

# Western Balkans

## Municipal Finance Review (MFR)

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### *Local finance data collection and analysis in South-East Europe*

**Background.** The Government of Austria and the World Bank are cooperating in an Urban Partnership Program (UPP) to provide support to local governments in the South-East Europe (SEE) Region. UPP is being implemented in close collaboration of the World Bank Institute (WBI) Urban Practice and the World Bank's Europe and Central Asia (ECA) Sustainable Cities Initiative.

**Objective.** The objective of the SEE Municipal Finance Review is to (i) contribute to better understanding of local government management and finances in the South-East Europe Region, and (ii) improve the quality and consistency of key municipal finance data for improved evidence based policy making. In particular, the local financial data collection and analysis has two main goals:

(i) *Support policy making at the national level* by equipping local government associations with disaggregated municipal finance data to assist during the fiscal planning and budget negotiations process; and

(ii) *Improving local financial management and service delivery* by identifying options for efficiency improvements and comparison of local budget expenditures and revenues.

### *Content and focus of the municipal finance review*

**The local finance data collection aims at three types of fiscal data.** It includes local government expenditures, local government revenues and information from municipal balance sheets. Local fiscal data are supplemented by basic statistical and public finance data, which will help to create indicators both at the national and municipal level.

**MFR generates indicators for in-country and cross-country comparison.** Local finance data to calculate indicators and key public data are being collected from eight entities in the Western Balkans, typically for the period of 2008-2011. National datasets will be presented in national currencies and in Euro; terms and categories will be translated into English and made available together with explanatory notes and definitions. Only official, authorized data are incorporated in the municipal finance datasets. Methodological guidance will be developed, including modules and templates to guide regular data-collection and management by Local Government Associations (LGAs) to ensure long-term sustainability.

**MFR provides an analytical framework for future assessments.** The municipal finance analysis will review and assess indicators calculated based on the collected raw municipal finance data. The final output report may serve as analytical framework to guide future assessments conducted by the participating LGAs or other partner organizations. Proposed analytical tools will explain the use of model datasets and indicators; provide guidance for comparison and benchmarking; and make recommendations to support future similar work.

### *Project implementation and management*

**Key partners.** Local Government Associations and the Network of Associations of Local Authorities of South-East Europe (NALAS) are the key partners of MFR. Project implementation comprises of three stages.

**Three stage implementation.** First, the *inception period* was launched by a kick-off workshop on February 9, 2012, with participation by all project partners and local experts. Second, during the *preparatory* stage, MFR local experts have assessed available information on municipal finances and prepared brief country-overview reports. The country reports confirmed that disaggregated municipal finance data are generally available at the Ministries of Finance or Treasuries. In Bosnia and Herzegovina (BiH), disaggregated data for the Federation of BiH was collected through a municipal survey. Third, *dataset development* and *municipal finance analysis* is currently under implementation and will be completed by November 30, 2012. Agreed municipal finance data and statistical information has been collected and are being reviewed for analysis. Once all completed datasets are available and fully operational, individual analytical municipal finance reports will be prepared.

### *Preliminary findings*

**Disaggregated data for in-depth analysis.** MFR benefits from disaggregated municipal datasets that provide the basis for country-specific and comparative regional local finance assessments. Preliminary results suggest the following major findings:

- (i) *Overall, fiscal decentralization in the Western Balkans lacks behind the EU average.* Measured by the ratio of local expenditures to GDP, municipalities in SEE account for 5-8 percent only; half the EU 27 country average, although comparable to Bulgaria, Portugal or Slovakia.
- (ii) *However, local government capital expenditures differ more significantly than expected.* In some of the countries included in the comparative analysis, high spending cities and municipalities have per capita expenditures up to twenty times higher compared to the national average.
- (iii) *Generally, municipalities have little control over capital investment spending.* Although in some countries the ratio of capital spending to GDP is higher than the European average, capital expenditures are rarely financed by own source capital revenues and loans. Overall, local capital investments are mostly funded by the central budget, extra-budgetary funds or contributions from international development programs.
- (iv) *Local service provision efficiency differs considerably across municipalities.* For example, some municipalities spend up to 7 times more per capita on administrative services compared to the average of the same type of local government.
- (v) *Municipalities fail to mobilize the full local revenue potential.* Although property related own source revenues are used quite intensively, personal income tax and other sources have larger revenue mobilizing potential.
- (vi) *Few municipalities leverage their borrowing capacity to finance capital expenditure.* In some countries, the total local accumulated debt is high or concentrated at one type of local government. However, overall there is large unused potential for municipalities to borrow.

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