,2	

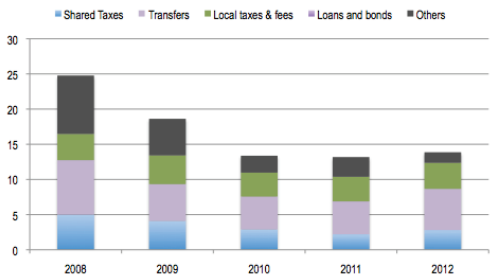


Exchange: 1 BAM = 0.5112 EUR / 1 EUR = 1.955 BAM (Dec. 2012)
Inflation index: 2008: +7.4%; 2009: -0.3%; 2010: +2.1%; 2011: +3.7%; 2012: +2.1%

- **2012** actual budget of the municipality of Novo Sarajevo is about **EUR10 million**. **Current revenue** decreased significantly with the crisis (average annual growth of current revenue in the period: -4.1%). **Significant surpluses** are included in planned budgets, since FBiH uses a modified cash basis for accounting and earmarked revenues for multiannual capital projects.
- **Operational expenditures** have been adjusted downward to partially offset this revenue fall (average annual growth in the period: 3.1% Note: operational expenditure includes one-off expenses for local elections in 2012 and for the Census in 2013.
- The municipality does not have any **debt.**
- **Operating margin** is more than 50% of current revenues and higher than capital investment expenditures. It is partly fed by current surpluses.
- **Capital expenditure** decreased somewhat, but is projected to grow. Capital expenditure is financed entirely from ongoing revenues–there are no sales of assets, foreign investment donations, or loans.

3. Historical Analysis: Revenues & Expenditures

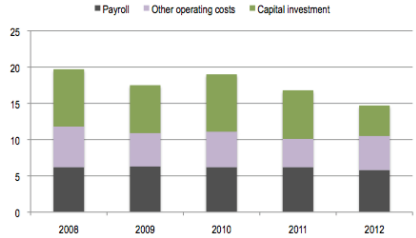
Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million BAM					Million EUR	
CURRENT REVENUES	**14**	**12**	**11**	**10**	**11**	**5,7**	**-5,3 %**
State Transfers	**10**	**8**	**7**	**7**	**8**	**3,9**	-7,4 %
- Shared taxes	5	4	3	2	3	1,4	-13,5 %
- Unconditional transfers	5	4	4	4	5	2,4	-2,5 %
- Earmarked and block transfers	0	0		0	0	0,0	-5,4 %
Own revenue	**4**	**4**	**3**	**4**	**4**	**1,9**	**-0,2 %**
- Local taxes	0,6	0,8	1	1	1	0,6	15,2 %
- Local fees	3	2	2	2	3	1,3	0,0 %
- Local non-tax revenues	1	1	0	0	0	0,0	-100,0 %
CAPITAL INVESTMENT REVENUES	**11**	**6**	**3**	**3**	**3**	**1,3**	**-29,8 %**
State Transfers and grants	**3**	**1**	**0**	**0**	**1**	**0,6**	**-18,0 %**
Own revenue	**8**	**5**	**2**	**3**	**2**	**0,8**	**-34,8 %**
External revenue							
- Loans proceeds							
- Municipal bonds							
- Donation							



In 2012, **transfers from other government levels** account for 45% of budget revenues (excluding carried-over surpluses), as compared to 53% in 2008. Own-source local revenue accounts for 55% of total revenues.

Municipal revenue fell sharply in 2008 and 2009, due to transfers from other government levels: shared tax (real estate transaction tax, personal income tax (PIT), general transfers (indirect tax), as well as a decrease in own-source capital revenue (from land development fees). **Own-source local revenue has increased** since 2010 because of revenue from land development fees but is vulnerable because of the volatile nature of those fees. An important current revenue trend is the decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans from the IMF to the Federation Government level. Property tax is the sole local tax, but in Sarajevo it is shared with the Canton (which also administers it), so there is practically no tax policy over which the municipality exercises full discretion.

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million BAM					Million EUR	
OPERATING EXPENDITURES	**12**	**11**	**11**	**10**	**11**	**0,2**	**-2,9 %**
Payroll (incl. employees benefits & misc.)	6	6	6	6	6	**0,1**	-1,7 %
Goods and services	2	2	2	2	2	0,0	1,3 %
Other current expenditures	4	3	3	2	3	0,0	-7,6 %
CAPITAL INVESTMENT EXPENDITURES	**8**	**7**	**8**	**7**	**4**	**0,1**	**-14,6 %**



The municipality demonstrated a high level of **fiscal discipline** in reducing its expenditures in the face of decreasing revenues. Current expenditure decreased in the 2008-2011 period, with some increases in 2012 because of the one-off costs associated with implementation of elections and the Census.

The Wage bill decreased by 6% during 2008-2012. **Current transfers** include funds for civil safety, grants to other government levels (land developing and urban planning program, civil safety program, and program for road improvement), grants to nonprofit organizations, to individuals, and public company subsidies. **Capital expenditure** averaged 37% of total budget expenditure in 2008-2013, which is relatively significant, but lower than during the pre-crisis period. They include capital grants because assets are not recorded as owned by the municipality.

4. Ratio Analysis

Criteria / Indicator	Benchmark	2008	2009	2010	2011	2012
1. Credit worthiness						
Operating savings before interests / Current revenue	> 30%	50%	59%	57%	49%	39%
Net operating surplus (net margin) / Current actual revenue	> 20%	50%	59%	57%	49%	39%
2. Indebtedness						
Debt outstanding / operating surplus	< 10 years	No Debt				
Debt service / Total current revenue	< 12 %					
3. Fiscal autonomy						
Own taxes & unconditional grants / Current actual revenue	> 80 %	58%	46%	41%	51%	64%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	> 40 %	33%	25%	30%	34%	24%
5. Others						
Salaries / Operating actual expense	> 40 %	53%	58%	56%	61%	55%
Actual revenue / Estimated revenue	> 95 %	91%	104%	106%	91%	91%

- **Credit worthiness ratios** are high, because of strict fiscal discipline and significant surpluses. Novo Sarajevo has **no debt**. There are also **no arrears**. The municipality's cash management is good, with a high capacity for settlement of short-term liabilities.
- **Fiscal autonomy** has been below the benchmark. There is practically no tax policy which the municipality exercises full discretion. Data are lacking for tax potential and performance (in terms of all potential tax payers).
- **Expenditure for property maintenance** is low, partially because these costs are recorded as transfers, since the property is not registered as municipality-owned. The r**atio of planned to realized revenues varies**, mainly because of a suboptimal information flow on the macro-fiscal framework from the Federal and Cantonal Finance Ministries.

5. Financial projections / Investment programming

Multiannual financial projections are available and updated regularly, although the volatility of projections is high. A new Municipal Development Strategy is planned and will be based on statistical data from the Census. It will include an updated investment plan and may consider using external financing and debt issuance.

6. Municipal Finance Improvement Plan

Revision of the tax revenue-sharing formula, lowering the impact of FBiH-level debt on local government units (LGUs); clearer division of responsibility with respect to expenditures, asset ownership, and improvement in efficiency while broadening of the tax base for direct taxes / improvement of the local property tax system / Improving the flow of information on the macro-fiscal framework from higher levels to the LGU level / Preparation of a Medium-term Expenditure Framework. Evaluation and improvement of asset management and urban planning.

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PODGORICA

1. City Profile

Territorial organization: Podgorica consists of the capital city itself and 2 sub-municipalities: Golubovci and Tuzi. All three levels are financed by the municipality.

Population: 187,085 (2011). Annual growth: 1.3%–30% of the national population. Density: less than 2 /ha. Due to the large area (140,000 ha or 11% of the total area of Montenegro (see map).

Economy: Administrative center of Montenegro. Declining industrial production since the collapse of the former Yugoslavia. However, two traditional sectors have gained from the privatization process: aluminum smelting and cognac production; and since 2000, the financial and banking services sector has grown. Unemployed: 25.18% (2011).

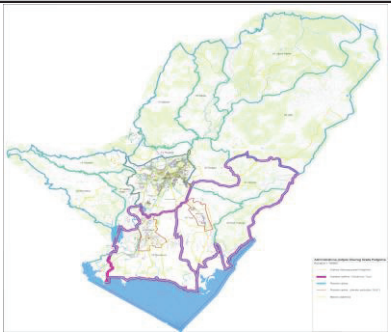
Decentralized Functions at the city level: Own functions: water supply, wastewater, construction, rehabilitation and maintenance of local roads, sidewalks, and squares, public lighting and transport, and solid waste. Shared functions: maintaining public order and civil protection.

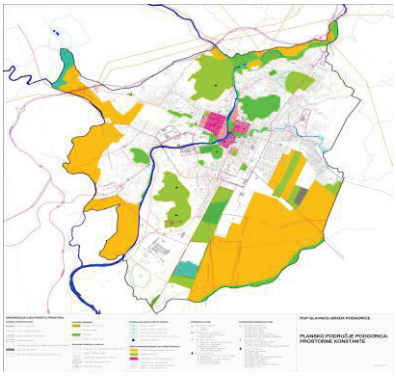
Utilities management: water supply, wastewater, and solid waste. All three are organized as Limited Liability Companies, with 50% state and 50% private ownership.

Municipal staff: 843 of which 650 in general administration, and 193 in technical departments; 246 are contractual workers.

Existing Project Investment Plan: Strategic Development Plan 2012-2017 for a total of **EUR350 Million.**

Urban issues & challenges: Underserviced illegal settlements, including inadequate regularization process implementation, and poor transportation services due to urban sprawl.

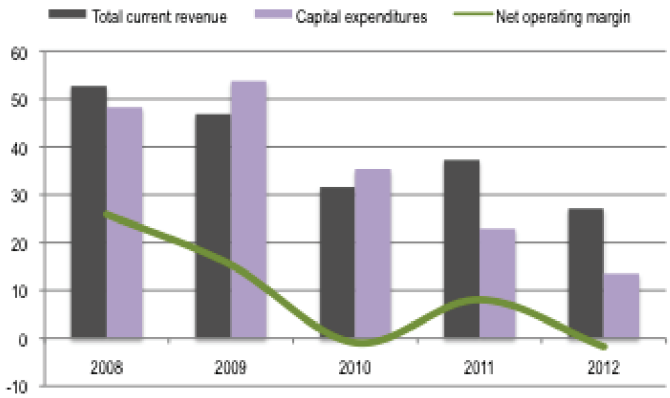




2. Financial Situation

Million EURO

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	Growth 2008-12
Total current revenue	53	47	32	37	27	-15 %
Balance Y-1 (if surplus)	12	18	6	8	0	-61 %
Current revenue year N	40	29	26	29	27	-10 %
Operating expenditure	27	32	32	28	28	1 %
Operating margin	26	15	0	9	-1	
Debt repayment (Principal + interest)	0	0	1	1	1	
Net operating margin	26	15	-1	8	-2	
Capital expenditures	48	54	35	23	14	-27 %
Financing	41	44	44	14	17	-20 %
- Own capital investment rev.	33	43	33	14	16	-16 %
- Loan	8	0	10	0	0	
- Investment grants central government	0	0	0	0	0	
Overall closing balance	18	5	7	-1	1	
Cumulated	18	23	31	30	31	



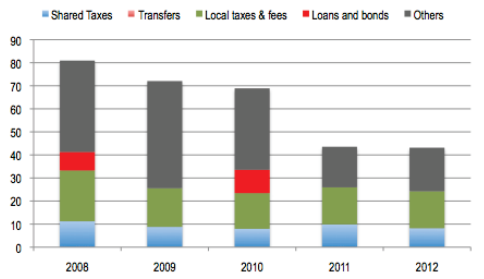
Currency: EUR
Inflation index: 2008: +8.3%; 2009: -0.9%; 2010: +1.6%; 2011: +3.9%; 2012: +4.7%

- **2012 actual budget** of the Municipality of Podgorica was about EUR44 million showing a continuous decrease since 2009 due to the impact of the financial crisis on shared taxes and own-source revenues. The main feature is that capital investment expenditure is the same as current revenue, with a low or even negative net operating margin.
- **Operating expenditures** have been relatively stable over the period with a small average annual increase of +1% in current terms.
- **Annual investment capacity** has been decreasing with only EUR14 million in 2012 compared to around EUR50 million in 2008 and 2009, then coming in at EUR25-35 million in 2010-2011. However, this is quite high relative to current revenue and operating expenses.
- **Investment financing** is relatively disconnected from operating surplus and comes mainly from land sales proceeds because of significant land development projects, and from Medium/Long-term credit and municipal bonds (EUR39 million from the International Finance Corporation, Dexia, Bilateral Cooperation, and domestic banks).
- **Debt service** is still modest but should increase after the end of the grace period according to the loan conditions.

3. Historical Analysis: Revenues & Expenditures

Million EURO

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	Growth 2008-12
TOTAL CURRENT REVENUES	**53**	**47**	**32**	**37**	**27**	-15 %
State Transfers	**11**	**9**	**8**	**10**	**8**	-7 %
- Shared taxes	11	9	8	10	8	-7 %
- Unconditional transfers						
- Earmarked and block transfers						
Own revenue	**29**	**20**	**18**	**19**	**19**	-11 %
- Local taxes	16	15	14	15	15	-2 %
- Local fees	6	2	1	1	1	-34 %
- Local non-tax revenues (assets revenues)	7	3	2	3	3	-23 %
CAPITAL INVESTMENT REVENUES	**41**	**44**	**44**	**14**	**17**	-20 %
State Transfers and grants	0	0	0	0	0	37 %
Own revenue	**33**	**43**	**33**	**14**	**16**	-16 %
External revenue	**8**	**1**	**10**	**0**	**0**	-100 %
- Loans proceeds	8	0	10	0	0	
- Municipal bonds	0	1	0	0	0	
- Donation	0	0	0	0	0	

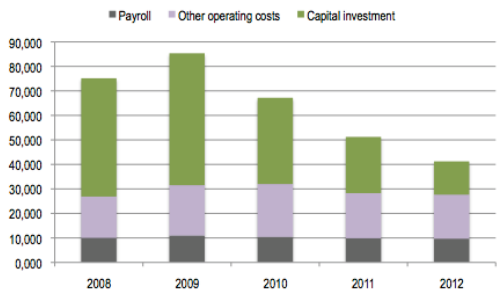


Current revenues: 85% of the revenues are own-source revenues. Almost 60% are generated by land sales and land use taxes; 15% of the revenues are transferred by the state government, as a portion of the personal income tax (PIT), and of the property rights.

Property tax accounts for only 6% of the revenues. The local business tax is negligible. All the revenues have been decreasing slightly during the period under review, except for property tax proceeds (+6% per year).

Million EURO

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	Growth 2008-12
OPERATING EXPENDITURES	**27**	**32**	**32**	**28**	**28**	1 %
Payroll (incl. employees benefits & misc.)	**10**	**11**	**10**	**10**	**10**	-1 %
Operating costs	**17**	**21**	**22**	**18**	**18**	2 %
- Contacts (outsourcing)	3	3	3	2	2	-8 %
- Transfers to institutions, NGOs & public sectors	9	10	11	10	10	3 %
DEBT SERVICE	**0**	**0**	**1**	**1**	**1**	
CAPITAL INVESTMENT EXPENDITURES	**48**	**54**	**35**	**23**	**14**	-27 %
- Local infrastructure	15	20	30	18	10	-10 %
- Construction facilities	10	12	4	4	3	-26 %
- Land development	19	17	0	0	0	-100 %
- Equipement purchase	3	4	1	1	0	-42 %
- Investment maintenance	1	1	0	0	0	-16 %



Expenditures: Current expenditures have been stable during the period, which means they have been decreasing in constant prices. Payroll accounts for 35% of total operating expenditures. More than 40% of operating expenditures are outsourced expenses (contracts and subsidies to other bodies); 50% of capital investment revenue comes from land development, and has been decreasing during the period. Other infrastructure accounts for the remaining 50%.

4. Ratio Analysis

Criteria / Indicator	Benchmark	2008	2009	2010	2011	2012
1. Credit worthiness						
Operating savings before interests / Current revenue	> 30%	49%	33%	-1%	24%	-2%
Net operating surplus (net margin) / Current actual revenue	> 20%	49%	33%	-3%	22%	-7%
2. Indebtedness						
Debt outstanding / operating surplus	< 10 years	1	1	2,5	0,9	3
Debt service / Total current revenue	< 12 %	0%	0%	2%	2%	4%
3. Fiscal autonomy						
Own taxes & unconditional grants / Current actual revenue	> 80 %	55%	42%	56%	52%	69%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	> 40 %	77%	95%	138%	38%	61%
5. Level of service						
Maintenance works expenditure / Operating expenditures	> 30 %	5%	6%	6%	7%	9%
6. Others						
Salaries / Operating actual expense	> 40 %	37%	35%	32%	35%	35%
Actual revenue / Estimated revenue	> 95 %	102%	107%	102%	1%	101%
Arrears amount / net cash end of the year	> 1					
Total financial resources / Total financial obligations	1.02	1,2	1,1	1,1	1,0	1,0

- **Credit worthiness** was seriously affected by the financial crisis beginning in 2008. In 2012, the operating budget shows a small deficit widened by the increasing debt service on loans made before 2008 and up to 2009.
- However, the **debt service** is objectively low and the main issue is a **revenue shortage** because of the local taxation system including the decrease in shared taxes.
- **Investment financing** is generated mostly by land development proceeds, and heavily dependent on the performance of the real estate market.
- Globally, the municipality has been able to balance its budget thanks to its control of operating expenditures (payroll, maintenance, other operating costs).

5. Financial projections / Investment programming

The city carries out a three-year rolling Plan with fiscal projections. The main assumptions for the projections are the historical analysis and the assumptions behind the budget circular from the central government. In 2013, the city carried out an Urban Audit to improve investment programming.

6. Municipal Finance Improvement Plan

Increase fiscal autonomy from the State Government: Possibly allocate a percentage of the VAT to the municipalities as shared revenues, and increase unconditional grants; end the state policy on abolishing local taxes and develop closer communications with the municipalities; **from the Municipality**: Improve data on tax payers (data base, number of tax inspectors, cooperation with state cadastre, raising awareness among citizens); taxation of illegal construction**. Asset management system:** to be set up**. Budget preparation process:** Reduce the influence of politics at the budget planning stage; reject unrealistic requests when it comes to capital budget investments. **Expenditure management**: fully implement a treasury system; pay invoices on time; extend no privileges in budget execution; implement commitment controls; reduce non-compliance in the use of resources by preparing written procedures and strict rules with sanctions to ensure "fiscal accountability" among officials; introduce cash flow forecasts.

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RIJEKA

1. City Profile

Territorial organization: Rijeka is the city center of Primorje and Gorski Kotar county. It consists of 34 municipal entities. Total area of the city: 44 km^2.

Population: Total resident population (2011 census): 128,735. Annual growth: -1.17%. Rank in the country (in population): 3rd. Density: 2,923 /km^2 – the most densely populated city in Croatia.

Economy: GDP per capita (national level): EUR10,697; Business entities: 4,100 (only companies with headquarters based in the city, and excluding companies that have branches in the city but not headquarters), consisting mostly of banks, shopping centers, national public utilities, and individual entrepreneurs. **Labor force**: 88,271 or 68.6% of the population. **Unemployed**: 16.1% (registered 2012). Its location on the Kvarner Bay, with 26.20 km of coastline, gives Rijeka a comparative advantage as a maritime economy, and in all activities related to the sea, logistics, new technologies, and tourism. Rijeka is on the Pan-European Transport Corridors V and X, as well as the Baltic-Ionian corridor. Its main basic natural resource is high-quality drinking water.

Utilities management: The city is the owner of seven public utility companies and one organization in the area of water supply & sewerage, heating, gas supply, funeral services, parks, public sanitation, parking, public lighting, public transport, road maintenance, city housing, and management and construction of sports infrastructure.

Municipal staff: 439 in city administration and 1,455 in utility companies.

Existing Project Investment Plan: In 2013, the city created a new city development strategy for the period 2014-2020 (action plan). The strategy has three main objectives with eight priorities, 22 planned actions, and 61 projects.

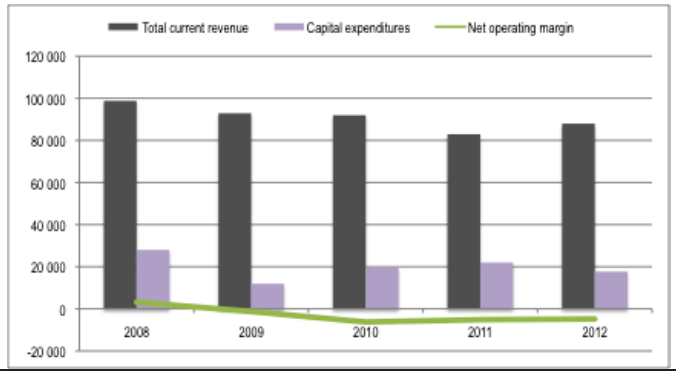
Financial framework of the Strategy: EUR3 billon (for the period 2014-2020).
Structure of investments: 74% for the 1st strategic objective; 14% for the 2nd strategic objective, and 12% for the 3rd strategic objective.

Urban issues & challenges: The strategic objectives of Rijeka's development are: 1. Global positioning of the city through development of Rijeka Gateway Project; 2. Develop a competitive economy based on knowledge and new technologies; 3. Ensure the dignity of all citizens by strengthening social inclusion and developing projects that are broadly beneficial.

2. Financial Situation

Thousand EURO

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	Growth 2008-12
Total current revenue	98 777	92 873	91 928	82 965	87 975	-2,9 %
Balance N-1 (if surplus)	216	133	0	0	0	
Current revenue year N	98 561	92 740	91 928	82 965	87 975	-2,8 %
Operating expenditure	91 251	90 606	93 321	80 027	81 199	-2,9 %
Operating margin	7 526	2 267	-1 393	2 938	6 776	-2,6 %
Debt repayment (Principal + interest)	4296	3532	4845	8051	11590	28,2 %
Net operating margin	3 230	-1 265	-6 238	-5 113	-4 814	
Capital expenditures	28 014	11 957	19 625	22 000	17 731	-10,8 %
Financing						
- Own capital investment rev.	5 429	4 303	5 833	4 533	12 267	22,6 %
- Loan	17 038	0	12 199	14 981	5 169	
- Investment grants central government	2 452	2 286	1 287	1 017	5 109	20,1 %
Overall closing balance	135	-6 633	-6 544	-6 582	0	-100,0 %
Cumulated	0	-6 633	-13 177	-19 759	-19 759	



Exchange: 1 EUR = 7,5552 HRK (2012.)
Inflation index: 2008: +6.1%; 2009: +2,4%; 2010: +1,1%; 2011: +2,3%; 2012: +3,4%

- **The 2012** actual budget of the City of Rijeka is **EUR110 million** of which **EUR88 million** are current revenues.
- Comparing 2008 and 2012:

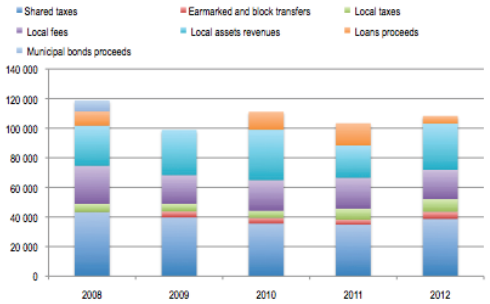
The Average annual decrease in current revenues was -2.9% over the period, as a result of the economic crisis and falling GDP at the national level.

- **Operating expenditures** in 2012 were **EUR81.2 million**, with an **annual decrease** during the period of -2,9%, in line with the drop in current revenues.
- **Capital expenditures** also decreased from **EUR**28 million in 2008 to **EUR17.7 million** in 2012, after a strong investment cycle that is still evident in 2008.
- **Capital expenditure** is projected to grow in future years despite the current difficulties.
- Capital expenditure is financed from ongoing revenues (there are no sales of assets) and loans. Also, few grants have been available for less than 10% in past years.

3. Historical Analysis: Revenues & Expenditures

Thousand EURO

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	Growth 2008-12
TOTAL REVENUE	**123 696**	**99 462**	**111 247**	**103 496**	**110 520**	**-2,8 %**
State Transfers	**47 382**	**43 763**	**39 413**	**38 084**	**43 569**	**-2,1 %**
- Shared taxes	43 312	39 712	35 545	34 843	38 694	-2,8 %
- Unconditional transfers	0	0	0	0	0	
- Earmarked and block transfers	4 070	4 051	3 867	3 241	4 875	4,6 %
Own revenue	**76 098**	**55 566**	**71 835**	**65 412**	**66 951**	**-3,2 %**
- Local taxes	5 561	5 189	4 828	7 550	8 541	11,3 %
- Local fees	25 739	19 318	20 652	20 889	19 800	-6,3 %
- Local assets revenues	27 106	30 547	34 044	21 818	31 190	3,6 %
- Loans proceeds	9 615	0	12 199	14 981	5 169	-14,4 %
- Municipal bonds proceeds	7 423	0	0	0	0	-100,0 %



The most significant revenues are: shared taxes (35%), asset revenues (28%), and local fees (18%). Of total revenues, state transfers account for 39%, and local revenues for 61%. The most significant proportion **of state transfers** is shared taxes (91%). Of shared tax revenue, the highest portion is the PIT (personal income tax) with a share of 94%, which represents 33% of total revenue. State conditional transfers account for less than 4% of total revenues. **Of local revenues**, income from local assets accounts for 47% (28% of total revenue). The second largest contribution to local revenues comes from local fees with a share of 29% (18% of total revenue).

	in 000 euro	2008	2009	2010	2011	2012.
TOTAL EXPENDITURES		**123.562**	**106.095**	**117.792**	**110.078**	**110.520**
EXPENSES ON DELEGATED FUNCTIONS		**5.273**	**5.086**	**4.881**	**4.849**	**4.701**
1	Primary school	2.869	2.674	2.445	2.519	2.409
2	Public order & civil protection	2.404	2.412	2.435	2.330	2.292
OWN EXPENDITURES		**118.289**	**101.009**	**112.911**	**105.229**	**105.819**
1	General public administration	18.721	18.284	22.325	15.418	15.000
2	Social, cultural, recreational expenditures	25.782	22.588	33.612	21.782	17.532
3	Local economic development	8.728	9.663	7.749	22.450	14.846
4	Social housing	5.600	5.670	5.947	5.797	5.060
5	Healthcare	752	1.108	1.026	814	878
6	Environment protection	3.412	2.308	2.016	1.704	2.479
7	Education	10.515	10.134	9.170	8.641	8.379
8	Urban development	23.372	12.024	11.004	8.898	14.707
9	Civil security	2.288	1.765	1.500	1.451	1.411
10	Support to PUCs (subsidies, grants, equity, in-kind)	14.821	13.934	13.717	10.224	13.939
11	Loan repayment	2.758	2.159	2.445	5.010	8.340
12	Interest charges	1.538	1.373	2.401	3.041	3.250
13	Guarantees called (paid by the Municipality)	0	0	0	0	0

Before the "crisis" (2008), capital investment represented 30% of the city's total expenditures. Significant decrease occurred in 2009, when capital investment dropped to 20%. During 2010 and 2011, the share of capital expenditure in total expenditure went up to 25%, where it remained in 2012. Of total expenditures, expenses on delegated functions represented 4%, while own expenditures were at 96%. **Expenses on delegated functions** include only two categories: primary school, and public order & civil protection. **Under own expenditures**, the most significant categories are: social, cultural, recreational expenditures (16% of total expenditures); general public administration (13% share); local economic development (13% share); urban development (13% share) and support to public utility companies (PUC's) with a 12% share.

4. Ratio Analysis

Criteria / Indicator	Benchmark	2008	2009	2010	2011	2012
1. Credit worthiness						
Operating savings before interests / Current revenue	> 30%	8%	2%	-2%	4%	8%
Net operating surplus (net margin) / Current actual revenue	> 20%	3%	-1%	-7%	-6%	-5%
2. Indebtedness						
Debt outstanding / operating surplus	< 10 years					
Debt service / Total current revenue	< 12 %	4%	4%	5%	10%	13%
3. Fiscal autonomy						
Own taxes & unconditional grants / Current actual revenue	> 80 %	77%	60%	78%	79%	76%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	> 40 %	28%	13%	21%	27%	20%
5. Level of service						
Maintenance works expenditure / Operating expenditures	> 30 %	13%	13%	10%	11%	
6. Others						
Salaries / Operating actual expense	> 40 %	10%	11%	10%	10%	
Actual revenue / Estimated revenue	> 95 %	84%	82%	85%	82%	
Arrears amount / net cash end of the year	> 1					

- **Operating margin** decreased from 7.6% to 3.5% of current revenues.
- **The debt burden** increased significantly but is still manageable, under generally accepted benchmarks.
- **Fiscal autonomy** is increasing but is still weak. The ratio indicates a need to increase the city's fiscal autonomy.
- **City capital investment efforts** decreased slightly and are significantly below the benchmark.
- **Total number of employees per 1,000 inhabitants** is very low which indicates a prudent use of city resources.

5. Financial projections / Investment programming

Multiannual financial projections are available and updated regularly, even if the volatility of projections is high. A new Municipal Developmental Strategy is planned (based on statistical data from the Census). It will include an updated investment plan and may consider external financing and debt issuance.

6. Municipal Finance Improvement Plan

Our Finance Improvement Action Plan (FIAP) has 2 main objectives: (I) to improve the municipality's financial situation and (II) to improve the financial management of the municipality. **Under objective (I)** we have 4 specific targets, 2 of which are **within the purview of the central government,** that is: Increase fiscal autonomy, replace conditional user fees with unconditional revenue, replace utility charges (contributions) with property tax, allow more flexibility on local tax policy, increase the local government share of income tax, and increase the local government unit's borrowing flexibility; and 2 of them are **operations that are planned and implemented at the local level:** Increase fiscal autonomy and local tax collection, reconsider the rate of taxes and fees, analyze the existing rates of tax and non-tax revenue, foster the Entrepreneurship Project and issue permits for construction). **Under objective (II)** we have 3 specific targets: Improve the credibility of the budget, including the reliability of forecasts and greater caution in planning; implement policy-based budgeting, including better cost analysis of the main expenditures, and increased monitoring and analysis; Improve budget execution, including the introduction of a city treasury, drafting terms of reference for IT support, and mapping of business processes.

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SABAC

1. City Profile

Territorial organization: Total area of the city and the 51 surrounding settlements is 795 km^2 (79,500 ha). The city is located on the right bank of the Sava River, 103 km upstream from Belgrade, near the border with Croatia and Bosnia and Herzegovina.

Population: 115,884 (2011 census); 115,287 (2012 estimate). Annual growth: -0.6%. Density: 1.45/ha (145/km^2).

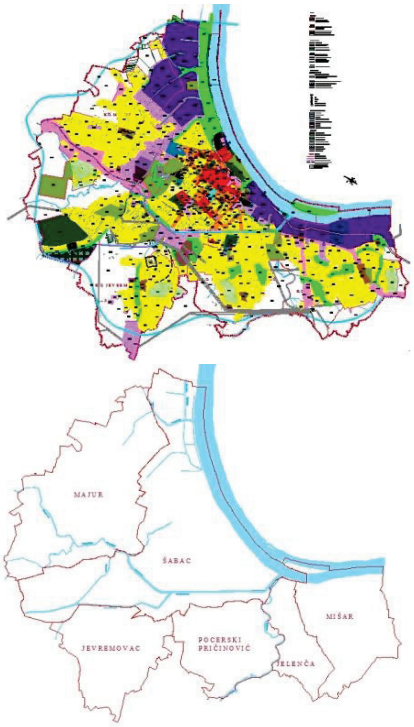
Economy: 4,222 business entities, of which 2,843 are entrepreneurs. Labor force: 80,155 or 69% of the population; Unemployed: 21% (registered 2012). The city is the economic and cultural center of the Macva region and surroundings. Fertile agricultural land and the waters of the rivers Sava and Drina support industrial activities, water processing, agriculture, river transport, and tourism. The industries include chemicals, pharmaceuticals, the metal industry, machinery manufacturing, food production, construction, and building materials.

Utilities management: The city has created six public enterprises and four public utility companies for water supply and sewerage, heating, waste management and sanitation, and parking services.

Municipal staff: 584 of which 192 are in city administration and 392 in preschool education.

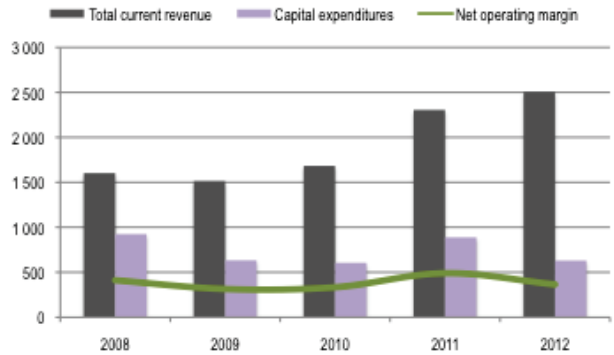
Existing Project Investment Plan: The city has adopted a three-year capital expenditure plan based on its **Development Strategy 2010-2020**, the **Master Plan** (2008), the **Spatial Plan,** and the detailed regulation plan. The major capital projects are: construction of a new heating plant, a sports facility (swimming pool), public utility networks (water, sewerage, gas, and hot water); utility equipment for the northwest working zone; construction of the section of highway between Ruma and Sabac (connection to Corridor 10); reconstruction of the railway between Bosnia and Herzegovina. Public-private partnerships are being explored for the construction of an underground parking garage and a new settlement on the banks of the Sava river.

Urban issues & challenges: To modernize the existing infrastructure and reduce unemployment by attracting new industries and services, including small- and medium-size enterprises (business clusters).



2. Financial Situation

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million RSD					Million EUR	
Total current revenue	1 603	1 514	1 683	2 306	2 507	22,1	11,8 %
Balance N-1 (if surplus)	0	43	28	348	0	0	
Current revenue year N	**1 603**	**1 471**	**1 655**	**1 958**	**2 507**	**22,1**	**11,8 %**
Operating expenditure	**1 158**	**1 128**	**1 217**	**1 514**	**1 770**	**15,6**	**11,2 %**
Operating margin	445	386	466	792	737	6,5	13,5 %
Debt repayment (Principal + Interest)	34	73	133	302	373	3,3	82,1 %
Net operating margin	**411**	**313**	**333**	**490**	**364**	**3,2**	**-2,9 %**
Capital expenditures	**923**	**632**	**605**	**888**	**629**	**5,5**	**-9,1 %**
Financing							
Own capital revenues	421	243	266	296	190	1,7	-18,0 %
Capital transfer, grants	2	0	8	42	0	0,0	-100,0 %
Loans	125	100	345	240	200	1,8	12,5 %
Overall closing balance	35	25	347	180	125	1,1	37,6 %
Cumulated	**35**	**60**	**407**	**587**	**712**	**6,3**	

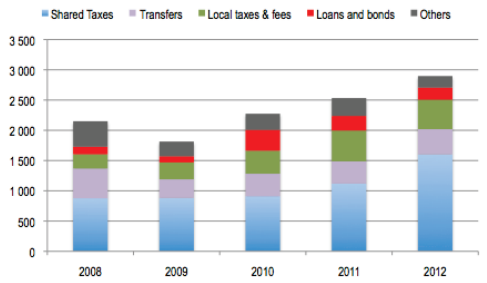


Exchange: 1 RSD = 0.00881 EUR / 1 EUR = 113.47 RSD (Dec. 2012)
Inflation index: 2008: +6.8%; 2009: +6.6%; 2010: +10.3%; 2011: +7%; 2012: +12.2%

- **2012 actual budget** of the City of Šabac is about **EUR25.5 million** of which EUR22.1 million are current revenues.
- **Average annual growth** of current revenues was +11.8% and +11.2% for current expenditures. These are above the average inflation rate and annual population growth for the period.
- **The slower annual increase in current expenditure** compared to current revenues yielded an upward trend in operating margin: 386 (2009) to 792 (2011) and 737 (2012) million RSD.
- The operating surplus was used exclusively for **funding capital expenditures** (from 605 to 923 million RSD) and loan repayment. Apart from net margin, capital expenditures were funded mainly from capital revenue (mostly land development and lease fees) and from loan proceeds (loans from local commercial banks).

3. Historical Analysis: Revenues & Expenditures

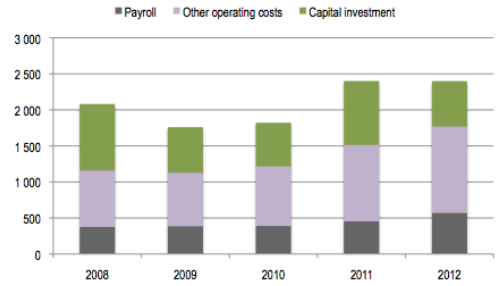
Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Annual growth
	Million RSD					Million EUR	
TOTAL CURRENT REVENUE	**1 603**	**1 514**	**1 683**	**2 306**	**2 507**	**22,1**	**11,8 %**
State Transfers	**1 367**	**1 191**	**1 275**	**1 449**	**2 019**	**17,8**	**10,2 %**
Shared taxes	877	882	910	1 119	1 602	14,1	16,3 %
Unconditional transfers	441	303	303	331	397	3,5	-2,6 %
Conditional transfers	50	6	61	0	20	0,2	-20,0 %
Own revenue	**236**	**280**	**381**	**509**	**488**	**4,3**	**20,0 %**
Local taxes and fees	156	186	275	273	357	3,2	23,0 %
Local asset revenues	78	87	84	133	111	1,0	9,3 %
Local mixed revenues	2	8	22	103	21	0,2	79,2 %
DEBT SERVICE	34	73	133	302	373	3	82,1 %
CAPITAL REVENUE	**551**	**346**	**620**	**579**	**391**	**3,4**	**-8,2 %**
State Transfers and grants	**2**	**0**	**8**	**39**	**0**	**0,0**	**-100,0 %**
Own revenue	**421**	**243**	**266**	**296**	**190**	**1,7**	**-18,0 %**
Land development & lease fee	421	243	266	296	190	1,7	-18,0 %
Loans proceeds	125	100	345	240	200	1,8	12,5 %



Until 2011, current revenue made on average 77%, and capital revenues and proceeds from borrowing were 23% of the total budget. In 2012, the share of current revenues increased to 87% because the city's portion of the Republic's salary tax was increased from 40%- 80%.

The most significant current revenues are shared taxes (59%), state transfers (20%), and local taxes and fees (14%). The highest shared revenue is PIT (personal income tax) with an average share of 51% of current revenue. Local property tax, with an average share of only 6%, should be increased in the future. Unconditional state transfers showed a high volatility, and an average annual decrease of -0.5%, while own local revenue recorded an annual growth of 21%. Shared PIT, with an annual growth by 21%, made up for and significantly exceeded the reduction in state transfers.

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Annual growth
	Million RSD					Million EUR	
CURRENT EXPENSE	**1 158**	**1 128**	**1 217**	**1 514**	**1 770**	**15,6**	**11,2 %**
Payroll (including employees benefits & mis	376	387	389	453	572	5,0	11,0 %
Expenditures for goods and services	419	395	425	570	521	4,6	5,6 %
Current subsidies	15	21	22	30	121	1,1	68,2 %
Current grants and transfers	180	178	195	254	376	3,3	20,1 %
Social care/transfers	77	74	95	169	68	0,6	-2,9 %
Other current expenditure	90	73	92	38	112	1,0	5,6 %
DEBT SERVICE	34	73	133	302	373	3	1
CAPITAL EXPENDITURE	**923**	**632**	**605**	**888**	**629**	**5,5**	**-9,1 %**
Purchase of non-financial assets	587	382	334	476	454	4,0	-6,2 %
Capital subsidies to PC/PUC	109	129	125	174	138	1,2	6,1 %
Capital transfers to schools	227	120	145	238	37	0,3	-36,4 %



The share of current expenses for payroll (20%), and for goods and services (22%) were relatively stable and made up 42% of total budget expenditure. The share of current transfers and subsidies rose from 13% to 23% because of increased social transfers to citizens and subsidies for public companies during the recession. Capital expenditures dropped from 44% (2008) to 33% (2010) and 25% (2012) as the result of budget reallocations in favor of social transfers and subsidies because of the unforeseen fiscal and economic developments.

4. Ratio Analysis

Criteria / Indicator	Benchmark	2008	2009	2010	2011	2012
1 Credit worthiness						
Operating savings before interests / Current actual revenue	> 0.3	0,28	0,26	0,28	0,40	0,29
Net operating surplus (after debt service) / Current actual revenue	> 0.2	0,26	0,21	0,20	0,25	0,15
Cash (end of the year) / Current liabilities (divided by 365 days)	90 days					
2 Indebtedness						
Debt outstanding / operating surplus (capacity to clear its debt)	< 10 years	0,6	1,2	0,9	0,6	0,7
Debt service / Total current revenue	< 10 %	2%	5%	8%	13%	15%
3 Fiscal autonomy						
Own tax receipts + unconditional grants / Current actual revenue	> 80 %	95%	94%	94%	88%	95%
Tax pressure (Tax receipts/Tax potential)	< 70 %	n.a.	n.a.	n.a.	n.a.	n.a.
4 Capital investment effort						
Capital investment expenditure / Current actual revenue	> 40 %	58%	43%	37%	45%	25%
Capital investment delegated by State / Total investment expenditure	> 50 %	100%	100%	100%	100%	100%
5 Level of service						
Maintenance works expenditure / Operating expenditures	> 30 %	10%	10%	11%	7%	6%
6 Others						
Salaries & wages / Operating actual expense	> 40 %	32%	34%	31%	29%	31%
Actual revenue / Estimated revenue	> 95 %	97%	93%	101%	102%	89%
Arrears amount / net cash (end of the year)	> 1	0,1	0,0	0,1	0,0	0,0
Total financial resources (cash) / total financial obligations (payment & arrears)	1,02	1,02	1,01	1,18	1,07	1,05

- **Operating margin** is stable and shows an acceptable level of credit worthiness.
- **Indebtedness** increased but is under control and leaves room for an enhanced debt repayment plan.
- **Fiscal autonomy** is high even though fiscal regulation is still unpredictable.
- City **investment efforts** are high and could be increased through additional sources of financing.
- **Ratio indicators** confirm a low risk of debt default, but indicate a need for better debt management in order to expand investment activities and to further enhance the city's creditworthiness .

5. Financial projections / Investment programming

Need to align the urban development vision and municipal finance system. The main assumptions for projections are historical analysis and the assumptions behind the budget circular from the central government.

6. Municipal Finance Improvement Plan

As a result of applying the MFSA, the following areas for improvement have been identified:

- **Introduction of financially sustainable capital investment planning**. Timeframe: 2014–2015; financing: city budget, funds from the EU and international donors.
- **Introduction of asset management**. Timeframe: 2014–2016; financing: city budget, funds from the EU and international donors.
- **Introduction of internal audit.** Timeframe: 2014–2016; financing: city budget, funds from the EU and international donors.
- **Introduction of program budgeting** with the aim of monitoring the implementation of strategic goals. Timeframe: 2013–2015; financing: city budget, funds from the EU and international donors.

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STRUMICA

1. City Profile

Territorial organization: Strumica municipality is located in the southeastern part of the Republic of Macedonia, and includes the city proper and 24 settlements. The City Master Plan is divided into nine urban districts, of which the residential zone is composed of eight communes or residential communities.

Population: 54,676 (latest census 2002) of whom 35,311 live in the municipality center. Annual growth: 0.1 %. Area: 32,189 ha. Density: 1.7 /ha.

Economy: A robust business infrastructure along with a B1 Moody's credit rating. The low cost of doing business is attracting many new residents and investments from Croatia, Greece, Turkey, and Germany. It is part of an extensive agricultural area, offering opportunities to invest in the food production industry and in exporting of quality agricultural product. Labor force: 29,127. Unemployed: 9,501.

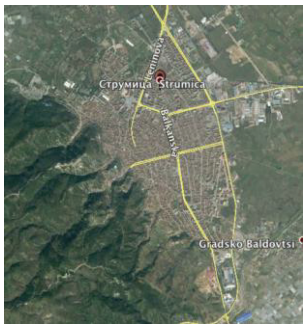
Utilities management: Water Supply and Wastewater: PE Komunalec; Electricity: EVN (private company). Urban heating: PE Strumica GAS.

Municipal staff: 1,426 of which 523 in primary education, 235 in secondary education, 156 in kindergartens and senior citizens home, 337 in communal services, 19 in civil works, and 156 in general administration.

Existing Project Investment Plan: 3-year rolling plan financed by the city budget + grants.

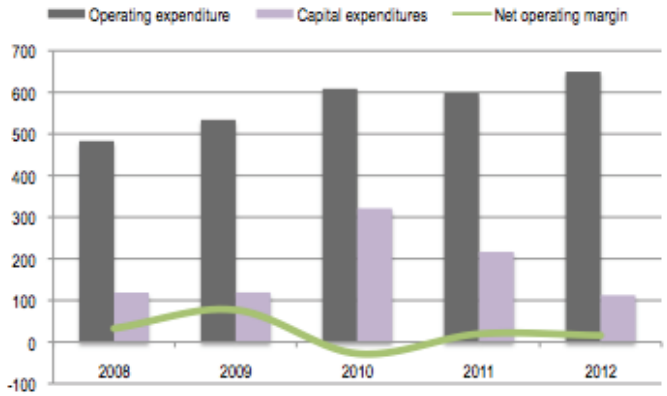
- MKD240 million: New Square (100% City budget)
- MKD220 million: Gas Network (Basic Budget and Municipal bonds)
- MKD37 million: Local road Popcevo (World Bank Grant)
- MKD590.4 million: Water treatment plant (IPA-Fund Grant)

Urban issues & challenges: Improve the quality of life through capital investments. Key areas: Roads, water supply, sewerage, school facilities (new construction and rehabilitation). Main issue: Geographic Information Systems (GIS) and land management implementation.



2. Financial Situation

Items	2008 actual (Million MKD)	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual (Million EUR)	Growth 2008-12
Total current revenue	515	611	581	618	665	10,8	6,6 %
Balance N-1 (if surplus)	15	52	31	10	10		
Current revenue year N	501	559	550	608	655	10,6	7,0 %
Operating expenditure	483	534	609	598	650	10,5	7,7 %
Operating margin	32	77	-28	19	16	0,3	-16,4 %
Debt repayment (Principal + interest)	0	0	0	0	0	0,0	
Net operating margin	32	77	-28	19	16	0,3	-16,4 %
Capital expenditures	119	119	321	217	112	1,8	-1,4 %
Financing							
- Own capital investment rev.	124	50	313	175	250	4,0	19,1 %
- Loan	0	0	0	0	0		
- Investment grants central government	4	0	0	0	0	0,0	
Overall closing balance	38	7	-36	-22	153	2,5	42,0 %
Cumulated	38	45	9	-13	140	2,3	

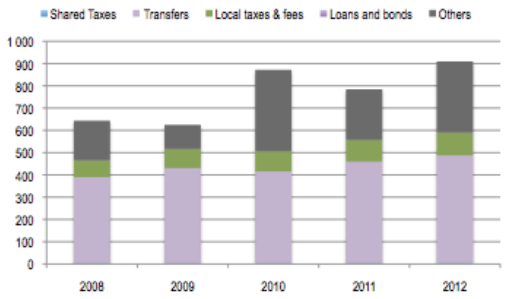


Exchange: 1 MKD = 0.01622 EUR / 1 EUR = 61.62 MKD (Dec. 2012)
Inflation index: 2008: +8.3%; 2009: -0.9%; 2010: +1.6%; 2011: +3.9%; 2012: +4.7%

- **2012 Actual Budget** of the City of Strumica is **EUR15 million** of which EUR10.8 million current revenue. Average annual growth of current revenues is +7% (excluding current surplus Y-1).
- **Operating expenditure** increased faster than current revenues, with a direct impact on operating margin which has been very low and even negative in 2010.
- There was no debt service in the period under review.
- **Investment capacity** is about EUR3 million per year or about one third of current revenue. It is mainly financed by land sales and leases, and does not depend on current revenue trends.
- A large amount of investment is financed off-budget with grants from the EU and the State Government.
- **Overall operating balance** is less than 5% of operating expenditures.

3. Historical Analysis: Revenues & Expenditures

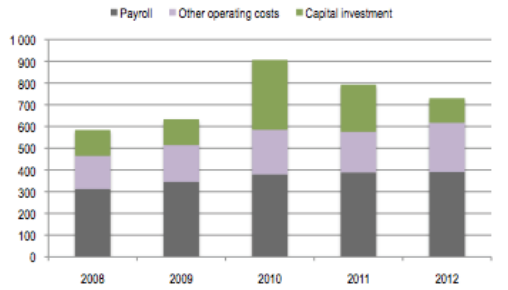
Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million MKD					Million EUR	
CURRENT REVENUES	**501**	**559**	**550**	**608**	**655**	**10,6**	**7,0 %**
State Transfers	**387**	**432**	**417**	**461**	**488**	**7,9**	**6,0 %**
- Shared PIT taxes	4	4	4	4	5	0,1	0,8 %
- Unconditional VAT transfers	23	27	25	26	30	0,5	6,9 %
- Earmarked and block transfers	359	400	387	430	454	7,4	6,0 %
Own revenue	**114**	**128**	**134**	**148**	**167**	**2,7**	**10,1 %**
- Local taxes	71	82	85	91	98	1,6	8,6 %
- Local fees	5	4	5	6	4	0,1	-7,3 %
- Local non-tax revenues	38	42	43	51	65	1,1	14,2 %
CAPITAL INVESTMENT REVENUES	**143**	**65**	**322**	**176**	**254**	**4,1**	**15,5 %**
State Transfers and grants	**4**	**0**	**0**	**0**	**0**	**0,0**	
Own revenue	**124**	**50**	**313**	**175**	**250**	**4,0**	**19,1 %**
External revenue	**16**	**16**	**9**	**1**	**5**	**0,1**	**-26,4 %**
- Loans proceeds	0	0	0	0	0	0,0	
- Municipal bonds	0	0	0	0	0	0,0	
- Donation	16	16	9	1	5	0,1	



Current revenues: 69% of current revenues are earmarked grants from the Ministry of Finance to cover the payroll costs of primary and secondary education staff. The personal income tax (PIT) is shared with the State level (3%), and with VAT transfer, it accounts for less than 4% of the total current revenue.

Own-source revenues account for less than 24% of total current revenue. Capital investment revenues are made up mainly of land sales and lease proceeds. There is access to bank loans. State grants financed with support of donors (EU and others) are implemented in parallel with municipal budget.

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million MKD					Million EUR	
OPERATING EXPENDITURES	**483**	**534**	**609**	**598**	**650**	**10,5**	**7,7 %**
Payroll (incl. employees benefits & misc	**313**	**345**	**380**	**389**	**391**	**6,3**	**5,7 %**
- Administrative staff	36	44	49	47	51	0,8	9,1 %
- Kindergartens	24	26	27	29	28	0,5	4,5 %
- Schools	237	258	285	293	291	4,7	5,3 %
- Firefighting	13	13	16	16	17	0,3	8,3 %
Operating costs	**152**	**169**	**205**	**187**	**227**	**3,7**	**10,4 %**
- Goods and services	121	141	172	150	191	3,1	12,1 %
- Self financing activities	31	28	33	37	35	0,6	3,3 %
CAPITAL INVESTMENT EXPENDITURES	**119**	**119**	**321**	**217**	**112**	**1,8**	**-1,4 %**
- Civil Works	117	114	301	181	61	1,0	-15,0 %
- Equipment purchase	2	0	1	1	1	0,0	-15,0 %
- ! ther assets	0	5	19	35	50		



Expenditures: Payroll accounts for 50% of the city's total revenue. Most of the payroll is for school staff and is offset by an earmarked grant. Capital investment expenditures accounted for 23% of total expenditures in the period under review. They are mainly civil works.

4. Ratio Analysis

Criteria / Indicator	Benchmark	2008	2009	2010	2011	2012
1. Credit worthiness						
Operating savings before interests / Current revenue	> 30%	6%	13%	-5%	3%	2%
Net operating surplus (net margin) / Current actual revenue	> 20%	6%	13%	-5%	3%	2%
2. Indebtedness						
Debt outstanding / operating surplus	< 10 years	No Debt				
Debt service / Total current revenue	< 12 %					
3. Fiscal autonomy						
Own taxes & unconditional grants / Current actual revenue	> 80 %	27%	25%	27%	28%	30%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	> 40 %	23%	20%	55%	35%	17%
5. Level of service						
Maintenance works expenditure / Operating expenditures	> 30 %					
6. Others						
Salaries / Operating actual expense	> 40 %	65%	65%	62%	65%	60%
Actual revenue / Estimated revenue	> 95 %					
Arrears amount / net cash end of the year	> 1					

- **Operating margin** is less than 5% of current revenue, which is quite low.
- There was **no debt service in 2012.**
- **Fiscal autonomy** is low with a major part of the revenue coming from transfers and shared taxes.
- **Capital investment** is volatile because it is funded mainly by the proceeds from land sales.
- **Salaries and wages** represent more than 60% of current expenses. This percentage is high because of the education staff payroll.

5. Financial projections / Investment programming

Need to align the urban development vision and the municipal finance system. The main assumptions underlying the projections are based on the historical analysis and the assumptions behind the budget circular from the central government.

6. Municipal Finance Improvement Plan

Actions to be carried out directly by the OGB in the short term and at low cost: The initiative of Association of self government units from change the methodology of the property tax and change methods for property tax assessment. Actions that require Central Government involvement (medium term): Providing a credit rating for the municipality. Actions that require greater funding and donor or investor involvement: Dislocation of the Gypsies/Turkish settlement and construction of new gasification systems for the city.

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SUBOTICA

1. City Profile

Territorial organization: The city of Subotica is the second most populous city in the Autonomous Province of Vojvodina (after Novi Sad) and one of 23 Serbian cities with a metropolitan organization made up of an inner city and 18 suburban settlements (see Law on Territorial Organization of December 28, 2007).

Population: 141,554 (2011 census); Annual growth: -0.4%. Total area: 1,007 km^2 (100,700 ha). Density: 140/km^2 (1.4/ha).

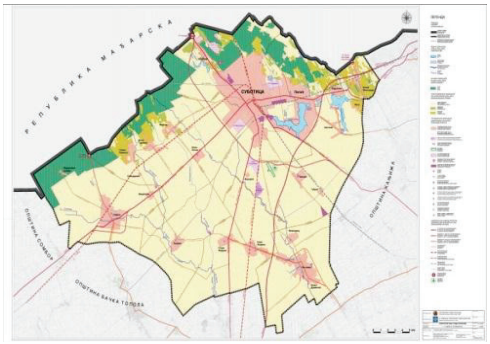
Economy: Business entities: 5,179 (excluding entrepreneurs). Labor force: 99,226 or 70% of the population. Unemployed: 11% (registered 2012). Located close to the border with Hungary, the city holds a strategic position and is the most important administrative, industrial, trade, traffic, and cultural center in the northern Bačka region; and Lake Palić is the tourist–recreational center of an even larger territory. Key economic sectors: agriculture, food production and processing, the electronics industry, the metal and chemical processing industry, and the service sector. Tourism represents an enormous potential, which has been confirmed in the tourism development strategy of the Republic of Serbia (RS).

Utilities management: The City of Subotica has created 11 public utility companies in waste management, heating, water supply & sewerage, funeral services, marketplaces, sanitation, public transport, and road maintenance, and eight public enterprises

Municipal staff: 1,095 of which 678 in city administration and 417 in preschool education.

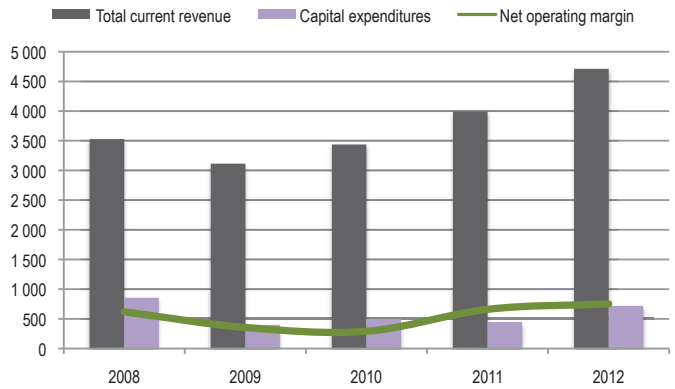
Existing Project Investment Plan: The city adopted a three-year capital expenditure plan based on the Development Strategy, the Master Plan, the Spatial Plan, and a detailed regulation plan. A number of capital projects are open to different forms of partnership and investments. These include industrial business parks, greenfield and brownfield investments, solid waste management (regional facility), facilities for potable water processing, natural gas distribution, central parking and garages, and so forth.

Urban issues and challenges: Development of an integrated system of public transport including for suburban settlements. Upgrading environmental facilities. Tourism development based on Palić lake and the potential to be a cultural heritage site.



2. Financial Situation

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million RSD					Million EUR	
Total current revenue	3,528	3,113	3,438	3,995	4,712	42	7,5 %
Balance Y-1 (if surplus)	350	182	262	389	404	4	
Current revenue year N	3,178	2,931	3,176	3,606	4,308	38	7,9 %
Operating expenditure	**2,865**	**2,687**	**3,035**	**3,200**	**3,800**	33	7,3 %
Operating margin	663	426	403	795	912	8	8,3 %
Debt repayment (Principal + interest)	45	72	113	134	162	1	
Net operating margin	**618**	**354**	**290**	**661**	**750**	7	5,0 %
Capital expenditures	**855**	**398**	**498**	**445**	**719**	6	-4,2 %
Financing							
- Own capital investment rev.	260	176	237	158	193	2	-7,2 %
- Loan	131	108	46	52	65	1	
- Investment grants central government	327	357	381	116	96	1	-26,4 %
Overall closing balance	482	597	456	542	386	3	-5,4 %
Cumulated	482	1 079	1 535	2 077	2 463	22	

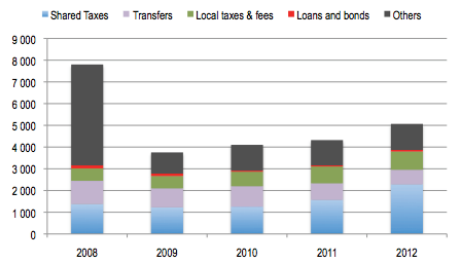


Exchange: 1 RSD = 0.00881 EUR / 1 EUR = 113.47 RSD (Dec. 2012)
Inflation index: 2008: +6.8%; 2009: +6.6%; 2010: +10.3%; 2011: +7%; 2012: +12.2%

- **2012** actual budget of the City of Subotica is about **EUR44 million**.
- Current revenues and operating expenditures increased at about +7.5% annually during the period, which is close to the inflation index.
- **Current expenditure** was financed entirely from current revenue and the realized operating margin was between 0.4 and 0.9 billion RSD, which was used for debt repayment and capital investments.
- Actual expenditures on **capital investments** were lower than the resources available to fund them which were composed of net operating surplus (32% on average), capital revenue (26%), capital transfers (10%), and withdrawn loans (32%).
- Between 2008 and 2012 the City of Subotica produced **significant budget surpluses** that varied from RSD386 to 597 million (11% of total revenue on average) despite the substantial reduction in current transfers from the Republic's budget in the early years of the recession.

3. Historical Analysis: Revenues & Expenditures

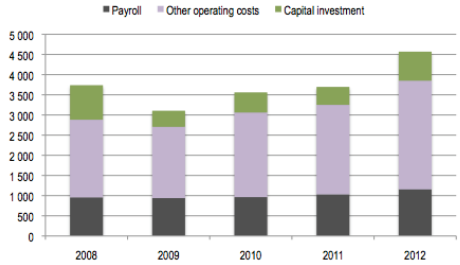
Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million RSD					Million EUR	
TOTAL CURRENT REVENUES	**3,528**	**3,113**	**3,438**	**3,995**	**4,712**	**42**	**7,5 %**
State Transfers	**2,120**	**1,742**	**1,816**	**2,218**	**2,859**	**25**	7,8 %
- Shared PIT taxes	1,376	1,223	1,255	1,571	2,285	20	13,5 %
- Unconditional transfers	729	495	530	620	548	5	-6,9 %
- Conditional transfers	15	25	32	26	26	0	14,7 %
Own revenue	**1,058**	**1,189**	**1,360**	**1,388**	**1,449**	**13**	**8,2 %**
- Local taxes	349	369	448	511	572	5	13,1 %
- Local fees, charges	227	200	221	263	272	2	4,6 %
- Local asset revenues	277	369	486	400	366	3	7,2 %
- Local mixed revenues	205	251	205	213	239	2	3,9 %



Until 2011, current revenue made up on average 87%, and capital revenues and proceeds from borrowing made up 13% of the total budget.

In 2012, the share of current revenues increased to 93% because the City portion of the Republic's salary tax was increased from 40% to 80% and borrowing was reduced. The most significant current revenue is shared taxes (41%). Transfers from the State and Province are 17%. Local taxes and fees account for 18% of total current revenue. The highest shared revenue is the personal income tax (PIT) with an average share of 38% of current revenue. Local property tax, with an average share of only 8%, has the potential to be increased in the future. Unconditional state transfers were highly volatile and decreased 5% a year on average, while own-source local revenue recorded an average annual growth of 8%. Shared PIT recorded the highest annual growth at 16% on average and made up for reduced transfers.

Items	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual	2012 actual	Growth 2008-12
	Million RSD					Million EUR	
OPERATING EXPENDITURES	**2,865**	**2,687**	**3,035**	**3,200**	**3,800**	**33**	**7,3 %**
Payroll (incl. employees benefits & misc.)	958	939	964	1 032	1 158	10	4,9 %
Goods & services	1,077	0,977	1,177	1,195	1,265	11	4,1 %
Current subsidies, grants & transfers	682	592	750	789	1 162	10	14,2 %
Other current expenditures	147	179	143	183	214	2	9,8 %
DEBT SERVICE	45	72	113	134	162	1	37,7 %
CAPITAL INVESTMENT EXPENDITURES	**855**	**398**	**498**	**445**	**719**	**6**	**-4,2 %**



The share of current expenses for payroll (26%) and goods & services (31%) were relatively stable accounting for 57% of budget expenditure. Current transfers and subsidies jumped from 18% to 25% due to increased social transfers to citizens and subsidies to public companies during the recession. Capital expenditures were reduced from 23% (2008) to 12% (2011) and 16% (2012) because of budget expenditure reallocations for social transfers and subsidies, slowdown of investments, and accumulation of budget surpluses to protect against unpredicted fiscal and economic developments.

4. Ratio Analysis

Criteria / Indicator	Benchmark	2008	2009	2010	2011	2012
1. Credit worthiness						
Operating savings before interests / Current revenue	> 30%	21%	15%	13%	22%	21%
Net operating surplus (net margin) / Current actual revenue	> 20%	19%	12%	9%	18%	17%
2. Indebtedness						
Debt outstanding / operating surplus	< 10 years	0.6	2.0	2.7	1.4	1.1
Debt service / Total current revenue	< 12 %	1%	2%	4%	4%	4%
3. Fiscal autonomy						
Own taxes & unconditional grants / Current actual revenue	> 80 %	94%	91%	94%	94%	94%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	> 40 %	27%	14%	16%	12%	17%
5. Level of service						
Maintenance works expenditure / Operating expenditures	> 30 %	7%	5%	5%	6%	6%
6. Others						
Salaries / Operating actual expense	> 40 %	33%	35%	31%	32%	30%
Actual revenue / Estimated revenue	> 95 %	93%	98%	92%	99%	88%
Arrears amount / net cash end of the year	> 1	2.9	2.3	1.4	1.7	1.7
Total financial resources / Total financial obligations	1.02	0.91	0.92	0.93	0.93	0.92

- **The Operating margin** is relatively stable and indicates an acceptable level of credit worthiness.
- **Indebtedness** increased significantly but is under control and leaves room for future loans.
- **Fiscal autonomy** is high even though fiscal regulation is still unpredictable.
- **Ratio indicators** confirm a low risk of debt default, but also indicate the need to improve management of revenues and expenditures in order to expand and accelerate investment activities and to enhance the City's creditworthiness in the near term.

5. Financial projections / Investment programming

Need to align the urban development vision and municipal finance system. The main assumptions for the projections are historical analysis and the assumptions behind the budget circular from the central government.

6. Municipal Finance Improvement Plan

The MFSA confirmed the following priorities presented in the Strategy for 2013-2022: (i) Introduction of sustainability as a criterion of public procurement; timeframe: 2013; financing: City budget, Province transfers. (ii) Introduction of a comprehensive register of projects in the city; timeframe: 2013-2014; financing: City budget, transfers from Province. (iii) Improving human resource management; timeframe: 2013-2022; financing: City budget, transfers from Province, funds from the EU and international donors. (iv) Development of interdisciplinary mechanisms and their implementation by the stakeholders responsible for city development; timeframe: 2013-2022; financing: City budget, budget beneficiaries and public companies. (v) Put program budgeting into effect; timeframe: 2014; financing: City budget, transfers from Province, funds from budget beneficiaries and public companies. (vi) Introduction of a quality-management system [OK?] in the operation of the city administration; timeframe: 2015; financing: City budget, transfers from Province.

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TIRANA

1. City Profile

Territorial organization: The Municipality of Tirana consists of 11 mini-municipalities (Mini-Bashki) - see Special law (n°.8654, dated July 31, 2000): Both levels have council and unit head. The budget of the municipal units is financed partly from own revenues and partly from the Tirana Municipality budget. The municipality is part of the Metropolitan Tirana governed jointly by 3 municipalities and 6 communes (under discussion).

Population: Population: 650 000 (2010)
Annual growth: 4.5% Population multiplied by 3 in 20 years – 20% of the national population.
Density: 148/Ha. – Total Area: 42 km2

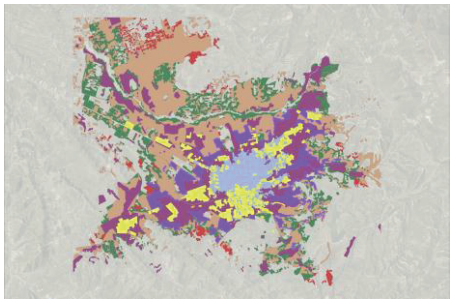
Economy: Capital city and largest economic, social, cultural centre of Albania. It hosts 40% of total registered enterprises of the country and 90% of the biggest ones. The Tirana-Dures urban corridor concentrates half of the country's total GDP. Main industries: textile, leather products, food products.
Labour force: 213.440 (2008) - Unemployed: 9.5% (2008) – *source: INSTAT - Tirana*

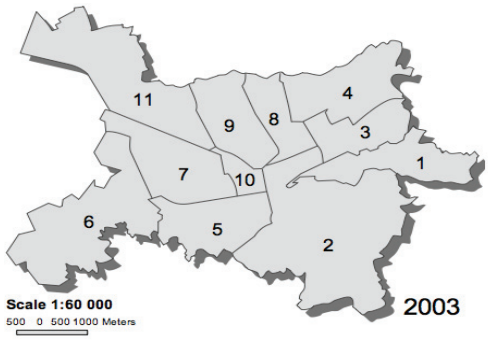
Utilities management: WS and WW: UKT (Local Gov.) ; Electricity: (Central Gov); Solid waste: (Local Gov.)

Municipal staff: 2 893 of which 767 in education, 903 in general administration, and 1 168 in technical departments including garbage service.

Existing Project Investment Plan: General Local Plan (Master Plan) 2012-2023; City Development Strategy (under preparation)
Medium Term Budgeting and Investment Plan (2013 – 2016)

Urban issues and challenges: Massive migration from suburban, rural and remote areas since 1990. Inadequate and insufficient infrastructural systems. Lack of integrated upgrading strategy for under-serviced informal settlements. Poor intra and inter-governmental coordination in managing metropolitan Tirana.





2. Financial Situation

In thousand LEK

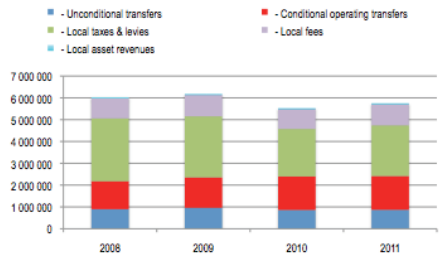
	2008 A	2009 A	2010 A	2011 P	inThousand EUR 2010 A
Total current revenue	6 229 690	6 706 240	6 095 691	5 856 502	43 319
Balance N-1 (if surplus)	103 176	37 360	81 083	26 932	576
Current revenue year N	6 126 514	6 668 880	6 014 608	5 829 570	42 743
Operating expenditure	2 972 871	2 810 951	2 837 159	4 632 715	20 162
Operating margin	3 256 820	3 895 289	3 258 533	1 223 788	23 157
Debt repayment	33 889	45 750	94 441	64 226	671
Net operating margin	3 222 931	3 849 539	3 164 091	1 159 562	22 486
Capital expenditure	3 345 575	4 052 984	3 782 586	1 152 319	26 881
Financing					
- Own capital investment rev.	3 257 337	3 909 519	3 644 841	1 143 466	25 902
- Investment grants	88 238	143 465	137 744	8 853	979
- Loan	0	0	0	0	0
Overall closing balance	-34 406	-59 980	-480 750	16 096	-3 416
Cumulated		-94 387	-575 137	-559 040	-4 087

Exchange: 1 LEK = 0.0071EUR / 1 EUR = 139 LEK (Dec. 2012)
Inflation index: 2008: +3.35%; 2009: +2.22% ; 2010: +3.6%; 2011: +3.5%; 2012: +2%

- **2011 Actual Budget** of the Municipality of Tirana was about EUR42 million with a decrease started in 2010 due to the reduction of the property tax proceeds and to the removing of the tax on vehicles registration.
- **Annual investment capacity**: about EUR20 million per year except in 2011. Investment effort is mainly supported by the capacity of the municipality to finance by itself its investment projects. The municipality doesn't have access to MLT credit. The existing debt is made of on-lended loans for road rehabilitation, schools and social housing upgrading.
- **The annual net margin** is 50 % of total current revenue, except in 2011 where operating expenditure increase significantly. There is low debt outstanding (treasury loan from the State Gov.).
- **Working capital** = negative. Part of the investment expenditures is paid by treasury advance.

3. Historical Analysis: Revenues & Expenditures

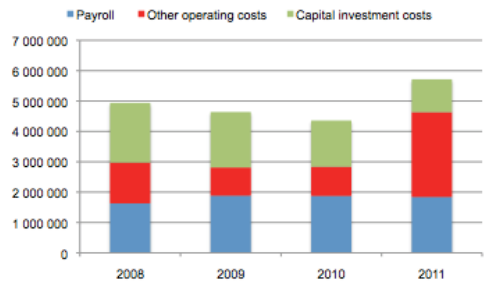
In Thousand LEK	2008 A	2009 A	2010 A	2011 P	in Thousand EUR 2010	Average annual growth	% struture (total)
Total current revenue	**6 132 781**	**6 223 981**	**5 615 599**	**5 844 952**	**39 908**	**-4 %**	**100%**
State Transfers	**2 179 669**	**2 354 805**	**2 397 864**	**2 476 819**	**17 041**	**5 %**	**43%**
- Shared taxes	0	0	0	59 863	0		0%
- Unconditional transfers	902 607	967 419	863 636	870 786	6 137	-2 %	15%
- Conditional operating transfers	1 277 062	1 387 386	1 534 228	1 546 170	10 903	10 %	27%
Own revenue	**3 849 936**	**3 831 816**	**3 136 652**	**3 341 201**	**22 291**	**-10 %**	**56%**
- Local taxes & levies	2 879 397	2 799 152	2 177 779	2 325 002	15 476	-13 %	39%
- Local fees	955 204	1 006 423	938 024	994 278	6 666	-1 %	17%
- Local asset revenues	15 335	26 241	20 849	21 921	148	17 %	0%
Other revenue	**103 176**	**37 360**	**81 083**	**26 932**	**576**	**-11 %**	**1%**
- Surplus Y-1	103 176	37 360	81 083	26 932	576	-11 %	1%
- Revenues from PUCs	0	0	0	0	0		



Revenues: 43% of the current revenues are earmarked grants allocated by the MoF for social policy.

Own local revenues represent 56% of the current revenues. Property tax accounts for only 6.5% of the total revenue and is paid at more than 80% for buildings for professional and commercial uses. With almost LEK1 billion, Tax on small businesses is the most profitable tax; comes just after the garbage tax.

Items	2008 A	2009 A	2010 A	2011 P	in Thousand EUR 2010	Average annual growth	% struture (total Rev.)
Current expenditures	**2 972 871**	**2 810 951**	**2 837 159**	**4 632 715**	**20 162**	**-2 %**	**45%**
Payroll	**1 633 386**	**1 886 380**	**1 878 442**	**1 842 217**	13 349	7 %	28%
- Administrative staff	947 686	1 176 380	1 141 442	1 100 617	8 112	10 %	17%
- technical department staff	650 200	665 300	683 500	691 200	4 857	3 %	11%
- Other staff (contractual)	35 500	44 700	53 500	50 400	380	23 %	1%
Operating costs	**502 316**	**510 403**	**418 193**	**389 526**	**2 972**	**-9 %**	**8%**
**Maintenance costs (schools, road infrastructure, (**	**112 418**	**150 965**	**88 592**	**63 080**	**630**	**-11 %**	**2%**
City Cleaning	**516 337**	**786 802**	**843 970**	**481 897**	**5 998**	**28 %**	**11%**
City Lighting	**72 856**	**51 738**	**89 111**	**68 556**	**633**	**11 %**	**1%**
Social Bonuses	**1 178 347**	**1 350 076**	**1 422 851**	**1 486 497**	**10 112**	**10 %**	**21%**
Operating Cost for Municipal Units (11)	196 120	201 595	201 595	181 718	1 433	1 %	3%
Capital investment costs	**1 965 353**	**1 826 716**	**1 520 114**	**1 084 259**	**10 803**	**-12 %**	**28%**
Civil Works	1 478 203	1 478 927	1 103 954	869 876	7 845	-14 %	21%
Equipment purchase	378 702	76 474	82 000	38 964	583	-53 %	3%
Others	108 448	271 315	334 160	175 418	2 375	76 %	4%

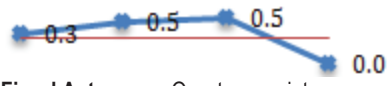


Expenditures: Payroll accounts for 45% of the current revenues of which a significant part for education staff. Social bonuses represent the second most important current expenditure with 21% of the current revenues. Maintenance costs, garbage service and street lighting account for less than 15% of the current revenues. Capital investment budget represent 28% of the current revenues on the period.

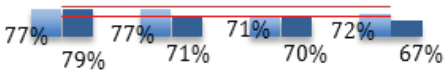
4. Ratio Analysis

Indicator (definition)	Comparative index (bentchmark)	City Index 2008	2009	2010	2011
Operating Savings before interests / Current actual revenue	> 0,3	0,3	0,5	0,5	0,0
Net Operating Surplus (after debt service including capital repayment) / Current actual revenue	> 0,2	0,3	0,4	0,5	0,0
Debt service / Total current revenue	< 10 %	0,00%	1,73%	1,36%	1,36%
Own tax receipts + unconditional grants / Current actual revenue	> 80 %	77%	77%	71%	72%
Tax pressure (Tax receipts/Tax potential)	< 70 %	79%	71%	70%	67%
Capital investment expenditure / Current actual revenue	> 40 %	45%	36%	32%	23%
Capital investment expenditure delegated by State / Total investment expenditure	> 50 %	4%	8%	9%	1%
Maintenance works expenditure / Operating expenditures	> 30 %	3%	3%	2%	1%
Salaries & wages / Operating actual expense	> 40 %	38%	37%	37%	39%

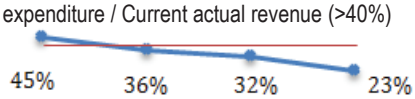
Credit Worthiness: The LG capacity to borrow and to invest (> 0.3)



Fiscal Autonomy: Own tax receipts + unconditional grants / Current actual revenue (>80%)



Capital Investment Effort: Capital investment expenditure / Current actual revenue (>40%)



5. Financial projections / Investment programming

Multi-annual financial projections available and updated regularly, even if the volatility of projections is high. A new Municipal Developmental Strategy is expected (based on statistical data from Census). It will include updated investment plans and may consider external financing and debt issuance.

6. Municipal Finance Improvement Plan

The main issues underlined in the MFIP are:

1. Increase fiscal autonomy based on the following actions: i) Replace conditional grants with unconditional grants or shared taxes; ii)Give more flexibility to local tax policies; iii)Increase local tax collection; iv)Review the property tax for families.

2. Improve financial management of the municipality: i) Improve the credibility of the budget forecasts; ii) Improve the analysis of the main expenditure costs; iii) Improve expenditure control.

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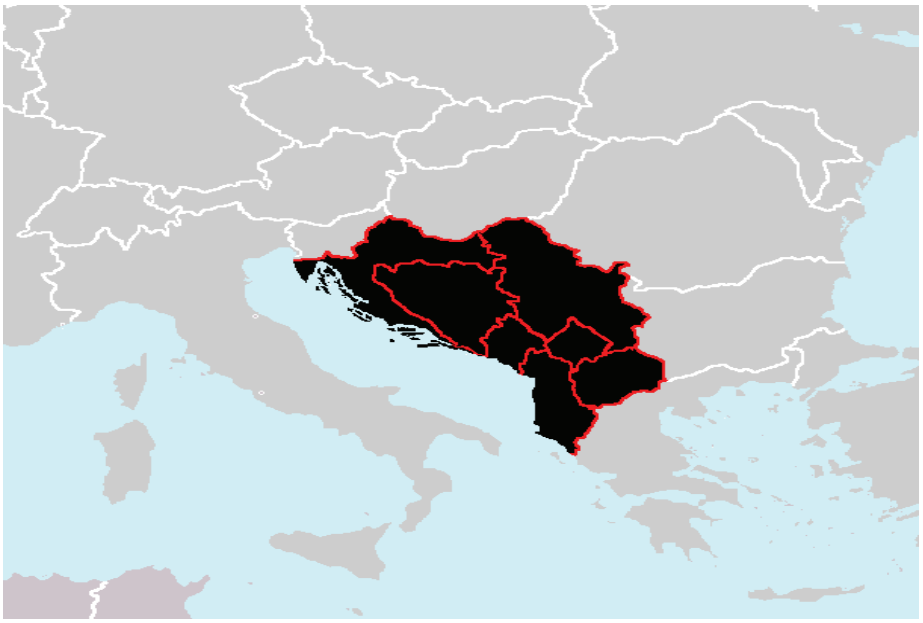
III. MFSA
User Guide

Municipal Finances Self-Assessment (MFSA)

Application to South-East Europe

USER GUIDE

World Bank-Austria Urban Partnership Program
World Bank Institute

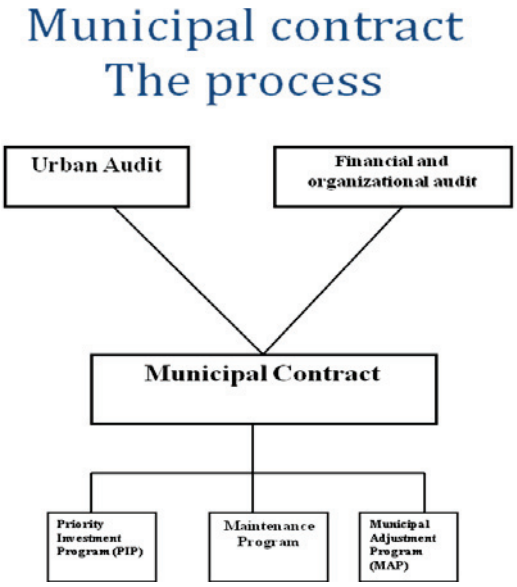


What is a Municipal Finances Self-Assessment and why is it important for Local Governments?

The World Bank has developed a framework for Local Government Assessments, of which the Municipal Finances Self-Assessment (MFSA) is a part. It has proved to be a powerful instrument for improving governance, accountability, and for modernizing management practices.

- **OBJECTIVE:** To assess a city's financial health and to identify specific actions to improve local resource mobilization, public spending, public asset management and maintenance, investment programming, and access to external financing (borrowing + donor funding).
- **The MFSA**
  - 1. Reviews municipal budgets (revenues and expenditures), financial management practices, savings capacity, investment efforts, and financial projections for five years;
  - 2. Provides some level of benchmarking through a set of simple and comparable key indicators or ratios; and
  - 3. Specifies and defines key actions to be included under a Municipal Finance Improvement Plan, how these actions will be implemented and by whom, the timeline for implementation, and the cost of implementation (if applicable).
- The Municipal Finances Self-Assessment is typically carried out in parallel with an Urban Audit or Self-Assessment, which provides a snapshot of the levels and quality of the services and infrastructure that the city provides.
- The two self-assessments or audits lay the groundwork for a detailed Municipal Program or Contract that includes both a Municipal Finances Improvement Plan and a Priority Investments Plan. Many developing countries have completed joint urban and financial audits and, in some cases, cities have signed contracts with the government (municipal contracts) to obtain performance grants.

Figure 1



The main modules of the Municipal Finances Self-Assessment are the following (see Figure 2 on the next page):

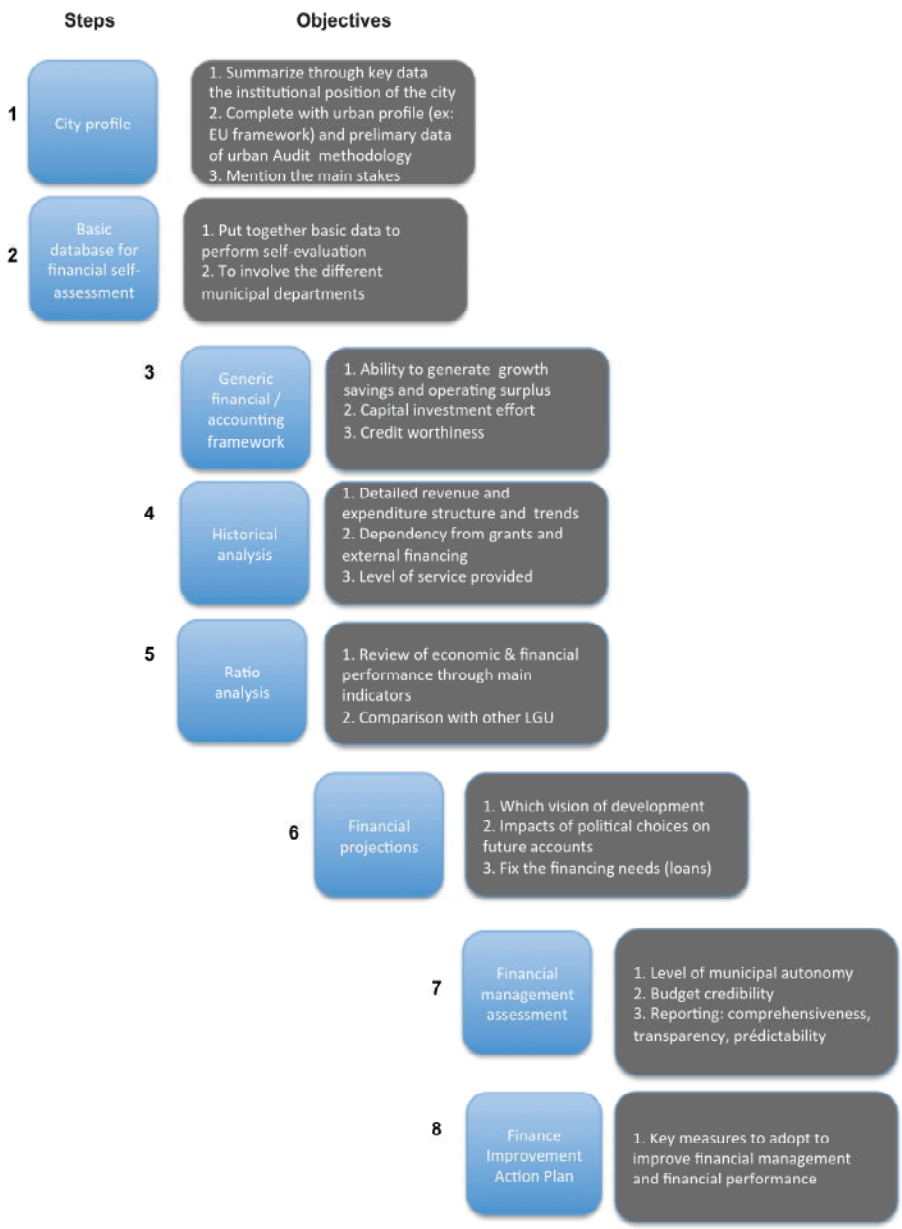
Module 1, *Steps 1 & 2*: Collect and organize relevant information on City finance and urban management issues (City Profile).

Module 2, *Steps 3 to 5*: Perform an historical analysis and create summary tables (Revenue, Expenditures, Financial situation).

Module 3, *Step 6*: Perform financial projections.

Module 4, *Steps 7 & 8*: Evaluate financial management tools and processes and prepare a Municipal Finances Improvement Action Plan.

Figure 2: *Modules of the Municipal Finances Self-assessment*



Each step is explained in detail in the following sections. Sample Excel sheets are provided. The model tables and figures presented in this guide can be adjusted to suit the local context. This exercise focuses on information and data that contribute directly to identifying and profiling the financial situation in the municipality.

Step 1: City profile

The City Profile is made of three components:

1. Institutional and territorial organization / Demography / Economy of the City
2. Municipal organization
3. Main urban issues and challenges facing the city over the next three to five years.

1. Institutional Organization / City Map / Demography / Economy

***Objective*:** To provide a general overview of the municipality's demographic and economic situation through a few summary indicators; and to clarify the make-up of the entity's territorial organization which can sometimes be quite complex (City, Municipality, Metropolitan area).

		One city level	City with sub-municipalities	City with inter-communal upper level
I	**Territorial organization**			
	Number / Name of subnational / Metropolitan entities			
	Sub-municipalities or metropolitan financed by the city level		*Yes/No*	*Yes/No*
	City level financed by sub-municipality level and/or the metropolitan level		*Yes/No*	*Yes/No*
	Area of the municipality and agglomeration in square kilometers			

		Year N-3	**Year N-2**	**Year N-1**	**Year N**
II	**Demography**				
	Country population				
	Total resident population				
	Annual growth				
	Rank in the country (in population)				
III	**Economy**				
	GDP per head (country level) - in USD or Euro				
	City GDP per head (if available) - in USD or Euro				
	Median disposable annual household income - in USD or Euro				
	Activity rate				
	Unemployment rate (% active population)				

Insert a map of the city (A4) showing the municipality's administrative boundaries. For existing subdivisions (sub-city) or metropolitan entities, show the different levels of administration.

Insert short summaries on the three items—Territorial Organization, Demography, Economy—describing how they affect or are affected by the financial situation. For example, how the territorial organization has a direct effect on the distribution of the budget and the performance of public functions; how population increases, decreases, or composition affect the budget; or how the local tax system affects the local economy and vice versa.

2. Local finance and management

***Objective*:** To provide a preliminary set of summary data describing the volume of local finance, utility management, numbers and composition of municipal staff, and so forth.

Insert a short descriptive summary on the different items.

	Year N-3	Year N-2	Year N-1	Year N
IV Total Municipal budget revenue				
Total Revenue				
Revenue per capita				
Annual City capital investment				
Debt outstanding				

V Utilities management	Denomination	Annex to M budget (Yes/No)	Tariff (current)	
Water supply				
Wastewater				
Electricity				
Urban heating				
Other				

VI Tax policy	Rate	Last increase	Fixed locally	
Property tax				
Local business tax				
Tax 3				
Tax 4				

VII Municipal Staff (regular staff)	Number	%	
Total		100%	
General administration			
Education			
Social services			
Technical service units			
Environment (including Solid waste)			
Contractual workers total			

VIII Financial reporting (Yes/No)	Year N-3	Year N-2	Year N-1	Year N
Long-term investment program				
Annual budget				
Annual financial statement				
Audited accounts				

Timeframe: The timeframe for analysis could go back as far as three or four years to provide a better picture of trends.

Utilities: State if utility company budgets are reported on and annexed to the municipal budget reports.

Taxes: Fill in data for the Property Tax and Local Business Tax line items and list the two other most important local taxes.

3. Urban issues and challenges

***Objective and content*:** To explain and illustrate the municipality's development policy, using the following framework:

- *Is there a strategic vision for the development of the City?* If yes, outline the main components such as the *City Development Strategy and the long-term Development Plan,* and identify the levels of approval required such as the City Assembly or the central government.
- Present the main *components* of the Local Economic Development Plan needed to achieve the vision: including capital investments, institutional development, and so forth.

- *If one exists, outline the Capital Investment Plan* using the following rubric:

IX Capital Investment Plan

Project name	*Timeframe*	*Total costs*	*Source of financing*

Provide a short summary of the multiyear development program approved by the city council. List all priority projects; add more lines if needed.

Step 2: Basic accounting and financial database

***Objective and content*:** To collect the data and information on which to base historical analyses and projections and to calculate performance ratios and gaps. It consists of organizing data not in the usual accounting formats, which can vary from country to country or even among municipalities in the same country, but in a more generic financial format.

We suggest setting up a database (Excel sheets) with five main tables:

- Municipal/city budget + annex Public Utility Company (PUC) budgets
- Cash balance and arrears
- Indebtedness
- Capital investment
- Tax potential and performance

These five tables will each include three years of historical (actual data) and one year of planned data. Sources should be clearly identified, including document title and issuing entity, such as, for example: budget department, taxation department, economic department, entity other than the municipality, Ministry of Finance, and so forth.

General budget database:

- Because the accounting systems and classifications used are all different (functional classification, classification by category, and so forth), the budget database will have to be adjusted for consistency. Expenditures and revenues should be listed by type (tax revenue, grants, fees, loans, …) as well as how they will be used (payroll, operation and maintenance, debt service). Avoid simply making a long unorganized list of revenues and expenditures.
- *Actual data* are preferable to planned budget numbers. These can be cash accounting transactions (payment and receipt) or commitment accounting transactions (contract signed and receipts validated through an invoice or the equivalent).
- *Current and Capital Expenditures* should be clearly differentiated, even if the accounting format does not do so. Expenditures are normally considered to be *capital expenditures* when they contribute to expanding the municipality's public assets.

- *State-mandated expenditures* should be separated from the municipality's own expenditures. Similarly, revenues coming from the central State Government and earmarked for specific expenditures should be identified as such.
- The different *types of subsidies or intergovernmental transfers* should be included, distinguishing between transfers that *can* and *cannot be reallocated* by the municipality.
- The General budget should be analyzed separately from the independent Public *Utility Companies'* budgets. Consider only financial transactions between the city budget and the other budgets accounted for in the city budget. For example, subsidies from the general budget to the PUCs budget should be accounted for as expenditures in the city budget and as revenues in the PUCs budget; and similarly for dividends or cash coming from PUC budgets to the city budget. If possible, a consolidated budget should be set up subsequently.

Step 2: financial self-evaluation basic database

A Actual E Estimated
P Projection

1. GENERAL BUDGET (simplified table)

in millions of …		Year N-3	Year N-2	Year N-1	Year N	Year N+1
		A	A	A	E	P
TOTAL REVENUES						
I STATE REVENUES (INTERGOVERNMENTAL)						
1 Shared taxes	City share					
- VAT & sales taxes	… %					
- Personal income tax	… %					
- Corporate Income Tax (tax on company profit)	… %					
- Tax on the transfer of property rights	… %					
- Motor vehicle tax	… %					
- Others	… %					
2 Unconditional transfers						
- Operating transfer						
- Investment grant						
Road rehabilitation						
Education						
…						
3 Conditional transfers (path through)						
- for wages	from Ministry …					
- for social policy (poor households)	from Ministry …					
- ….	from Ministry …					
II LOCAL REVENUES						
1 Local taxes and levies						
- Property tax (regardless if centrally collected)						
- Business taxes						
2 Local fees						
- Licenses						
- Permits						
- Local development fee						

- Authorizations and issuance					
- Others (fines …)					
3 Local asset Proceeds					
- Rents					
- Sales					
- Charges					
- Levies on exploitation of natural resources (forest, mineral, water, etc.					
…other					
4 Dividends, funds, or assets from PUCs					
Utility 1					
Utility 2					
Utility 3					
5 Donations					
6 Loan proceeds					
7 Municipal bond proceeds					

When filling in dividends, funds, or assets from the PUCs, please add the combined value of all wealth transferred from the PUCs to the municipality, if any occurred in the given year. This could include cash, land, or equipment.

in million local currency…	Year N-3	Year N-2	Year N-1	Year N	Year N+1
	A	A	A	E	P
TOTAL EXPENDITURES					
I EXPENSES ON DELEGATED FUNCTIONS					
1 Preschool education					
Wages					
Operating					
Maintenance					
(Construction) Capital investment					
2 Primary and secondary school					
Wages					
Operating					
Maintenance					
Capital investment					
3 Healthcare					
4 Social assistance and poverty alleviation					
5 Public order & civil protection					
Wages					
Operating					
Maintenance					
Capital investment					
6 Environment protection					
Wastewater					
Solid waste					
7 Other					
II OWN EXPENDITURES					
1 Infrastructure & public services					
- Current expenditures					
Direct expenditures					
Subcontracts					
- Capital expenditures					
Direct expenditures					
Subcontracts					
2 Social, cultural, recreational expenditures					
3 Local economic development					
4 Social housing					
5 Urban development					

6	Civil security					
7	Transfer to local government entities					
8	Support to PUC (subsidies, grants, or in-kind)					
	Utility 1					
	Utility 2					
	Utility 3					
9	Loan repayment					
10	Interest charges					
11	Guarantees called (paid by the municipality)					

For Supports to PUC (subsidies, grants, or in-kind), enter the total combined value of all support provided to PUCs (by sectors or service) whether cash (grant, subsidy), equity, or in-kind asset (land, structures, or equipment) transferred by the municipality.

Cash balance and arrears:

- The objective is to complete the budgetary and accounting data picture by providing information on *cash transactions.* Provide a monthly summary.
- Identify the volume of arrears (expenses incurred but not paid) differentiating between public and private providers.

2. CASH BALANCE, ARREARS

I Cash Balance

	Cash receipts	Cash payments	Cumulative inflow	Cumulative outflow	Net change in the stock of cash
January					
February					
March					
April					
May					
June					
July					
August					
September					
October					
November					
December					

II Arrears (overdue liabilities by the city or by its entities)

	Year N-3	Year N-2	Year N-1	Year N
Public stakeholders				
- Water supply PUC				
- Electricity PUC				
- Social welfare				
- …				
City Dues to Private contractors				
Labor arrears (wages, salaries)				

Indebtedness database:

- Put together useful data on *loans and bonds* launched and subscribed but not fully reimbursed.
- Differentiate between *Medium Long Term* (MLT) debt and Short Term (overdraft credit facility) debt.
- Complete the table with *amortization figures* for each loan, which can be used for further analysis and financial projections.

3. INDEBTEDNESS DATABASE

	Bank or institution	Year of the loan subscription	Initial amount	Duration	Currency	Maturity	Grace period	Interest Rate (fixed, variable)	Rate (%)
I MLT DEBT									
1 On-lending loan (from Central State)									
2 Direct loan									
- Commercial bank									
- State development bank									
3 Municipal bond									
II SHORT TERM DEBT									
1 Treasury facility from State									
2 Facility from commercial bank									

+ amortization figure for each MLT loan

Capital investment database:

- Provide a figure for capital investment expenditure *by year* (historical and projected) and *by sector* (sectors can be adjusted to reflect specific policy).
- Provide a simplified *tentative financing plan*.

4. CAPITAL INVESTMENT DATABASE

		Year N-3	Year N-2	Year N-1	Year N	Year N+1	Year N+2	Year N+3	Year N+4
		A	A	A	E	P	P	P	P
Population									
Inflation rate (annual)									
I TOTAL INVESTMENT	100%								
% growth									
Delegated Investments (from earmarked grants)	… %								
- Education									
- Healthcare									
- Housing									
- …									
Municipal investment	… %								
- Roads rehabilitation									
- Street lighting									
- Solid waste equipment purchase									

	- Urban renewal								
	- …								
	Investment into PUC (assets, grants, or equity provided for PUC in cash or in-kind) … %								
	- Water supply								
	- Wastewater								
	- Transport								
	- Urban heating								
	- Other								
II	**TOTAL FINANCING**								
	- Earmarked grants … %								
	- Own budgetary revenue … %								
	- Loans or municipal bond … %								
	- Equity from PUC … %								

Tax potential and Tax Performance:

- The objective is to put together relevant information from the tax administration about the city's tax potential.
- The items (property tax, business tax, …) can be adjusted according to the local taxation provisions: for example, the name of the tax and the related tax regulations.
- It is important to obtain information on the number of tax payers and to distinguish between households and businesses, especially in the case of property taxes.

Tax potential & Performance	Year N-3		Year N-2		Year N-1		Year N	
	Number tax payers	Amount	Number tax payers	Amount	Number tax payers	Amount	Number tax payers	Amount
I PROPERTY TAX								
Tax base (taxable)								
Households								
Business								
Others								
Tax Rate								
Households								
Business								
Others								
Exemption								
Households								
Business								
Others								
Tax collected								
Households								
Business								
Others								

II	**BUSINESS TAX**								
	Tax basis								
	Rate								
	Exemption								
	Tax proceeds collected								
III	**Development fees (quasi taxes)…**								

Step 3: Generic financial framework

Objective and content: Even if the database is different from one municipality to another, the generic financial framework should be the same. The purpose is to be able to evaluate the municipality's financial position at a glance and to assess the following:

- The ability to generate growth savings and operating surplus as a means of financing the capital investment budget: evaluate the operating margin or surplus and see how it contributes to the self-financing of the capital investment budget. This will show the municipality's financial ability, at the end of the year, to self-finance part of its capital investment budget, directly or through additional debt (borrowing).
- Credit worthiness: the level of debt service relative to the strength of the municipality's financial position.
- The level of capital investment compared with the operating budget.
- The degree of dependence on grants from the State Government.
- The general surplus at the end of the year: taking account of the general surplus or deficit from year N-1 in the actual budget of year N.

Figure 3: *The Structure of the Current and Capital Budgets*

The figure should be complemented by a graph comparing the operating surplus or margin with the current revenue and capital investment expenditures.

Main definitions

•Current or operating budget should include the expenses and receipts used to provide for daily operation. They are often considered mandatory and are relatively predictable.

Current revenues include tax receipts, grants from the State or other levels of government, and resources recovered by the local authority in the form of prices, rates, fees, tariffs, and so forth, generated by the local assets owned by the municipality (land lease, public utilities and facilities, ...).

Current expenditures include mainly salaries (payroll including social insurance and other charges connected to staff management), running costs, operation and maintenance (often difficult to identify because subsidies paid by the local authority to assist other structures (associations, related budgets, ...), and debt service incumbent on the local authority.

•Capital revenues and expenditures are operations that increase or reduce the assets of the local authority (acquisitions or sales, civil works). Most of the local public accounting systems are cash-based and thus do not include depreciation or physical amortization of the assets owned by the municipality. These are administrative accounting systems. Consequently, the capital revenues and expenditures will be yearly operations.

Usually, capital expenditures are implemented over more than one year (12 months) and have to be split over several fiscal years. The amounts can vary from one year to the next.

•Debt service should be split between the current budget–for loan interest, and the capital budget–for loan repayment. In a more prudential approach, all the debt service (including loan principal repayment) should be covered by the operating surplus, as a proof of debt servicing ability.

•Total budget or annual account can be balanced, positive, or in deficit (negative): net position.

•More precise budget analysis requires taking into account (including in or annexing to the budget report) expenditures that are not paid and that affect apparent surplus at the end of the year; likewise for revenues that are billed or levied but not recovered during the year.

Step 4: Historical analysis and summary table

Objective and content: To review the previous year's budget and identify trends and performance in the level of public services provided, taxation efficiency, and so forth.

The objective is to understand how the budget is structured and to identify the major trends and how they occur. The analysis is mainly based on gross self-financing (or savings) calculated as the positive difference between operating receipts and expenses. Self-financing makes it possible to pay for a portion of investments; it is a crucial indicator of the quality of management on the part of the local authority, and features prominently in dialogues with financial partners: no financial partner wants to see its resources used to finance an operating deficit.

After self-financing, the analysis turns to the characteristics of debt already incurred by the local authority:

- Is the level of debt acceptable?
- Who are the lenders?
- What is the cost of the debt?
- And how much time will be needed to pay it back, and so forth?

The capacity of the local authority to develop a summary table, such as the one recommended here, based on a transparent and easy-to-control methodology, reinforces the credibility of the municipality's financial management.

Main outputs: Ten tables should be produced:

- Table 1: Financial position
- Table 2: Main revenue sources
- Table 3: Tax potential and tax performance
- Table 4: Grants and transfers
- Table 5: Main operating expenses line items by category
- Table 6: Municipal assets maintenance
- Table 7: Indebtedness situation
- Table 8: Capital investment budget financing
- Table 9: Cash balance
- Table 10: Arrears

These tables and figures have to be set up from the database (five tables) prepared in Step 2. At this stage, links between both files have not been introduced because of the differences in accounting presentation among the various countries.

1. Financial Position

	Items	Calculation	Year N-3 actual	Year N-2 actual	Year N-1 actual	Year N est.	Average annual growth	% structure
1	Total current revenues							
2	Balance N-1 (if surplus)							
3	Current revenues year N	(1 - 2)						
4	Operating expenditures							
5	Operating margin	(1 - 4)						
6	Debt repayment							
7	Net margin	(5 - 6)						
8	Capital expenditures							
9	Financing requirements	(8-7)						
10	- Own capital revenues							
11	- Investment grants							
12	- Loan	(9-(10+11))						
13	Investment balance	(8 -(7+10+11+12))						
14	Overall closing balance	(1+10+11+12) -(4+8)						

Insert a short summary and comment on the main lessons learned from the financial position data (on the basis of ratios) included in ratio analysis—Step 5).

2. Main revenue sources

	Items	Calculation	Year N-3 actual	Year N-2 actual	Year N-1 actual	Year N est.	Average annual growth	% structure (total)
TOTAL CURRENT REVENUES								
1	State Transfers	Refer to database						
	- Shared taxes							
	- Unconditional transfers/grants							
	- Conditional operating transfers							
2	Own revenues							
	- Local taxes & levies							
	- Local fees							
	- Local asset proceeds							
3	Other revenues							
	- Surplus Y-1							
	- Revenues received from PUC							
TOTAL NON-RECURRENT REVENUES								
1	State Transfers and grants	Refer to database						
	- Unconditional Development transfers							
	- Conditional development grants							
2	Own revenues							
	- Property sales							
	- Long-term leases							
3	External revenues							
	- Loans proceeds							
	- Municipal bonds							
	- Donations							
TOTAL REVENUES		Refer to database						
1	State Transfers							
2	Own revenues							
3	External revenues							

Insert a short summary and comment on the main lessons drawn from the revenue source data: analyze the principal sources of municipal financing (taxation, grants, local taxes, …); and evaluate revenues and the potential of the local taxation system, and estimate revenues from commercial facilities.

3. Tax potential and performance analysis

	Items	Source	Year N-3 actual	Year N-2 actual	Year N-1 actual	Year N est.	Year N-3 to Year N-2 growth	Year N-2 to Year N-1 growth
1	**Property tax (housing)**							
	- Number of items							
	- Number of tax payers							
	- Amount taxable							
	- Amount collected							
	- Collection rate							
2	**Property tax (commercial & business)**							

	- Number of items							
	- Number of tax payers							
	- Amount taxable							
	- Amount collected							
	- Collection rate							
3	**Business tax**							
	- Number of items							
	- Number of tax payers							
	- Amount taxable							
	- Amount collected							
	- Collection rate							

Main tax payers							
List of the 10 to 50 major tax payers							

Insert a short summary and comment on the main lessons learned from the above data, analyzing the tax potential and pressure for land, property, and business taxes: (a) economic activity and tax potential: tax potential of the modern and informal sectors; (b) assessment rate; (c) collection rate overall and by category of tax paid (concentration).

4. Transfers Predictability and City Dependence

	Items	Allocation Criteria	Year N-3 actual	Year N-2 actual	Year N-1 actual	Year N plan	Average annual growth	% structure (total rev.)
1	**Unconditional transfers**							
	- Transfer 1							
	- Transfer 2							
	- …							
2	**Conditional transfers**							
	- Transfer 1							
	- Transfer 2							
	- …							

Insert a short summary and comment on the main lessons learned from the above data on predictability of transfers and the level of city dependence: percent of transfers compared to total revenues.

Provide information on allocation criteria for grants, and assess the degree to which local governments can affect the volume allocated to them (performance criteria, if any).

5. Main operating expenditures line items by category (better than functional)

	Items	Year N-3 actual	Year N-2 actual	Year N-1 actual	Year N plan	Average annual growth	% structure (total rev.)
	CURRENT EXPENDITURES						
1	Payroll (including employees benefits & misc.)						
	- Administrative staff						
	- Technical department staff						
	- Other staff (contractual workers)						
2	Operating costs						

	- Office supplies						
	- Electricity						
	- Communication (telephone, etc.)						
	- Fuel & gas						
	- …						
3	Maintenance costs						
	…						
4	Of which maintain State assets						
	Total						

Insert a short summary about the principal operating expenditure line items. Evaluate specific expenditures such as maintenance of infrastructure and facilities, and so forth.

6. Municipal assets and maintenance expenditures

	Items	Tentative assets Inventory	Year N-3 actual	Year N-2 actual	Year N-1 actual	Year N plan	Average annual growth	Dominant implementation arrangement (1)
	Roads, streets (m2)							
	o.w. Artery roads km							
	Residential streets km							
	Paved roads total km							
	Public lighting (number of lighting posts)							
	Water, networks (km)							
	Water treatment plants (number)							
	Sewer network (km)							
	Wastewater treatment plants (number)							
	Solid waste management facilities trucks							
	Solid waste (transfer stations, landfill total capacity ton per day)							
	Other public infrastructure and equipment (parks, cemeteries, parking and garage, etc.) (m2)							
	Educational facilities (number of classrooms or m2)							
	Healthcare facilities (m2)							
	Administrative facilities (M2)							
	Cultural facilities (m2)							
	Sport facilities (m2)							
	Commercial facilities (m2)							
	Environmental facilities							
	Public Housing (number of apartments and other units, m2)							
	Cultural heritage							
	Vacant municipal land (hectare)							
	(1) direct by municipal staff, by contractors, by residents …							

Insert a short summary on the asset composition and management, particularly if there is

public housing and land property. Provide a short description of how maintenance activities are carried out: directly by municipal staff, by municipal enterprises, by private contractors, and by the residents themselves.

No information is required on asset valuation because of the complexity of the calculation. If the municipality has already conducted an evaluation of its assets, provide the main results and analysis.

7. Indebtedness situation

	Items	Donor/bank & conditions	Year N-3 actual	Year N-2 actual	Year N-1 actual	Year N plan
	Loan 1					
	- Outstanding					
	- K repayment					
	- Interest charge					
	Loan 2					
	- Outstanding					
	- K repayment					
	- Interest charge					
	Loan 3					
	- Outstanding					
	- K repayment					
	- Interest charge					
	Municipal bond					
	- Outstanding					
	- K repayment					
	- Interest charge					
	Cash facility (short term)					
	…Loan					
	Overdraft					
	Suppliers' credit					

Insert a short summary on the municipality's existing debt: (a) number of loans or other external financing, (b) profile of these loans, (c) contribution to annual debt service. The amortization tables will be useful for making projections for the next five to ten years.

8. Capital Investment financing

	Items	Year N-3 actual	Year N-2 actual	Year N-1 actual	Year N plan	Average annual growth	% structure (total rev.)
	Total capital investment costs						
	- Civil Works						
	- Equipment purchase						
	- Others						
	Financing						
	- Grants from State						
	- Investment revenues (sales of assets, etc.)						
	- Self financing (Y1 or -1)						
	- Loan						

Insert a short summary about the structure of the municipality's capital budget and its financing.

9. Cash balance

	Inflows	Cumulative	Outflows	Cumulative	Balance
January					
February					
March					
April					
May					
June					
July					
August					
September					
October					
November					
December					

Graph

Insert a short summary on both the cash balance at the end of the year and the monthly cash flow. Include possible difficulties faced during the year with fluctuations between monthly inflow rates (for example, the grants payment rate or the tax collection rate) and outflow rates. If applicable, mention any specific arrangements with the Treasury or the banks (cash facility).

10. Arrears

	Items	Calculation	Year N-3 actual	Year N-2 actual	Year N-1 actual	Year N plan	Average annual growth	% outflows current and capital inv.
CURRENT BUDGET								
Energy	-							
Material	-							
Salaries or other labor costs	-							
Social security dues								
CAPITAL BUDGET								
Public institutions	-							
Private entities	-							
TOTAL								

Insert a short summary regarding the municipality's unpaid invoices and commitment amounts, distinguishing between current and capital expenditures. The analysis can also differentiate between institutional debt or arrears and private contractors arrears.

Step 5: Ratio analysis

***Objective and content*:** The objective of the ratio analysis is to create municipal finance benchmarks for internal purposes (financial management dashboard) as well as for purposes of regional comparison.

The following ratios and benchmarks are based on international standards used in Western European countries and in the U.S.

Participating in the MFSA will help each municipality better understand its position relative to others in the region and in the world, and will also highlight its potentials and key gaps. The ratio analysis tables can be filled out by linking the relevant cells the historical analysis tables.

It is important to work closely with the Ministry of Finance to publish these ratios annually at the national level for all municipalities as a tool for comparison and self-improvement.

It is recommended that reference be made to ratios already used by the Ministry of Finance or the Ministry of Interior, or even to ratios calculated by regional associations of local governments.

Finally, ratios comparing local finance performance and GDP are not suggested at this stage but could be usefully added if data on local GDP were available. The following comparison is common at the national level: weight of local expenditures and local taxation / GDP.

Step 5. Ratio analysis (municipal finance dashboard)

Criteria	Indicator (definition)	Objective	Comparative index (benchmark)	City Index			Graph with mention of the benchmark if possible
				YN-3	YN-2	YN-1	
STOCK RATIO							
Credit worthiness							
	Operating Savings before interests / Current actual revenues	The LG has the capacity to borrow and to invest	> 0,3				Graph with mention of the benchmark if possible
	Net Operating Surplus (after debt service including capital repayment) / Current actual revenues	The LG has the capacity to borrow more	> 0,2				Graph with mention of the benchmark if possible
	Cash (end of the year) / current liabilities (divided by 365 days)	The LG ability to meet its short-term obligations	90 days				Graph with mention of the benchmark if possible
Indebtedness							
	Debt outstanding / operating surplus (capacity to clear its debt)	The LG capacity to clear its debt with operating surplus	< 10 years				Graph with mention of the benchmark if possible
	Debt service / Total current revenues	The annual debt burden is correct regarding current revenue	< 10 %				Graph with mention of the benchmark if possible
Fiscal autonomy							
	Own tax receipts + unconditional grants / Current actual revenues	The LG has the ability to increase its revenue	> 80 %				Graph with mention of the benchmark if

	Tax pressure (Tax receipts/Tax potential)		< 70 %				possible

Capital investment effort

	Capital investment expenditures / Current actual revenues	The LG favors development expenditures	> 40 %				Graph with mention of the benchmark if possible
	Capital investment expenditures delegated by State / Total investment expenditures	The LG functions are still weak	> 50 %				Graph with mention of the benchmark if possible

Level of service

	Maintenance works expenditures / Operating expenditures	The LG has important non-current assets to maintain and make it a priority	> 30 %				Graph with mention of the benchmark if possible

Others

	Total number of municipal employees / population	The LG has limited room for financing maintenance & capital investment	> 25 employees for 1000 inhabitants				Graph with mention of the benchmark if possible
	Salaries & wages / Operating actual expenses		> 40 %				
	Actual revenues / Estimated revenues	The LG has a good visibility and Budget is reliable	> 95 %				Graph with mention of the benchmark if possible
	Arrears amount / net cash (end of the year)	The LG accumulates short-term debt and reduces its credibility toward contractors	> 1				Graph with mention of the benchmark if possible
Criteria	Indicator (definition)	Objective	Comparative index (benchmark)	City Index			Graph with mention of the benchmark if possible
				YN-3	YN-2	YN-1	

FLOW RATIO

1	Margin ratio: Total financial resources (cash) / total financial obligations (payment + arrears)	The City is living or not within its financial means	1,02				Graph with mention of the benchmark if possible

COMPARISON RATIO

	Total revenues / capita	Comparison with LG of same size in the country or abroad (EU): list to establish					Graph with mention of the benchmark if possible
	Total expenditures / capita						
	Current actual revenues/capita						
	Debt outstanding/capita						
	Capital investment expenditures/capita						

Insert a short summary about the lessons learned from the ratio analysis.

Step 6: Financial projections

***Objective and content*:** The Five-Year financial projections serve to provide a review of the municipality's financial position with a focus on creditworthiness. The main objective is to demonstrate the impact of policy decisions (expenses, borrowing, tax pressure, …) and their underlying assumptions, on the financial position of the municipality. Usually, several sets of assumptions and scenarios are tested: projections based on past trends and also taking significant changes into account. The methodology should be adjusted according to the size of the municipality and the issues it currently faces, such as specific future investment programs, specific indebtedness situations that need to be addressed, and so forth.

The following tables provide a preliminary and simplified framework for projections. Insert a short summary about the lessons learned from the preliminary results obtained.

Step 6. Five years of financial projections

In current currency

	Items	Trends for previous 3 years	Main assumptions	Index	Specific calculation	Year N-1	Year N	Year N+1	Year N+2	Year N+3	Year N+4	Year N+5
						Actual	Estimated	Projection	Projection	Projection	Projection	Projection
A	**TOTAL CURRENT REVENUES**											
	Own Tax Revenues											
	- Property tax											
	- Business tax											
	- Others (development fee)											
	State transfers											
	- Shared tax											
	- Unconditional grants											
	- Conditional grants											
	Other revenues											
	- Asset rent, interest											

Items	Trends for previous 3 years	Main assumptions	Index	Specific calculation	Year N-1	Year N	Year N+1	Year N+2	Year N+3	Year N+4	Year N+5

						Actual	Estimated	Projection	Projection	Projection	Projection	Projection
B	**TOTAL OPERATING EXPENDITURES**											
	Payroll (including employees' benefits & misc.)											
	- Administrative staff											
	- Technical department staff											
	- Other staff (specific …)											
	Operating costs											
	- Office supplies											
	- Electricity											
	- Communication (telephone, etc.)											
	- Fuel & gas											
	- Maintenance costs											
	- …											

	Items	Trends for previous 3 years	Main assumptio ns	Index	Specific calculation	Year N-1	Year N	Year N+1	Year N+2	Year N+3	Year N+4	Year N+5
						Actual	Estimated	Projection	Projection	Projection	Projection	Projection
C	**GROSS OPERATING SAVINGS (A - B)**											
D	**DEBT SERVICE**											
	Existing debt											
	- Interest charge											
	- Loan repayment											
	New debt (loans > YN-1)											
	- Interest charge											
	- Loan repayment											
	Total debt service											
	- Interest charge											
	- Loan repayment											
E	**NET SAVINGS (C - D)**											
F	**CAPITAL EXPENDITURES**											

G	**INVESTMENT FINANCING (F - E)**												
	Investment grants												
	Own capital revenues excl. operation surplus												
	Loans												
H	**OVERALL CLOSING BALANCE (CASHFLOW) (A+G) - (B+D+F)**												

Step 7: Financial management assessment

***Objective and content*:** The objective is to assess the strength of the municipality's financial management.

A municipality may have a good financial situation but weak financial management; likewise a municipality may have poor financial capacity but a fair financial management system.

This section draws on the Public Expenditure and Financial Accountability (PEFA) methodology, also developed by the World Bank, and provides a checklist of six key indicators of sound financial management.

Insert comments on the different items and propose specific actions for improvement.

	Aggregate fiscal discipline	Strategic allocation of resources	Efficient Service Delivery
1. Credibility of the Budget	Overoptimistic revenue forecasts / Underbudgeting of nondiscretionary / Noncompliance in budget.	Revenues shortfalls / Underestimation of the costs of the policy priorities / Noncompliance in the use of resources.	Efficiency of resources used at the service delivery level / A shift across expenditure categories, reflecting personal preferences rather than efficiency of service delivery.
2. Comprehensiveness & Transparency	Activities not managed and reported through adequate budget processes are unlikely to be subject to the same kind of scrutiny and controls (included from financial markets) as are operations included in the budget.	Extrabudgetary funds / earmarking of some revenues to certain programs … / Limits the capacity of the legislature, civil society and media to assess the extent to which the government is implementing its policy priorities.	Lack of comprehensiveness /increase waste of resources / decrease the provision of services / limits competition in the review of the efficiency and effectiveness of the different programs and their inputs/ May facilitate the development of patronage or corrupt practices.
3. Policy-Based Budgeting	Weak planning process /no respect for the fiscal and macroeconomic framework / lead to unsustainable policies.	Process of allocation of the global resource envelop in line with LG priorities / annual budget too short to introduce significant changes in expenditure/ costs of new policy systematically under-estimated.	The lack of multiyear perspective may contribute to inadequate planning of the recurrent costs of investment decisions and of the funding for multiyear procurement.
4. Predictability & Control in Budget Execution	Impact on fiscal management / inadequate debt policy / excess of expenditures.	Planned reallocations / Authorized expenditures / fraudulent payments.	Plan and use resources in a timely & efficient manner / Competitive tendering process practices / control of payrolls.
5. Accounting, Recording, Reporting	Allows for long-term fiscal sustainability and affordability of policies: timely and adequate information on revenue forecasting and collection / existing liquidity levels and expenditure flows / debt levels, guarantees/ contingent liability and forward costs of investment programs.	Regular information on budget execution allows monitoring the use of resources, but also facilitates identification of bottlenecks and problems that may lead to significant changes in the executed budget.	Inadequate information and records would reduce the availability of evidence that is required for effective audit and oversight of the use of funds and could provide the opportunity for leakages, corrupt procurement practices or use of resources in an unintended manner.
6. External Scrutiny & Audit	Consider long-term fiscal sustainability issues and respect its targets.	Pressure on LG to allocate and execute the budget in line with its stated policies.	LG is held accountable for efficient and rule-based management of resources, without which the value of services is likely to be diminished. The accounting and use of funds is subject to detailed review and verification.

Step 7. Financial management assessment			
Criteria		**Indicator**	**indicator**
A. Credibility of the Budget			
		Aggregate expenditure out-turn compared to original approved budget	
		Composition of expenditure out-turn compared to original approved budget	
		Aggregate revenue out-turn compared to original approved budget	
		Stock and monitoring of expenditure payment arrears	
B. Comprehensiveness and Transparency			
		Classification of the budget	
		Comprehensiveness of information included in budget documentation	
		Extent of unreported government operations	
		Transparency of Inter-Governmental Fiscal Relations	
		Oversight of aggregate fiscal risk from other public sector entities	
		Public Access to key fiscal information	
C. Budget Cycle			
	Policy-Based Budgeting		
		Orderliness and participation in the annual budget process	
		Multiyear perspective in fiscal planning, expenditure policy, and budgeting	
	Predictability & Control in Budget Execution		
		Transparency of taxpayer obligations and liabilities	
		Effectiveness of measures for taxpayer registration and tax assessment	
		Effectiveness in collection of tax payments	
		Predictability in the availability of funds for commitment of expenditures	
		Recording and management of cash balances, debt and guarantees	
		Effectiveness of payroll controls	
		Competition, value for money and controls in procurement	
		Effectiveness of internal controls for non-salary expenditures	
		Effectiveness of internal audit	
	Accounting, Recording, and Reporting		
		Timeliness and regularity of accounts reconciliation	
		Availability of information on resources received by service delivery units	
		Quality and timeliness of in-year budget reports	
		Quality and timeliness of annual financial statements	
	External Scrutiny and Audit		
		Scope, nature, and follow-up of external audit	
		Scrutiny of the annual budget law by the City Council	
		Scrutiny of external audit reports by the City Council	
D. Donor Practices			
		Predictability of Direct Budget Support	
		Financial information provided by donors for budgeting and reporting on project and program aid	
		Proportion of aid that is managed by use of national procedures	
		Predictability of Transfers from Higher Level of Government	

Step 8: Municipal Finances Improvement Plan

Objective and content: The objective is to translate the lessons learned from the different steps of the MFSA into a limited number of actions to improve the municipality's financial

situation and financial management. The template below is a very preliminary and incomplete indication of what could be included and should be further developed based on the findings of the MFSA. The municipality is free to list any action it considers to be a priority. Actions that are not under the full control of the municipality can also be mentioned if they are part of State reforms currently under discussion or if they are included in the current agenda of National Associations of Local Governments. That is, they need to have some traction for actual implementation, and should include precisely what is expected from central government.

The Municipal Finance Improvement Plan can be divided into:

- Short-term actions: 1 year
- Medium-term actions (1 to 3 years)

All of them should include a specific description of what needs to be done and why, quantified targets if appropriate, a timeline, and how and by whom the actions will be implemented. It should also indicate whether or not there is a cost.

Objective 1: Improve financial situation of the municipality

Specific objective	Items	Priority action	Expected result	Schedule Short-term/ Long-term ST/LT	Cost estimate if any	Responsible entity/person
Actions under the control of State						
Increase fiscal autonomy	*Replace conditional grants with unconditional grants or Shared Taxes*					
	Give more flexibility on local tax policy					
…						
Actions to be implemented at the LG level						
Increase fiscal autonomy	*Increase local tax collection*					
	Reconsider the rate of property tax for households					
…						

Objective 2: Improve financial management of the municipality

Specific objective	Items	Priority action	Expected result	Schedule Short-term/ Long-term ST/LT	Cost estimate if any	Responsible entity/person
Credibility of the budget	*Improve forecast reliability*					
Policy-based budgeting	*Improve cost analysis of main expenditure*					
Improve Budget execution	*Improve expenditure control*	e.g., Competitive bidding, performance contacts				