

WORLD BANK-AUSTRIA

URBAN PARTNERSHIP PROGRAM (UPP)

IMPROVING LOCAL GOVERNMENT CAPACITY

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



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IMPROVING LOCAL GOVERNMENTS CAPACITY

*The Experience of Municipal Finances
Self-Assessment in South-East Europe*

JANUARY 2018

**Bosnia and
Herzegovina**

Sarajevo

Dubrovnik

Podgorica
Подгорица

Montenegro

Serbia

Belgrade
Београд

Timișoara

Нови Сад

Szeged

Niš
Ниш

Kosovo

Skopje
Скопје

**Macedonia
(FYROM)**

Tirana

Albania

Bari

Google

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 (UPP). This program, implemented by the World Bank, aims to strengthen the capacity of local governments in South-East Europe (SEE). It has helped finance several products and activities, including (a) City to City Dialogues in the region on Municipal Finances, and Land/Urban Planning; (b) the customization and application of Local Governments Self-Assessments tools (MFSA, Urban Audits), and (c) the development of a methodological guidebook on MFSA and Urban Audits.

UPP participating countries include: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, and Serbia. The results have been summarized by cities as well as by countries; the former is presented in this report and accompanied by MFSA Synthesis and Country Reports – Experiences in South-East Europe 2011-2015 (forthcoming). The cities have been using a Municipal Finance Self-assessment tool (MFSA), which was also customized and tested under the UPP.

- **World Bank:** Ms. Sabine Palmreuther, UPP Team Leader, Senior Operations Officer (GSURR), Ms. Tamara Nikolic, Regional Focal Point, Operations Officer (GSURR); and Mr. Mihaly Kopanyi, Municipal Finance Advisor, World Bank Consultant;
- **Local consultants:** Ms. Merita Toska (Albania), Ms. Brankica Lenic and Mr. Goran Rakic (Bosnia and Herzegovina), Mr. Anto Bajo (Croatia), Mr. Marjan Nikolov (Macedonia), Ms. Natasa Obradovic (Montenegro), and Ms. Ljiljana Brdarevic (Serbia).

The team would like to acknowledge the thought leadership of the former team member Ms. Catherine Farvacque-Vitkovic, World Bank retiree, and the invaluable support of the staff of the World Bank offices in the UPP client countries.

The UPP program and its team have greatly benefited from the close cooperation and partnership of the Network of Associations of Local Authorities of South-east Europe (NALAS) and the Local Government Associations in the partner countries, as well as 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.

The brochure presents 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 of 37 cities/municipalities.

FOR MORE INFORMATION, THE FOLLOWING ADDITIONAL RESOURCES ARE ALSO AVAILABLE:

Municipal Finances: A Learning Program for Local Governments. The World Bank. <https://olc.worldbank.org/content/municipal-finances-learning-program-local-governments-self-paced>

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

Municipal Self-Assessments: A Handbook for Local Governments. The World Bank (forthcoming)

INTRODUCTION



Since 2010 the World Bank has partnered with the Austrian Government in a program aimed to strengthen capacity of local governments in South-East Europe (SEE). The Program aims to assist and support cities and local governments in South East Europe in a process of modernization and reform, in order to promote local development for inclusive and sustainable growth and enhanced urban governance. So far, the Program has targeted seven countries of South-East Europe, including Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro, and Serbia.

UPP was designed to respond to the demand from clients and partners in SEE region for inter-city exchange within and beyond Europe, and offered regional analytical work as well as hands-on capacity building to local governments (i.e.

how-to/diagnostic tools, and participatory approaches). All Program activities were grounded in a multi-stakeholder dialogue, including the civil society groups, which enriched the knowledge sharing among actors who don't have many opportunities to interact with each other in their daily work.

So far, the Program engaged in close collaboration over 80 SEE cities and municipalities of all sizes from across the region creating a platform for city peer learning and knowledge exchange, from other regions in Europe and further afield. This enabled local government leaders to pursue their priority issues, while identifying good practice and technical solutions that are a good fit. Where binding constraints to reform exist, UPP offered tools, strategies, and methods to help city leaders overcome these and shape new policies and practices through results-based hands-on learning.

Municipal Finance and Land/Urban Planning are fundamental issues in the region. Cities have traditionally been heavily dependent on transfers and their own revenues have also been essentially based on land development revenues and have been, therefore, very vulnerable to economic or financial crisis. Typically, budgets are prepared with no collaboration with the strategic planning process. To foster peer learning, the UPP held a series of City to City Dialogues (C2C) on municipal finances, urban planning, and land management: Improving Municipal Revenues; Modernizing Local Public Expenditure Management; Modernizing Legal and Regulatory Framework in SEE; Guided Urban Land Development - Reconciling Public and Private Interests; Stock-taking from Self-Assessment findings and formulation of Municipal Finance Improvement Programs; From financial self-assessment towards municipal investment programming (Urban Audit); and Action Plans and results from MFSAs and Urban Audit implementation.

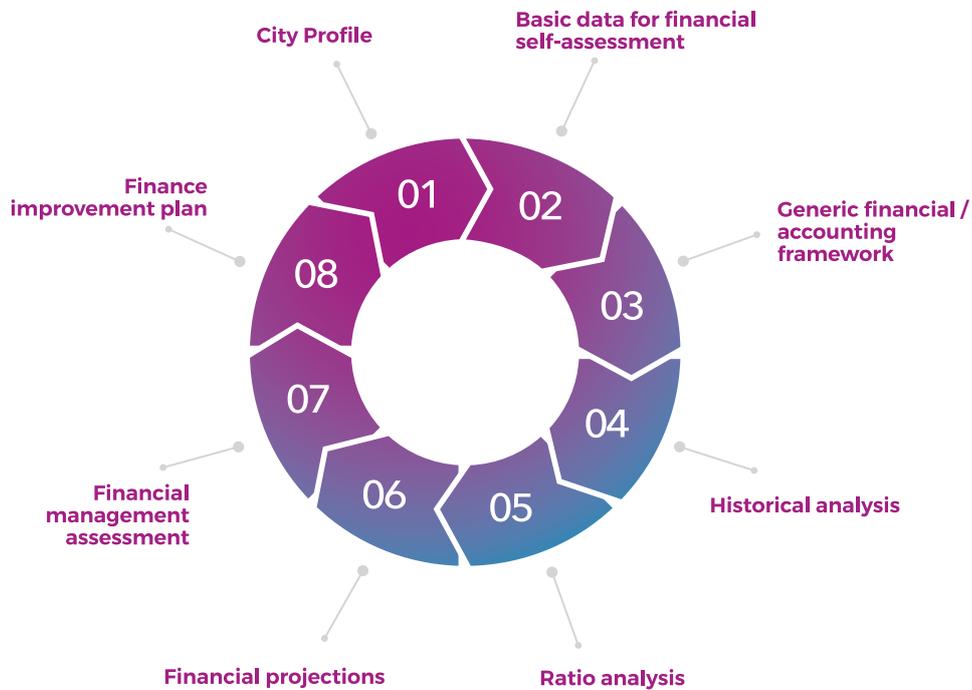
Participants received hands-on capacity building in a series of interactive workshops. Between the workshops, they worked on specific reform actions that they had identified as the highest priority for their city. Facilitated cross-city and cross-country dialogue during and between workshops helped to cross-fertilize ideas and share experiences.

Municipal Finances Self-Assessment (MFSA) helps assess a city's financial health and to identify specific actions to improve mobilization of local resources, financial management, public spending, public assets management, investment programming and access to external financing (borrowing + donor funding). MFSA is Excel based, filled out and analyzed with support of local consultants, in full harmony with PEFA and rating agencies' guidelines; supports cross-municipality comparisons and benchmarking; supports evidence based policy-making; and provides municipalities with unified framework and communication tool. It performs several functions: (a) it reviews municipal budgets (revenues and expenditures), financial management practices, savings capacity, investments efforts, and financial projections for the next five years; (b) it provides some benchmarking through a set of simple and comparable key indicators and ratios; and (c) it defines key actions to be included in a municipal finance improvement plan aiming for greater accountability, visibility and efficiency in the use of public funds.

A local government going through the overall process of Municipal Finance Self-Assessment gains:

- **Analysis of its financial condition:** the local government implementing MFSA will have made reviews of its municipal budgets (revenues and expenditures), assessment of its financial management practices, municipal savings capacity, potential increase of the investment efforts, financial projections for the next five years;
- **Elaboration of a Municipal Finance Improvement Plan** the local government implementing MFSA will have made reviews of its municipal budgets (revenues and expenditures), assessment of its financial management practices, municipal savings capacity, potential increase of the investment efforts, financial projections for the next five years;
- **Improved presentation of the financial condition** and plans of the local government in front of its stakeholders, the potential creditors and donors, etc.;
- **Improved strategic planning process** as the solid municipal finance analysis and plan, and the knowledge of the potential for savings and borrowing will provide better ground for developing other municipal development plans; and
- **Benchmarking with other local governments** through a set of simple and comparable key indicators/ ratios.

MFSA METHODOLOGY AND CYCLE



- | | |
|---|---|
| <p>01</p> <p>City Profile</p> <ol style="list-style-type: none"> 1. Summarize through key data the institutional position of the city 2. Complete with urban profile and preliminary data 3. Mention the main stakes | <p>05</p> <p>Ratio analysis</p> <ol style="list-style-type: none"> 1. Review of economic and financial performance through main indicators 2. Comparison with other LGU |
| <p>02</p> <p>Basic data for financial self-assessment</p> <ol style="list-style-type: none"> 1. Put together basic data to perform self evaluation 2. Involve different municipal departments | <p>06</p> <p>Financial projections</p> <ol style="list-style-type: none"> 1. Which vision of development 2. Impact of political choices on future accounts 3. Fix the financing needs (loans) |
| <p>03</p> <p>Generic financial/accounting framework</p> <ol style="list-style-type: none"> 1. Ability to generate growth, savings and operating surplus 2. Capital investment effort 3. Credit worthiness | <p>07</p> <p>Financial management assessment</p> <ol style="list-style-type: none"> 1. Level of municipal autonomy 2. Budget credibility 3. Reporting: comprehensiveness, transparency, predictability |
| <p>04</p> <p>Historical analysis</p> <ol style="list-style-type: none"> 1. Detailed revenue and expenditure structure and trends 2. Dependency from grants and external financing 3. Level of service provided | <p>08</p> <p>Finance improvement plan</p> <ol style="list-style-type: none"> 1. Key measures to adopt to improve financial management and financial performance |

MFSA CITY DATA PROFILES (UPP I and II)

Monitoring Dashboard
for informed Decision-making

MUNICIPALITY OF BERAT

CITY PROFILE

Territorial organization: The municipality of Berat's territorial area and current administrative borders were established in 2015 by the Territorial and Administrative Reform. This set of government reforms involved the merger of the former municipality of Berat with the former communes of Roshnik, Sinjë, Otlak, and Velabisht. The total surface area of the municipality is 382.1 square kilometers.

Demography: According to 2011 census data, the municipality's population is the thirteenth highest in the country. According to 2015 data from the civil registry, there are 99,231 inhabitants in the municipality, which is about 3.4 percent of the country's overall population and a 0.15 percent increase over 2014.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €2,474.4 in 2014, about €982.6 below the national average; the qark-level unemployment rate was 11.4 percent. The city of Berat is a national center of cultural heritage, including the traditional neighborhoods of Mangalemi, Gorica, and Castle; Onufri, the national museum of iconography; and other galleries, museums, churches, and mosques. Berat is one of the oldest towns in Albania, with 2,400 years of history. Proclaimed a "museum city" in 1961, it is also a UNESCO World Cultural Heritage City. Exchange rate: €1 = ALL 139.7 (2015); inflation rate: 1.9 percent (2015). Source: Bank of Albania.

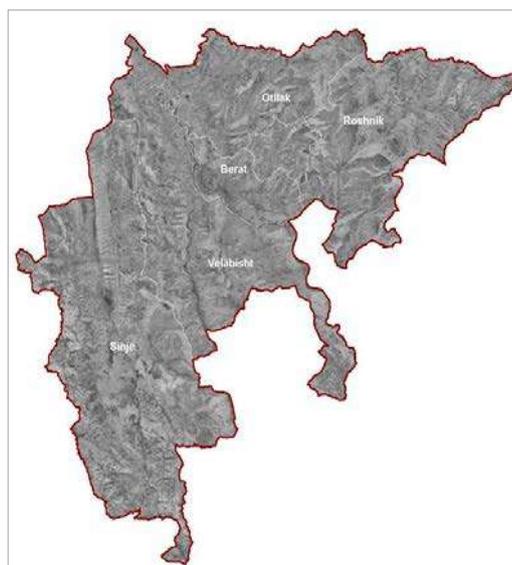
Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: The Joint Stock Company Berat–Kuçovë, which is owned by the municipality, provides water supply and wastewater services. The municipality, according to procurement procedures, contracts out the cleaning and waste management services to a third party, Infinity Construction Ltd. Under the authority of the public service company, the municipality of Berat and the public lighting service provides service and maintenance to the road infrastructure.

Municipal staff: Total, including central administration and the budgetary subordinated units: 492.

Capital investment plan: Investments have been broadly financed by an external fund competitively obtained from the Regional Development Fund and bank loans, mostly used to expropriate infrastructure investments.

Urban issues and challenges: Historical neighborhoods should be preserved, the lack of public services addressed, and the tourism sector strengthened to allow for year-round tourism. Obstacles include disparities between administrative units in terms of urban and economic development.



FINANCIAL SITUATION

Items	2011	2012	2013	2014	2015	Growth Index
1 Current revenue	895,613	933,916	988,265	1,414,099	962,005	1.8%
2 Operating expenditure	790,315	808,919	861,964	1,017,724	936,374	4.3%
3 Gross Operating balance	105,299	124,997	126,301	396,375	25,631	-29.8%
4 Debt service and borrowing costs	-	-	-	-	-	-
5 NET CURRENT BALANCE	105,299	124,997	126,301	396,375	25,631	-29.8%
6 Capital Revenues	55,728	52,503	43,362	63,245	136,749	25.2%
7 Own capital revenues	510	6,905	2,084	15,297	31,000	179.2%
8 Investment grants and donations	55,218	45,597	41,278	47,948	105,749	17.6%
9 Capital investment expenditures	165,567	128,623	127,176	389,879	447,679	28.2%
10 BALANCE AFTER INVESTMENTS	(4,540)	48,877	42,486	69,741	(285,300)	181.5%
11 Cash reserves from previous years	-	-	-	276,727	41,993	-
12 Loan proceeds	-	-	-	-	-	-
13 OVERALL CLOSING BALANCE	(4,540)	48,877	42,486	346,468	(243,307)	170.6%

Source: Municipality of Berat and www.financatvendore.al

Current revenues followed an upward trend from 2011 to 2015; the average annual growth rate was about 1.8 percent. Registered current revenues revealed a substantial annual jump of 43.1 percent in 2015, mainly due to higher intergovernmental transfers. Operating expenditures followed the same trend, increasing by 4.3 percent on average over the five-year period. Higher revenues determined a positive gross operating margin over time, particularly in 2014. The net current balance was positive, with a five-year growth index of 8.8 percent. Balance after investments suggests that despite this and the municipality-generated capital revenues, investments were broadly covered by external sources of financing.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 73.8 percent of the municipality's total revenues. Own-source revenues represented only 22.3 percent, and other revenues, 3.9 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Revenues from shared taxes represented a marginal source of overall revenues—1.5 percent; and unconditional transfers, the municipality's primary disposable financing source, about 21.4 percent. In terms of own-source revenues, local taxes represented 11.4 percent of total revenues and proceeds from local fees, 8.8 percent. Income generated from asset management represented only 2 percent of total revenues.

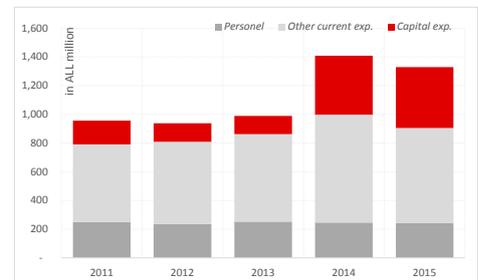
	2011	2012	2013	2014	2015	Average annual growth index	% of total revenues
Total Revenues	924,088	934,426	995,170	1,416,184	1,098,753	4.4%	100.0%
1. State revenues	717,860	736,490	786,800	892,842	810,848	3.1%	73.8%
- Shared taxes	22,019	27,705	22,269	16,673	16,673	-6.7%	1.5%
- Unconditional transfers	248,046	248,021	249,994	294,039	235,595	-1.3%	21.4%
- Conditional transfers	447,795	460,763	514,538	582,131	558,580	5.7%	50.8%
2. Own revenues	200,162	187,067	208,370	245,609	244,775	5.2%	22.3%
- Local taxes	150,682	138,564	155,851	167,399	125,751	-4.4%	11.4%
- Local fees	33,437	31,780	32,844	54,655	97,237	30.6%	8.8%
- Income from assets mng.	16,042	16,723	19,675	23,554	21,787	8.0%	2.0%
3. Other own revenues	6,066	10,870	-	277,732	43,130	63.3%	3.9%
- Dividends, rev. from PUC	-	-	-	-	-	-	0.0%
- Donations/Grants	6,066	10,870	-	1,006	-	-	0.0%
- Loans	-	-	-	-	-	-	0.0%
- Municipal bonds	-	-	-	-	-	-	0.0%
- Carryovers	-	-	-	276,727	43,130	-	3.9%
State revenues	717,860	736,490	786,800	892,842	810,848	3.1%	73.8%
Own revenues	206,228	197,937	208,370	523,341	287,905	8.7%	26.2%

Revenues: The municipality's revenues trended upward during the observed period, measured by the average annual growth index (+4.4 percent). Both revenues from state transfers and own-sources contributed to positive developments in total revenues. State revenues increased by 3.1 percent, suggested by the average annual growth index, mainly due to conditional transfers. Revenues from shared taxes and unconditional transfers had negative growth rates of 6.7 percent and 1.3 percent, respectively. Own-source revenues performed well during the considered period, with an average growth rate of 5.2 percent. While revenues from services fees increased by 30.6 percent on average, revenues from local taxes contracted by -4.4 percent. Given the potential for tourism, much remains to be done to increase the municipality's overall revenues and financial autonomy.

Source: Municipality of Berat and www.financatvendore.al

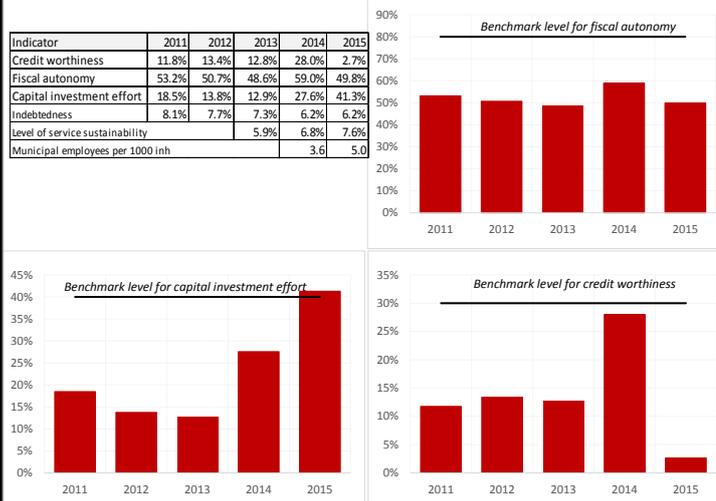
Over the last three years, a reverse tendency is observed: while expenditures for capital investments increased, expenditures for personnel and operating expenses contracted. Investments were broadly financed with external funds competitively obtained from the Regional Development Fund and with bank loans, mostly used for expropriation of infrastructure investments.

	2011	2012	2013	2014	2015
Total expenditures	955,882	937,542	989,140	1,407,603	1,329,142
1. Current expenditures	790,315	808,919	861,964	997,511	904,321
1.1 Personnel	249,173	234,857	252,731	246,378	242,039
1.2 Operational	178,611	213,212	192,945	240,873	210,412
-Office materials and other administrative	7,866	9,499	6,991	6,847	6,307
-Services from third parties (energy, water,	87,487	127,173	105,953	134,304	114,427
-Transport Expenditures	11,613	13,498	15,552	19,079	15,583
-Travelling and allowances	3,415	2,645	2,428	3,174	1,353
-General Maintenance Expenditures	12,815	9,414	12,671	18,171	16,572
-Other Operating Expenditures	55,415	50,983	49,351	59,298	56,170
1.3 Subsidies	2,387	12,424	22,854	26,000	28,200
1.4 Transfers	360,143	348,426	393,434	484,260	423,670
1.5 Interest Payment	-	-	-	-	-
2. Capital Expenditures	165,567	128,623	127,176	410,092	424,821



Source: Municipality of Berat and www.financatvendore.al

RATIO ANALYSIS



The creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, improved substantially until 2014, suggesting an increased capacity to borrow from external sources. The 2014 event was brief and temporary; by 2015, the indicator registered 2.7 percent, well below the benchmark level.

The fiscal autonomy indicator, measured by the ratio of own-source revenues to total current revenues, suggests that the municipality still needs to concentrate its efforts on own-source revenue generation to reduce dependency from intergovernmental transfers.

The capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was volatile but improving over the considered period. The capital investment effort improved from 27.6 percent in 2014 to 41.3 percent in 2015, suggesting an increased effort by the municipality to channel resources into investments.

The indebtedness indicator, measured by the ratio of debt service to total current revenues, decreased progressively and stabilized at 6.2 percent over the last two considered years.

The level of sustainability from the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures, increased over the last three observed years. In 2015, the service sustainability indicator was about 7.6 percent, below the benchmark of 25 employees per 1,000 inhabitants registered a value of 5.0 in 2015, up from 3.6 registered in the previous year. Despite this jump, the indicator was still below the benchmark of 25 employees per 1,000 inhabitants

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Multiannual financial projections are available and regularly updated as part of the MTBP document. There are no special models applied for projections that are mostly realized based on ministry of finance guidelines and historical trends analysis. Since 2016, the municipality of Berat is engaged in a new vision, as specified in the draft territorial development strategy. A capital investment plan guides the prioritization of investments despite constraints regarding access to capital, such as local borrowing and the issuance of debt.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing local tax collection rate with a particular focus on households; improve collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the drafting of a new local finances law to allow for more stable and substantial sources of financing for municipalities. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

MUNICIPALITY OF ELBASAN

CITY PROFILE

Territorial organization: The municipality of Elbasan is composed of 13 administrative units: the former municipality of Elbasan and the former communes of Bradashesh, Papër, Gjergjan, Labinot Fushë, Labinot Mal, Funarë, Gracen, Tregan, Shushicë, Shigjan, Gjinar, and Zavalinë. The total surface area of the municipality is 872 kilometers, up from 7.9 kilometers prior to the 2014 Territorial and Administrative Reform (TAR).

Demography: According to 2015 data from the civil registry, the municipality of Elbasan has 208,460 inhabitants, which is about 7.2 percent of the country's overall population and a 0.67 percent increase over 2011.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €2,445.3 in 2014, about €1,011.6 below the national average. The municipality's reported unemployment rate for 2014 was 10.7 percent; qark-level data suggests a higher unemployment rate of 12.2 percent. Exchange rate (2015): €1 = ALL 139.7; inflation rate (2015): 1.9 percent. Source: Bank of Albania.

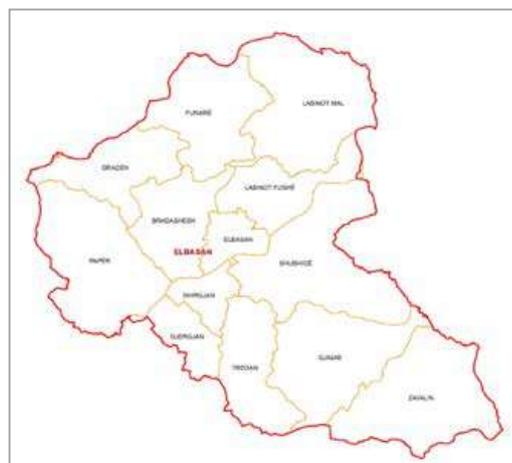
Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: The municipality outsources urban waste management services to a private enterprise. The municipality delivers public lighting and other services through its public utility company. Ujësjiellës-Kanalizime ShA, a public company owned by the municipality, provides water supply and wastewater treatment services.

Municipal staff: . Total employees: 1,299; general administration: 440; technical services unit: 254; other units: 528; contractual (part-time): 77.

Capital investment plan: Over the next three years, the capital investment plan is mostly oriented at road infrastructure works, such as the reconstruction of the rural road Qaf Hajdaran–Byshek (€1.3 million), planned for 2017; rehabilitation and asphaltting of 28 Nëntori street. (€1.4 million), planned for 2018; rehabilitation and asphaltting Ahmet Hostopalli street and the palace squares in Beqir Dardha neighborhood (€0.3 million).

Urban issues and challenges: Issues include overbuilt urban spaces that lack public services; challenges include urban and economic development disparities between administrative units.



FINANCIAL SITUATION

Items	2011	2012	2013	2014	2015	Growth Index
1 Current revenue	1,941,755	2,009,910	2,253,929	3,032,286	3,202,606	13.3%
2 Operating expenditure	1,850,547	1,946,496	2,224,433	2,612,583	2,458,340	7.4%
3 Gross Operating balance	91,209	63,414	29,496	419,703	744,266	69.0%
4 Debt service and borrowing costs	5,345	10,419	20,146	-	58,049	81.5%
5 NET CURRENT BALANCE	85,864	52,995	9,350	419,703	686,217	68.1%
6 Capital Revenues	227,542	135,404	182,937	170,936	268,848	4.3%
7 Own capital revenues	124,963	38,376	44,562	17,840	81,996	-10.0%
8 Investment grants and donations	102,579	97,028	138,376	153,097	186,852	16.2%
9 Capital investment expenditures	465,519	268,886	465,495	1,070,258	603,706	6.7%
10 BALANCE AFTER INVESTMENTS	(152,113)	(80,487)	(273,208)	(479,619)	351,359	
11 Cash reserves from previous years	-	-	-	-	218,552	
12 Loan proceeds	28,894	18,735	51,839	298,788	-	
13 OVERALL CLOSING BALANCE	(123,219)	(61,752)	(221,369)	(180,831)	569,911	

Source: Municipality of Elbasan and www.financatvendore.al

Current revenues followed an upward trend during the period 2011–15, and the growth index was about 13.3 percent. Current revenues increased substantially, by about 34.5 percent in 2014, mainly due to increased intergovernmental transfers. Operating expenditures grew an average of 7.4 percent, with a positive gross operating balance over the entire five-year period. The net current balance was volatile but positive, with a registered five-year growth index of 68.1 percent. Balance after investments suggests that, despite the positive net current balance and capital revenues generated by the municipality, investments were mostly covered by external financing sources such as the Regional Development Fund and loans.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 76.3 percent of the municipality's total revenues. Own-source revenues represented only 14.3 percent, and other revenues, 9.4 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Loan proceeds were broadly used to finance infrastructure investments in the municipality. Revenues from shared taxes represented a marginal source of financing, accounting for less than 1 percent of overall revenue. The primary disposable sources of municipal financing— unconditional transfers and own-source revenues—account for 16.3 and 14.3 percent, respectively.

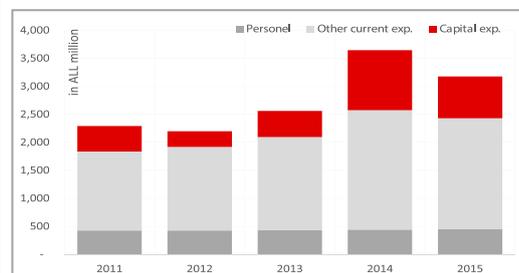
	2011	2012	2013	2014	2015	Average annual growth index	% structure (total revenues)
Total Revenues	2,169,297	2,145,314	2,436,866	3,203,222	3,471,454	12.5%	100.0%
1. State revenues	1,671,186	1,699,868	1,962,063	2,436,407	2,649,378	12.2%	76.3%
- Shared taxes	51,414	63,288	58,388	34,726	30,919	-11.9%	0.9%
- Unconditional transfers	485,308	467,847	525,473	595,641	565,153	3.9%	16.3%
- Conditional transfers	1,134,464	1,168,733	1,378,202	1,806,040	2,053,306	16.0%	59.1%
2. Own revenues	464,069	419,105	415,139	468,027	496,108	1.7%	14.3%
- Local taxes	319,689	245,146	216,423	259,599	307,998	-0.9%	8.9%
- Local fees	112,566	132,735	154,593	158,238	101,923	-2.5%	2.9%
- Income from assets mng.	31,814	41,224	44,123	50,190	86,187	28.3%	2.5%
3. Other own revenues	34,042	26,341	59,664	298,788	325,968	75.9%	9.4%
- Dividends, rev. from PUC	-	-	-	-	5,222	-	0.2%
- Donations/Grants	5,149	7,606	7,825	-	866	-36.0%	0.0%
- Loans	28,894	18,735	51,839	298,788	101,328	36.8%	2.9%
- Municipal bonds	-	-	-	-	-	-	0.0%
- Carryovers	-	-	-	-	218,552	-	6.3%
Intergovernmental transfers, grants	1,671,186	1,699,868	1,962,063	2,436,407	2,649,378	12.2%	76.3%
Own source revenues	498,111	445,446	474,803	766,815	822,076	13.3%	23.7%

Overall revenues marked a positive average growth index of 12.5 percent during the considered period, primarily resulting from an increase in intergovernmental transfers. Shared taxes contracted by an average of 11.9 percent over the five-year period, but due to the small share of overall revenues that they represent, did not counterbalance the positive average growth rates of unconditional and conditional transfers. Own-source revenues showed a slight average annual increase of 1.7 percent, mainly due to income from the management of assets, such as rental properties. Revenues from local taxes and fees showed negative average growth rates of -0.9 and -2.5 percent, respectively.

Source: Municipality of Elbasan and www.financatvendore.al

The municipality of Elbasan channeled relevant financial resources into infrastructure investments such as roads, the rehabilitation of building facade, parks, and water and sewage systems. Most of these investments were financed through the Regional Development Fund. Overall current expenditures accounted for an average of 63 percent of total expenditures. Personnel expenditures were fairly stable, averaging about 20.7 percent; other current expenditures increased over the observed period.

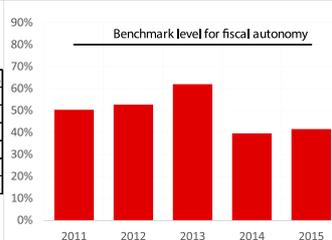
	2011	2012	2013	2014	2015
Total expenditures	2,292,234	2,198,899	2,560,513	3,644,687	3,175,145
1. Current expenditures	1,835,532	1,918,914	2,095,018	2,574,428	2,430,611
1.1 Personnel	427,016	425,885	436,705	442,908	448,174
1.2 Operational	384,721	416,759	420,040	465,076	455,868
- Office materials and other administrative	17,376	15,588	16,382	12,866	12,931
Services from third parties (energy, water, phone)	182,716	192,752	182,591	227,717	260,821
- Transport Expenditures	37,535	44,646	39,467	43,871	28,734
- Travelling and allowances	1,312	610	50	633	135
- General Maintenance Expenditures	28,018	26,347	35,053	24,547	16,923
- Other Operating Expenditures	117,764	136,816	146,498	155,443	136,324
1.3 Subsidies	74,774	5,136	6,984	13,270	997
1.4 Transfers	946,654	1,066,775	1,224,004	1,644,373	1,496,109
1.5 Interest Payment	2,366	4,360	7,284	8,801	29,462
2. Capital Expenditures	456,702	279,985	465,495	1,070,258	744,534



Source: Municipality of Elbasan and www.financatvendore.al

4. RATIO ANALYSIS

Indicator	2011	2012	2013	2014	2015
Credit worthiness	4.7%	3.2%	1.3%	13.8%	23.2%
Fiscal autonomy	50.3%	52.7%	62.0%	39.6%	41.5%
Capital investment effort	24.0%	13.4%	20.7%	35.3%	23.2%
Indebtedness	0.3%	0.5%	0.9%	0.9%	1.8%
Level of service sustainability	13.2%	10.8%	4.7%	4.6%	6.4%
Municipal employees per 1000 inh	-	-	-	3.6	6.2

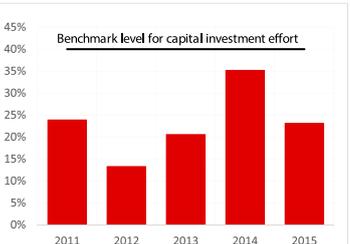


The creditworthiness indicator, measured by the ratio of gross operating he creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, improved progressively over the observed period, reaching 23.2 percent in 2015, only 6.8 points below the international benchmark of 30 percent. Despite being on a relatively good track, creditworthiness needs to improve to support external borrowing in financial markets.

Fiscal autonomy, measured by the ratio of own-source revenues to total current revenues was volatile over the observed five years; results were low and below the benchmark level of 80 percent. The volatility of the indicator was determined by changes to the level of allocated unconditional transfers and the criteria used to divide it among municipalities.

Despite the enormous need for investments, the capital investment effort indicator, measured by the ratio of capital expenditures to current revenue, was volatile and below the benchmark level of 40 percent. Given the municipality's low level of fiscal autonomy, their investment policies were broadly subject to central government decisions, such as those regarding the Regional Development Fund.

The indebtedness indicator, measured by the ratio of debt service to total current revenue was 1.8 percent in 2015, up 0.9 points from the previous year. The level of sustainability on the expenditure side, measured by the ratio of maintenance work expenditures to operating



expenditures, suggests an improvement from 13.2 percent in 2011 to 6.4 percent in 2015. The indicator's current level was below the benchmark, signaling the need for an increased emphasis on investments. Administrative efficiency, measured by the number of municipal employees per 1,000 inhabitants, registered a value of 6.2 in 2015, up from 3.6 in 2014. Despite this jump, the indicator was still below the benchmark level of 25 employees per 1,000 inhabitants.

5. FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Multiannual financial projections are available and regularly updated as part of the MTBP document. There are no special models applied for projections, which are mostly realized based on ministry of finance guidelines and on an analysis of historical trends. Since 2016, the municipality has been executing a new vision, as specified in the territorial development strategy. The capital investment plan guides the prioritization of investments despite constraints imposed by the central government regarding access to capital, such as local borrowing and the issuance of debt.

6. MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing local tax collection rate with a particular focus on households and improving the collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the drafting of the new local finances law to allow for more stable and substantial sources of financing for municipalities. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

MUNICIPALITY OF FIER

CITY PROFILE

Territorial organization: The municipality of Fier is composed of 10 administrative units: the former municipality of Fier and the former communes of Mbrostar, Topojë, Dërmenas, Levan, Frakull, Cakran, Libofshë, Portëz, and Qendër. The total area of the municipality is 621 square kilometers, up from 8 square kilometers prior to the 2014 Territorial and Administrative Reform (TAR).

Demography: According to 2015 data from the civil registry, the municipality has 198,889 inhabitants, which is about 6.9 percent of the country's overall population and a 0.68 percent increase from 2014 data. Fier is one of the largest municipalities of Albania and its population is the fifth largest in the country.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €4,061.8 in 2014, about €604.8 above the national average. The qark-level unemployment rate in 2014 was 13.4 percent. Exchange rate (2015): €1 = ALL 139.7; inflation rate (2015): 1.9 percent. Source: Bank of Albania.

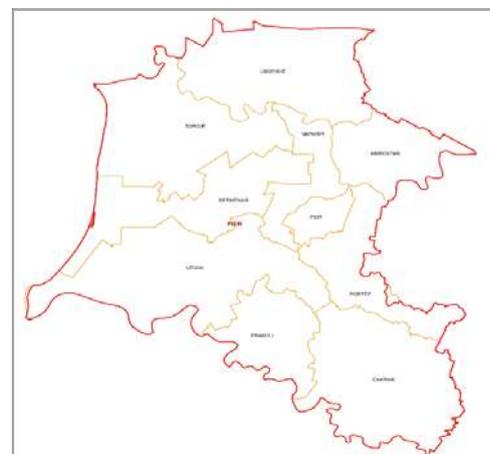
Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: The municipality outsources the delivery of urban waste management services to a private enterprise. The municipality delivers public lighting and other services through its public utility company. Ujësjellës-Kanalizime ShA, a public company owned by the municipality, provides water supply and wastewater treatment services.

Municipal staff: Total employees: 1,300; general administration: 426; technical services unit: 400; other units: 474.

Capital investment plan: Over the next three years, the plan is oriented mainly toward infrastructure works such as the rehabilitation of Mujo Ulqinaku street (€1.1 million), planned for 2016–17; reconstruction of Agim-Ndërmenas-Hasturkas, Libofshë road (€1.4 million), planned for 2017; reconstruction of Mirëkuptimi street (€1.0 million); and construction of an aqueduct in Buzmadh village, planned for 2020.

Urban issues and challenges: Issues include overbuilt urban spaces that lack public services; challenges include lower urban and economic development disparities between administrative units.



FINANCIAL SITUATION

Items	2011	2012	2013	2014	2015	Growth Index
Current revenue	1,707,315	1,422,220	1,637,790	1,758,660	2,078,659	5.0%
Operating expenditure	1,653,840	1,474,374	1,584,445	1,762,980	1,513,141	-2.2%
Gross Operating balance	53,476	(52,153)	53,346	(4,320)	565,518	80.3%
Debt service and borrowing costs				35,800	35,800	
NET CURRENT BALANCE	53,476	(52,153)	53,346	(40,120)	529,718	77.4%
Capital Revenues	293,409	101,322	110,456	256,410	208,834	-8.1%
Own capital revenues	104,083	64,376	44,102	20,546	70,000	-9.4%
Investment grants and donations	189,326	36,945	66,354	235,864	138,834	-7.5%
Capital investment expenditures	327,273	221,044	170,474	351,292	566,662	14.7%
BALANCE AFTER INVESTMENTS	19,612	(171,876)	(6,672)	(135,001)	171,891	72.1%
Cash reserves from previous years	-	-	-	-	106,118	
Loan proceeds						
OVERALL CLOSING BALANCE	19,612	(171,876)	(6,672)	(135,001)	278,009	

Source: Municipality of Fier and www.financatvendore.al

Current revenues followed an upward trend during the period 2011–15; the average annual growth rate was about 5.0 percent. Current revenues increased by about 18.2 percent in 2015, mainly due to an increase in intergovernmental transfers. Operating expenditures contracted by an average of -2.2 percent on average over the five-year period. The gross operating margin was volatile over the observed period and substantially increased in 2015 due to higher current revenues and lower current expenditures. The net current balance was volatile, and the five-year growth index was 77.4 percent. Balance after investments suggested that despite the positive net current balance and capital revenues generated by the municipality, investments were broadly covered by external financing sources such as the Regional Development Fund and loans. The municipality had a volatile investment balance, which only became positive in 2015, driven by better performance of current revenues and the efficient use of financial resources.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 72.8 percent of total revenues for the municipality. Own-source revenues represented only 22.5 percent, and other sources, 4.6 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Revenues from shared taxes represented a marginal source of financing, accounting for about 3.2 percent of overall revenues. The municipality's main disposable sources of finance, the unconditional transfer and own-source revenues, accounted for 14.3 and 22.5 percent, respectively. Regarding own-source revenues, local taxes constituted 15.3 percent of total revenues, and proceeds from local fees, 3.7 percent.

	2011	2012	2013	2014	2015	Average annual growth index	% of total revenues
Total Revenues	2,000,725	1,523,542	1,748,246	2,015,070	2,393,612	4.6%	100.0%
1. State revenues	1,512,054	1,046,571	1,354,394	1,554,365	1,743,281	3.6%	72.8%
- Shared taxes	44,952	75,412	81,882	72,394	75,800	14.0%	3.2%
- Unconditional transfers	382,007	295,730	406,551	455,949	342,935	-2.7%	14.3%
- Conditional transfers	1,085,095	675,429	865,961	1,026,023	1,324,546	5.1%	55.3%
2. Own revenues	486,561	476,139	389,582	457,315	539,384	2.6%	22.5%
- Local taxes	347,535	352,713	281,078	302,227	366,986	1.4%	15.3%
- Local fees	85,157	62,918	61,012	98,566	89,733	-1.3%	3.7%
- Income from assets mng.	53,868	60,508	47,493	56,522	82,665	11.3%	3.5%
3. Other own revenues	2,110	832	4,270	3,390	110,947	169.3%	4.6%
- Dividends, rev. from PUC	-	-	-	-	-	-	0.0%
- Donations/Grants	2,110	832	4,270	3,390	4,829	23.0%	0.2%
- Loans	-	-	-	-	-	-	0.0%
- Municipal bonds	-	-	-	-	-	-	0.0%
- Carryovers	-	-	-	-	106,118	-	4.4%
State revenues	1,512,054	1,046,571	1,354,394	1,554,365	1,743,281	3.6%	72.8%
Own revenues	488,671	476,971	393,853	460,705	650,331	7.4%	27.2%

Revenues: Overall, revenues marked a positive average growth index of 4.6 percent during the considered period. Revenue performance was largely determined by an increase in intergovernmental transfers. Revenues from shared taxes grew progressively, by 14.0 percent on average over the five-year period. In average, revenues from the unconditional transfer contracted by -2.7 percent over the observed period. Own-source revenues registered a slight average annual increase of 2.6 percent, mainly due to income from asset management (rent from assets). Revenues from local taxes and fees point to low positive average growth rates of -1.4 and -1.3 percent, respectively. The data point to a large gap between revenues generated by own sources and those from state transfers and grants, despite both exhibiting an increasing trend over time, especially after 2012.

Source: Municipality of Fier and www.financatvendore.al

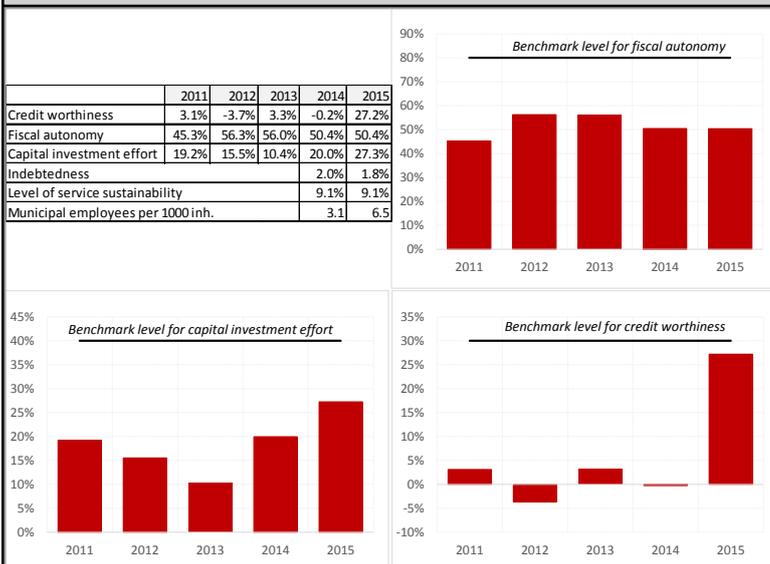
During the period of 2011–15, the municipality channeled relevant financial resources into infrastructure investments such as roads, rehabilitation of building facades, parks, and water and sewage systems. Most of these investments were financed through the Regional Development Fund. Meanwhile, overall current expenditures still accounted for a large share of total expenditures. Personnel and operational expenditures were mostly stable over the observed period, representing an average about 25.3 and 57.4 percent of total expenditures, respectively.

	2011	2012	2013	2014	2015
Total expenditures	1,981,113	1,695,418	1,754,919	2,114,271	2,306,518
1. Current expenditures	1,653,840	1,474,374	1,584,445	1,762,980	1,600,205
1.1 Personnel	480,800	458,483	492,261	546,690	491,186
1.2 Operational	351,737	321,041	301,145	325,472	312,617
- Office materials and other administrative	21,660	11,741	15,942	14,312	12,346
- Services from third parties (energy, water,	68,953	75,918	65,026	81,990	85,909
- Transport Expenditures	66,792	60,793	56,244	66,554	49,458
- Travelling and allowances	5,164	6,048	2,395	6,247	2,989
- General Maintenance Expenditures	38,702	35,825	41,319	29,460	27,637
- Other Operating Expenditures	150,466	130,716	120,219	126,910	134,279
1.3 Subsidies	99,488	90,975	4,857	3,000	-
1.4 Transfers	721,814	603,874	786,182	887,818	796,401
1.5 Interest Payment	-	-	-	-	-
2. Capital Expenditures	327,273	221,044	170,474	351,292	706,313



Source: Municipality of Fier and www.financatvendore.al

RATIO ANALYSIS



Despite the substantial improvement during 2015, the creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, was still below the benchmark level of 30 percent. The current level of this indicator in 2015 suggests that the municipality lacked the capacity to borrow to finance its investments. Fiscal autonomy, measured by the ratio of own-source revenues to total current revenues, was volatile over the five-year period with low-level results below the benchmark level of 80 percent. The volatility of the indicator was determined by changes in the level of allocated unconditional transfers and the criteria used to divide them among municipalities.

The capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was quite volatile and below the benchmark level of 40 percent during the considered period. Given the municipality's low level of fiscal autonomy, their investment policies were broadly subject to central government decisions, including the Regional Development Fund. The indebtedness indicator, measured by the ratio of debt service to total current revenues, was 1.8 percent during 2015, down by 0.2 points from 2014. The level of sustainability on the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures stabilized at 9.1 percent during 2014–15. The indicator was below the benchmark, signaling a need for an increased emphasis on investments. Administrative efficiency,

measured by the number of municipal employees per 1,000 inhabitants, was 6.5 in 2015, up from 3.1 in 2014, but despite this jump, it was still below the benchmark level of 25 employees per 1,000 inhabitants.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Multiannual financial projections are available and regularly updated as part of the MTBP document. There are no special models applied for projections that are realized mostly based on ministry of finance guidelines and an analysis of historical trends. Since 2016, the municipality has been executing a new vision as specified in the territorial development strategy. The capital investment plan guides the prioritization of investments, despite constraints to accessing capital, such as through local borrowing or the issuance of debt.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing the rate of local tax collection with a particular focus on households and by the better collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the drafting of the new local finances law to allow municipalities to access more stable and substantial sources of financing. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

MUNICIPALITY OF GJIROKASTËR

CITY PROFILE

Territorial organization: The municipality of Gjirokaštër comprises seven administrative units: the former municipality of Gjirokaštër and the former communes of Antigone, Cepo, Lazarat, Lunxhëri, and Odrie dhe Picar. The total area of the municipality is about 478 square kilometers.

Demography: According to 2015 data from the civil registry, the municipality has 52,169 inhabitants, which is about 1.8 percent of overall population and a 0.68 percent increase over 2014. According to 2011 census data, the municipality of Gjirokaštër's population is the 25th largest in the country.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €3,343.4 in 2014, about €113.5 below the national average. The qark-level unemployment rate in 2014 was 15.9. Exchange rate (2015): €1 = ALL 139.7; inflation rate (2015): 1.9 percent. Source: Bank of Albania.

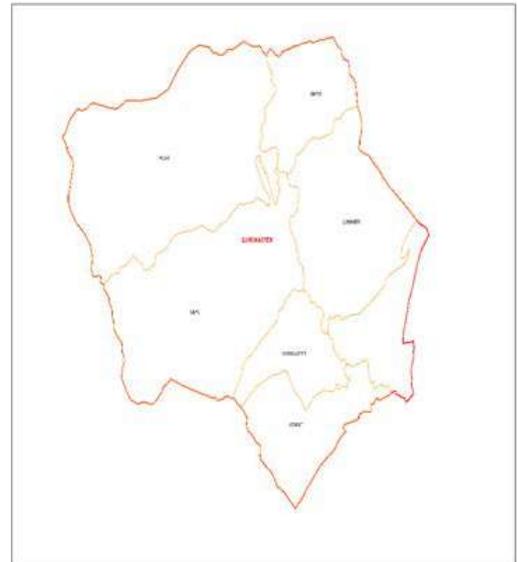
Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: The municipality's main and exclusive responsibilities are the provision and maintenance of local infrastructure, including roads, amenities, waste disposal, public lighting, buildings, social services, preuniversity education, infrastructure, and irrigation systems. The municipality provides urban waste management and public lighting services through its public utility company. Ujësjetellës-Kanalizime ShA, a public company owned by the municipality, provides water supply and wastewater treatment services.

Municipal staff: Total employees: 568; general administration: 84; technical services unit: 172; other units: 312.

Capital investment plan: Over the next three years, the plan is oriented mostly toward infrastructure works such as reconstruction of Square– Checkpoint street (€1.4 million), planned for 2016; urban waste treatment at the Gerhot dumpsite (€18,000), planned for 2017; reconstruction of "Prom. 18 Shtatori and other lanes "Rexhep Qosja " and "Gole Gushi " (con. from 2015) (€1.2 million); and construction of the city's industrial market, planned for 2016.

Urban issues and challenges: Issues include the preservation of historical buildings and the lack of public services; challenges include lower urban and economic development disparities between administrative units.



FINANCIAL SITUATION

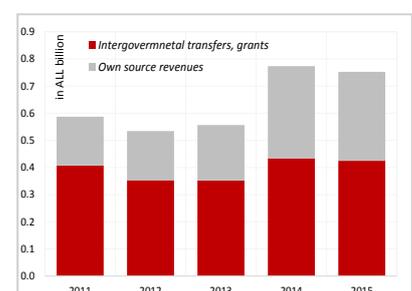
Items	2011	2012	2013	2014	2015	Growth Index
1 Current revenue	466,917	515,188	546,197	741,202	716,441	11.3%
2 Operating expenditure	394,430	353,567	426,752	478,052	468,104	4.4%
3 Gross Operating balance	72,486	161,621	119,445	263,150	248,337	36.0%
4 Debt service and borrowing cost	-	-	-	-	-	
5 NET CURRENT BALANCE	72,486	161,621	119,445	263,150	248,337	36.0%
6 Capital Revenues	120,210	19,484	10,495	32,103	35,785	-26.1%
7 Own capital revenues	21,245	8,436	3,064	1,052	1,388	-49.4%
8 Investment grants and donations	98,965	11,048	7,431	31,051	34,397	-23.2%
9 Capital investment expenditure	187,585	39,685	101,120	289,396	283,505	10.9%
10 BALANCE AFTER INVESTMENTS	5,111	141,419	28,820	5,856	617	-41.0%
11 Cash reserves from previous year	11,387	20,173	79,908	204,488	190,580	102.3%
12 Loan proceeds						
13 OVERALL CLOSING BALANCE	16,497	161,592	108,728	210,344	191,197	

Source: Municipality of Gjirokaštër & www.financatvendore.al

Current revenues followed an upward trend during the observed period of 2011–15, and the annual average growth index was about 11.3 percent. Current revenues increased substantially, by about 35.7 percent in 2014, mainly due to an increase in intergovernmental transfers. Operating expenditures grew an average of 4.4 percent over the five-years, allowing for a positive gross operating balance during the whole period. Net current balance was volatile but positive, with a five-year growth index of 36 percent. While covering overall current expenditures, the positive margin allowed for capital expenditures undertaken backed up also from intergovernmental funds. Overall, the financial management of the municipality was prudent, with a clear orientation toward capital expenditures.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 56.5 percent of the municipality's total revenue. Own-source revenues represented only 18.0 percent, and other revenues 25.5 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Revenues for shared taxes represented a marginal source of financing, accounting for less than 1.8 percent of overall revenues. The municipality's main disposable financing sources, the unconditional transfer and own-source revenues, accounted for 23.9 and 18 percent, respectively. Other own-source revenue developments are defined by the substantial level of carryovers (earmarked and not), which alone accounted for 25.3 percent of total revenues.



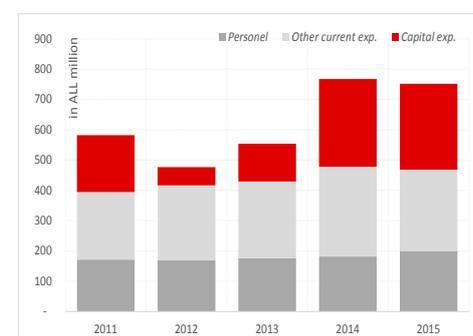
	2011	2012	2013	2014	2015	Average annual growth index	% of total revenues
Total Revenues	587,126	534,672	556,692	773,305	752,226	6.4%	100.0%
1. State revenues	407,055	353,219	352,017	433,965	424,899	1.1%	56.5%
- Shared taxes	11,567	18,599	16,772	12,710	13,460	3.9%	1.8%
- Unconditional transfers	139,661	141,673	136,139	173,357	179,892	6.5%	23.9%
- Conditional transfers	255,827	192,946	199,106	247,899	231,546	-2.5%	30.8%
2. Own revenues	167,882	141,434	123,019	130,610	135,620	-5.2%	18.0%
- Local taxes	109,046	84,613	76,295	78,181	81,887	-6.9%	10.9%
- Local fees	45,010	38,366	29,458	33,531	36,760	-4.9%	4.9%
- Income from assets mng.	13,826	18,456	17,267	18,899	16,973	5.3%	2.3%
3. Other own revenues	12,189	40,019	81,655	208,729	191,708	99.1%	25.5%
- Dividends, rev. from PUC	-	-	-	-	-	-	0.0%
- Donations/Grants	802	19,847	1,747	4,242	1,128	8.9%	0.1%
- Loans	-	-	-	-	-	-	0.0%
- Municipal bonds	-	-	-	-	-	-	0.0%
- Carryovers	11,387	20,173	79,908	204,488	190,580	102.3%	25.3%
State revenues	407,055	353,219	352,017	433,965	424,899	1.1%	56.5%
Own revenues	180,071	181,453	204,675	339,339	327,328	16.1%	43.5%

Overall revenues marked a positive average growth index of 6.4 percent during the considered period. Revenue performance was broadly defined by an increase in intergovernmental transfers. While state revenues increased by 1.1 percent, revenues from own sources contracted by an average of 5.2 points. The overall increase in revenues was sustained by higher unconditional transfers and shared tax revenue in average annual terms. Revenues from unconditional transfers widened by -6.5 percent over the five-year period. Own-source revenues contracted by an average of 5.2 percent due to lower revenues from local taxes and fees. Revenues generated through asset management positively contributed to the municipality's overall revenue performance. In other own-source revenues, carryover levels were substantial, especially over the last two years. The average annual growth rate was about 102.3 percent over the considered period.

Source: Municipality of Gjirokaštër & www.financatvendore.al

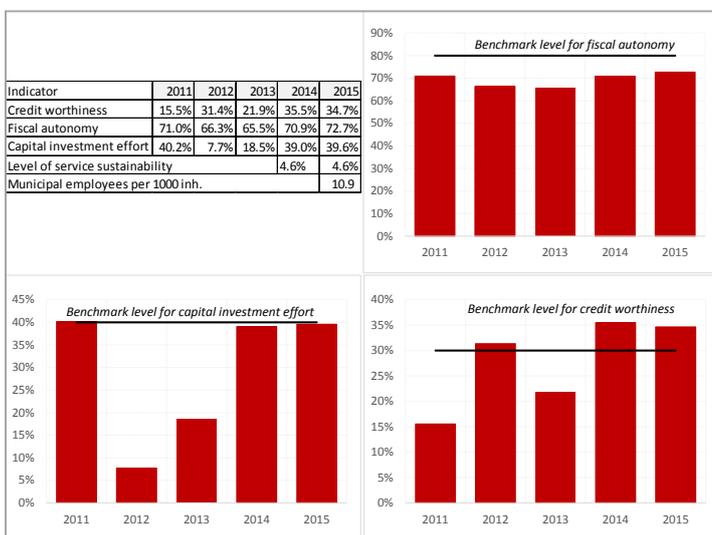
A large share—more than 60 percent over the considered period—of the financial resources available to the municipality was channeled through current expenditures. Investments were volatile, with a minimum level of 12.6 percent of total expenditures in 2012 and a maximum level of 38 percent in 2014–15.

	2011	2012	2013	2014	2015
Total expenditures	582,016	476,639	554,163	767,448	751,609
1. Current expenditures	394,430	416,751	429,252	478,052	468,104
1.1 Personnel	171,167	169,862	176,291	181,471	200,305
1.2 Operational	100,676	106,448	129,674	109,844	102,143
- Office materials and other administrative	6,956	6,267	5,653	3,836	4,490
- Services from third parties (energy, water,	25,082	24,666	45,898	23,117	25,581
- Transport Expenditures	16,553	16,365	14,609	16,695	15,340
- Travelling and allowances	5,364	9,741	6,323	4,790	3,841
- General Maintenance Expenditures	6,538	6,449	5,750	5,046	6,157
- Other Operating Expenditures	40,183	42,960	51,440	56,360	46,734
1.3 Subsidies	4,000	2,988	2,500	4,200	3,500
1.4 Transfers	118,588	137,452	120,788	182,537	162,156
1.5 Interest Payment	-	-	-	-	-
2. Capital Expenditures	187,585	59,888	124,911	289,396	283,505



Source: Municipality of Berat and www.financatvendore.al

RATIO ANALYSIS



The creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, improved steadily and stood well above the benchmark level of 30 percent, suggesting an adequate capacity for borrowing to finance investments. In 2015, the indicator was registered at 34.7 percent, about 4.7 points above the benchmark level.

Fiscal autonomy, measured by the ratio of own revenues to total current revenues, followed an upward trend over the considered period, remaining below but close to the benchmark level of 80 percent.

The capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was volatile and below the benchmark level of 40 percent. The indicator marked its lowest level of 7.7 percent in 2012, but grew in the subsequent three-year period to 39.6 percent in 2015. The municipality had no current loans, but could consider such an option in the future.

The level of sustainability on the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures, stabilized at 4.6 percent in 2014–15. The indicator is currently below the benchmark, signaling the need for an increased emphasis on investments. Administrative efficiency, measured by the number of municipal employees per 1,000 inhabitants, was 10.9 in 2015, well below the benchmark of 25

employees per 1,000 inhabitants.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing local tax collection rate with a particular focus on households; improve collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the drafting of a new local finances law to allow for more stable and substantial sources of financing for municipalities. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

MUNICIPALITY OF PËRMET

CITY PROFILE

Territorial organization: The current administrative borders were established in 2015, by the Territorial and Administrative Reform, which involved the merger of the former municipality of Përmet with the former communes of Çarçovë, Frashër, Petran, and Qendër Piskovë. The total area of the municipality is 606.6 square kilometers

Demography: According to 2011 census data, the municipality of Përmet has the 51st largest population in the country. According to the 2015 data from the civil registry, the municipality has 21,833 inhabitants, which is about 0.8 percent of overall population.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €3,343.4 in 2014, about €113.5 below the national average. The qark-level unemployment rate in 2014 was 15.9 percent. Tourism is a very important economic sector for the municipality; other sectors include agriculture and industry. If further developed, the tourism sector has great potential to generate additional revenues and jobs for the residents of Përmet. Exchange rate (2015): €1 = ALL 139.7; inflation rate: 1.9 percent. Source: Bank of Albania.

Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: The water supply and sewerage company in Përmet operates as a joint stock company, with an independent status from the municipality, regardless of the fact that the municipality is the only shareholder, owning 100 percent of the of company shares. Cleaning services, waste collection, and greening services are provided by the municipality through the jurisdiction's greening and cleaning department. The service is provided throughout the entire municipality, including the recently added administrative units. Solid waste disposal occurs in an open area near the city of Përmet, because a suitable a landfill that meets the municipality's needs remains lacking.

Municipal staff: Central administration: 77; Total number of employees, including budgetary units: 294.

Capital investment plan: The municipality's investment capacity is quite limited. Some small investments have been made using the municipality's own-source revenues—mostly emergent interventions such as new cemeteries and reconstruction of sidewalks and inner streets. For large-scale investments, the municipality must compete for grants from other sources.

Urban issues and challenges: Issues include a lack of roads and public services; challenges include challenges in urban and economic development disparities between administrative units and strengthening capacities in tourism destination management.



FINANCIAL SITUATION

	Items	2011	2012	2013	2014	2015	Growth Index
1	Current revenue	296,516	262,062	266,621	373,641	238,620	-5.3%
2	Operating expenditure	204,625	204,013	196,679	249,496	217,727	1.6%
3	Gross Operating balance	91,891	58,049	69,942	124,145	20,892	-30.9%
4	Debt service and borrowing costs	-	-	-	-	-	-
5	NET CURRENT BALANCE	91,891	58,049	69,942	124,145	20,892	-30.9%
6	Capital Revenues	38,821	37,962	45,848	70,000	9,924	-28.9%
7	Own capital revenues	8,538	8,810	1,221	3,654	985	-41.7%
8	Investment grants and donations	30,283	29,152	44,627	66,346	8,938	-26.3%
9	Capital investment expenditures	99,016	51,206	64,606	124,644	30,031	-25.8%
10	BALANCE AFTER INVESTMENTS	31,696	44,805	51,184	69,501	785	-60.3%
11	Cash reserves from previous years	24,847	33,391	16,676	53,367	12,359	-16.0%
12	Loan proceeds	-	-	-	-	-	-
13	OVERALL CLOSING BALANCE	56,543	78,196	67,860	122,867	13,143	-30.6%

Source: Municipality of Përmet and www.financatvendore.al

Current revenues followed a downward trend during 2011–15, and the average annual growth rate was about -5.3 percent. Current revenues increased by about 40.1 percent in 2014, mainly due to an increase in intergovernmental transfers. Operating expenditures increased by an average of 1.6 percent over the five-year period. Gross and net margins, despite being positive over the whole considered period, were -30.9 percent on average. The balance after investments suggests that despite the positive net current balance and capital revenues generated by the municipality, investments were mainly covered by external financing sources such as the Regional Development Fund and loans. The overall financial snapshot suggests that, despite the restricted availability of financial resources, the municipality was very efficient in the use of its financial resources.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 81.2 percent of the municipality's total revenues. Own-source revenues represented only 13.6 percent, and other sources, 5.2 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Revenues from shared taxes represented a marginal source of financing, accounting for about 1.1 percent of overall revenues. Unconditional transfers accounted for about 35.7 percent of total revenues, representing the main source of financing for the municipality. In addition to intergovernmental transfers, own-source revenues generated from local taxes, fees, and asset management also contributed to the municipality's overall financial performance. Local taxes and service fees accounted for 6.3 and 75.2 percent, respectively. Asset management must be improved to generate financial resources and sustain investment levels.

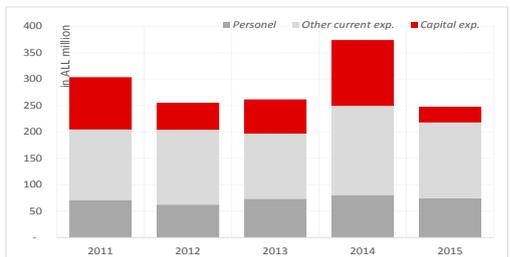
	2011	2012	2013	2014	2015	Average annual	% of total revenues
Total Revenues	305,054	270,872	267,843	377,295	248,543	-5.0%	100.0%
1. State revenues	240,063	202,223	219,881	287,414	201,775	-4.3%	81.2%
- Shared taxes	2,461	2,136	3,276	2,562	2,707	2.4%	1.1%
- Unconditional transfers	76,818	78,488	82,849	102,006	88,840	3.7%	35.7%
- Conditional transfers	160,784	121,599	133,757	182,847	110,228	-9.0%	44.3%
2. Own revenues	40,117	34,411	30,164	36,514	33,871	-4.1%	13.6%
- Local taxes	23,738	17,020	13,978	17,373	15,567	-10.0%	6.3%
- Local fees	12,200	12,286	12,703	12,433	12,912	1.4%	5.2%
- Income from assets mng.	4,179	5,104	3,483	6,708	5,392	6.6%	2.2%
3. Other own revenues	24,874	34,238	17,797	53,367	12,897	-15.1%	5.2%
- Dividends, rev. from PUC	-	-	-	-	-	-	0.0%
- Donations/Grants	27	848	1,121	-	538	111.3%	0.2%
- Loans	-	-	-	-	-	-	0.0%
- Municipal bonds	-	-	-	-	-	-	0.0%
- Carryovers	24,847	33,391	16,676	53,367	12,359	-	5.0%
State revenues	240,063	202,223	219,881	287,414	201,775	-4.3%	81.2%
Own revenues	64,991	68,649	47,961	89,880	46,768	-7.9%	18.8%

Revenues tendencies: Overall, revenues marked a negative average growth index of -5.0 percent during the considered period. Overall revenue performance was determined by negative developments in both state and own-source revenues. Revenues from state transfers decreased by an average of 4.3 percent annually, mainly due to lower conditional transfers. Revenues from shared taxes increased an average of 2.4 percent over the five-year period, and revenues from unconditional transfers increased by 3.7 percent. Own-source revenues contracted an average of -4.1 percent annually, mainly due to lower revenues from taxes (-10). Services fees and revenues from asset management performed better than taxes, with an average annual increase of 1.4 and 6.6 percent, respectively. Carryovers from previous years are an important element of other revenues but demonstrate a declining trend.

Source: Municipality of Përmet and www.financatvendore.al

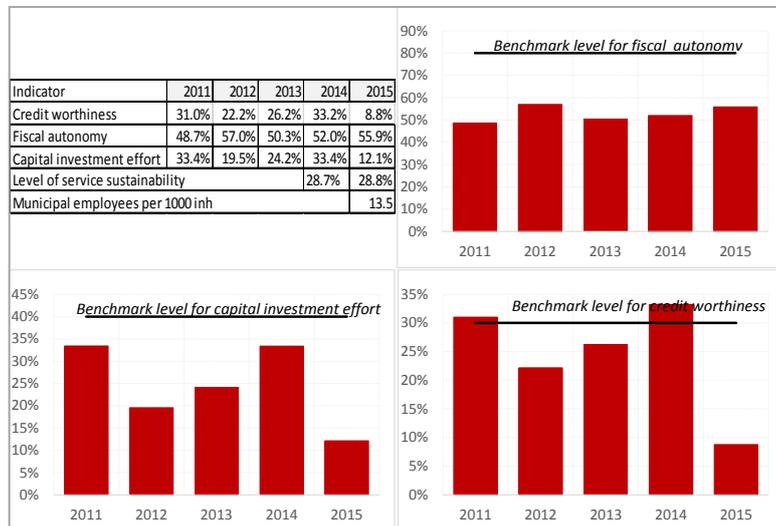
The data show that a large share of available financial resources were used to cover personnel and operating expenses over the 2010–15 period. On average, these two categories represented about 75 percent of total expenditures during the observed period. Capital expenditures represented about 25 percent of total expenditures during the same period. Operating and personnel expenditures seem to have increased reasonably during 2015, accounting for about 87.9 percent of total expenditures detriment investment expenditures.

	2011	2012	2013	2014	2015
Total expenditures	303,641	255,219	261,598	374,140	247,902
1. Current expenditures	204,625	204,013	196,992	249,496	217,870
1.1 Personnel	71,254	62,322	73,619	80,788	74,681
1.2 Operational	47,723	43,062	40,451	56,253	48,093
-Office materials and other administrative	4,034	4,266	3,271	2,877	2,197
-Services from third parties (energy, water,	10,577	7,359	6,389	11,448	10,842
-Transport Expenditures	7,697	8,034	8,037	8,515	6,946
-Travelling and allowances	3,784	3,113	2,545	2,619	2,117
-General Maintenance Expenditures	9,694	10,229	10,000	16,146	17,101
-Other Operating Expenditures	11,937	10,060	10,209	14,648	8,891
1.3 Subsidies	5,000	10,125	1,577	1,000	2,500
1.4 Transfers	80,648	88,504	81,346	111,454	92,596
1.5 Interest Payment	-	-	-	-	-
2. Capital Expenditures	99,016	51,206	64,606	124,644	30,031



Source: Municipality of Fier and www.financatvendore.al

RATIO ANALYSIS



The creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, deteriorated substantially during 2015, registering at a level of 8.8 percent, well below the benchmark level of 30 percent and the previous year's level. Results suggest that the municipality lacked the capacity to finance its investments.

Fiscal autonomy, measured by the ratio of own-source revenues to total current revenues, was significantly below the benchmark of 80 percent over the five-year period, despite some amelioration during 2015. As a very small municipality with a limited budget, the possibilities to undertake large-scale investments with own-source revenues were limited.

The capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was volatile during the observed period. The indicator dropped from 33.4 percent in 2014 to 12.1 percent in 2015.

The level of sustainability on the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures, was about 28.8 percent in 2015 (almost the same level as in 2014). The current level of the indicator was quite close to the benchmark level of 30 percent.

Administrative efficiency, measured by the number of municipal employees per 1,000 inhabitants, was 13.5 in 2015. The indicator remained below the benchmark level of 25 employees per 1,000 inhabitants.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing the local tax collection rate with a particular focus on households and improving the collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the draft of the new local finances law to allow for more stable and substantial sources of financing for municipalities. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

MUNICIPALITY OF VLORË

CITY PROFILE

Territorial organization: Current administrative borders were established during 2015, as a result of the national governmental reform (the Territorial and Administrative Reform -TAR), which involved the merger of the former municipality of Vlorë with the former communes of Oriku, Novoselë, Qendër and Shushicë. The total surface of the Vlorë Municipality is 619 km² from 12 km² before the 2014 TAR.

Demography: According to 2011 census data, the municipality of Vlorë has the seventh largest population in the country. According to 2015 data from the civil registry, the municipality has 194,857 inhabitants, which is about 6.7 percent of overall country's population.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €3,237.3 in 2014, about €219.7 below the average national level. The qark-level unemployment rate in 2014 was about 15.5 percent, 2.2 points higher than the national average of 13.3 percent. Exchange rate (2015): €1 = ALL 139.7; inflation rate (2015): 1.9 percent. Source: Bank of Albania.

Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: Ujësjellës-Kanalizime, the public company owned by the municipality, provides water supply and wastewater services. Currently, Vlorë Water Utility is under reconstruction, in the process of including all the existing water companies in one. However, at the moment, aside from the main water utility in Vlorë, there are two other water and sewage companies operating in Oriku and Novoselë that report to the municipality of Vlorë. A private enterprise contracted by the municipality provides urban waste management service in compliance with the public procurement regulatory framework.

Municipal staff: Total employees: 653; general administration: 331; technical services unit: 196; other units: 126.

Capital investment plan: The plan for the next three years is primarily oriented toward infrastructure works, such as the reconstruction of infrastructure on the Vlorë-Skelë Boulevard (€2.9 million), planned for 2017–19; parks, sidewalks, recreational spaces, and parking on both sides of the main boulevard (€2.8 million), planned for 2017–19; and the rehabilitation of a series of roads connecting the city of Vlorë with other administrative units.

Urban issues and challenges: Issues and challenges include overbuilt urban spaces, a lack of public services, disparities between urban and economic development and among administrative units, and the need to promote year-round tourism.



FINANCIAL SITUATION

Items	2011	2012	2013	2014	2015	Growth Index
1 Current revenue	2,251,483	1,881,439	1,916,149	2,200,004	777,508	-23.3%
2 Operating expenditure	1,542,812	1,499,295	1,695,979	1,849,251	1,536,659	-0.1%
3 Gross Operating balance	708,671	382,144	220,170	350,753	(759,151)	
4 Debt service and borrowing costs	-	-	-	-	14,961	
5 NET CURRENT BALANCE	708,671	382,144	220,170	350,753	(774,112)	
6 Capital Revenues	108,748	169,406	39,215	240,639	553,855	50.2%
7 Own capital revenues	-	35	2,065	2,109	384,685	
8 Investment grants and donations	108,748	169,371	37,150	238,530	169,170	11.7%
9 Capital investment expenditures	708,671	392,919	189,307	496,329	247,126	-23.2%
10 BALANCE AFTER INVESTMENTS	108,748	158,630	70,078	95,063	(467,383)	
11 Cash reserves from previous years	380,750	402,306	123,115	103,767	49,119	
12 Loan proceeds	-	-	43,451	(14,961)	-	
13 OVERALL CLOSING BALANCE	489,498	560,936	236,645	183,868	(418,264)	

Source: Municipality of Vlorë and www.financatvendore.al

Current revenues trended upward during 2011–14. Overall current revenues dropped substantially due to large revenue inflows from a 2015 infrastructure impact tax. The five-year average annual growth was negative, at -23.3 percent. Operating expenditures contracted by an average of -0.1 percent over the five-year period. In 2015, current revenues were not sufficient to cover the overall current expenditures incurred by the municipality, resulting in a negative gross operating margin. The positive net current balance turned negative in 2015. The balance after investments suggests capital revenues supported the municipality's investment efforts. Investments were also financed by external sources such as the Regional Development Fund and loans.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

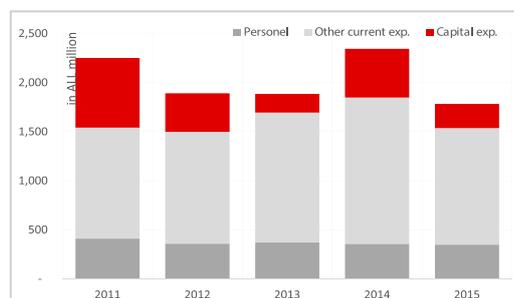
Revenue structure: State revenues accounted for 71.4 percent of the municipality's total revenues. Own-source revenues represented only 23.6 percent and other revenues, 4.9 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Revenues from shared taxes represented a marginal source of financing, accounting for about 2.2 percent of overall revenue. Unconditional transfers accounted for about 24.6 percent, almost the same as own-source revenues. Own-source revenues generated from local taxes and fees and from asset management also contributed substantially to the municipality's overall financial performance. Local taxes and service fees accounted for 15.6 and 7.9 percent of total revenues, respectively; asset management requires improvement before it can generate financial resources and sustain investment levels.

	2011	2012	2013	2014	2015	Average annual growth	% of total revenues
Total Revenues	2,251,483	1,881,474	1,918,214	2,202,112	1,845,764	-4.8%	100.0%
1. State revenues	1,180,333	1,245,184	1,254,292	1,540,238	1,318,438	2.8%	71.4%
- Shared taxes	43,137	36,180	82,474	35,880	40,483	-1.6%	2.2%
- Unconditional transfers	394,983	407,434	373,685	452,173	453,785	3.5%	24.6%
- Conditional transfers	742,212	801,570	798,133	1,052,186	824,169	2.7%	44.7%
2. Own revenues	690,400	233,984	497,356	676,835	436,105	-10.8%	23.6%
- Local taxes	586,081	107,221	387,934	509,368	287,837	-16.3%	15.6%
- Local fees	104,319	126,763	109,421	167,467	144,935	8.6%	7.9%
- Income from assets mng.	-	-	-	-	3,333	-	0.2%
3. Other own revenues	380,750	402,306	166,566	(14,961)	91,221	-30.0%	4.9%
- Dividends, rev. from PUC	-	-	-	-	-	-	0.0%
- Donations/Grants	-	-	-	-	-	-	0.0%
- Loans	-	-	43,451	(14,961)	-	-	0.0%
- Municipal bonds	-	-	-	-	-	-	0.0%
- Carryovers	380,750	402,306	123,115	-	91,221	-	4.9%
State revenues	1,180,333	1,245,184	1,254,292	1,540,238	1,318,438	2.8%	71.4%
Own revenues	1,071,150	636,290	663,922	661,874	527,326	-16.2%	28.6%

Revenues tendencies: Overall revenues marked a negative average growth index of -4.8 percent during the considered period. Revenue performance was broadly determined by own-source revenue contraction. Revenues from state transfers increased by an average of 2.8 percent annually, mainly due to unconditional transfers. Revenues from shared taxes contracted by an average of 1.6 percent over the five-year period. Own-source revenues contracted at an annual rate of -10.8 percent, mainly due to lower tax revenues. Service fees performed better than taxes, registering an average annual increase of 8.6 percent. Carryovers from previous years were an important element for other revenue streams. Given the municipality's tourism potential, much remains to be done to increase its overall revenues and financial autonomy.

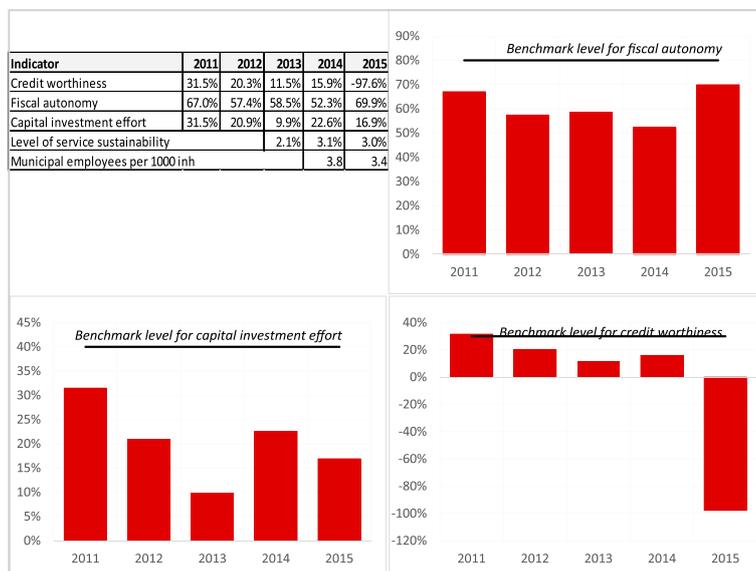
On the expenditure side, most resources were used to cover personnel and operating expenses. On average, these two categories represented about 80 percent of total expenditures over the period of 2010–15. These expenditure categories mostly accelerated over the last three years. Capital expenditures represented about 19.5 percent of total expenditures.

	2011	2012	2013	2014	2015
Total expenditures	2,251,483	1,892,215	1,885,285	2,345,580	1,783,785
1. Current expenditures	1,542,812	1,499,295	1,695,979	1,849,251	1,536,659
1.1 Personnel	411,712	359,944	371,788	357,933	348,595
1.2 Operational	528,135	470,666	448,422	599,767	543,587
- Office materials and other administrative	11,540	10,549	8,959	12,536	6,919
Services from third parties (energy, water, phone)	280,291	264,040	264,825	360,891	372,609
- Transport Expenditures	34,882	30,507	27,471	42,597	24,490
- Travelling and allowances	9,152	5,574	3,612	6,128	3,743
- General Maintenance Expenditures	19,382	8,378	9,265	18,304	5,105
- Other Operating Expenditures	172,889	151,618	134,290	159,311	130,722
1.3 Subsidies	66,198	69,211	182,828	86,805	72,764
1.4 Transfers	532,217	594,072	684,942	796,511	566,427
1.5 Interest Payment	4,550	5,402	7,998	8,236	5,286
2. Capital Expenditures	708,671	392,919	189,307	496,329	247,126



Source: Municipality of Vlorë and www.financatvendore.al

RATIO ANALYSIS



The creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, deteriorated substantially during 2015, turning negative to -97.6 percent, well below the benchmark level of 30 percent. Results suggest that the municipality lacks the capacity to borrow to finance its investments.

Fiscal autonomy, measured by the ratio of own revenues to total current revenues, was volatile over the five-year period and was below the benchmark level of 80 percent despite amelioration in 2015. The volatility of the indicator was determined by changes in the level of unconditional transfers allocated and the criteria used to divide them among municipalities.

The capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was volatile over the considered period. Since 2014, and especially in 2015, investments were mostly financed through state transfers rather than own-source revenues.

The level of sustainability on the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures, stabilized at around 3.0 percent during 2015.

Administrative efficiency, measured by the number of municipal employees per 1,000 inhabitants, was 3.4 in 2015, down from 3.8 in 2014. The indicator remained below the benchmark level of 25 employees per 1,000 inhabitants.

FINANCIAL PROJECTIONS AND INVESTMENT PROGRAMMING

Multiannual financial projections are available and regularly updated as part of the MTBP document. There are no special models applied for projections that are mostly realized based on ministry of guidelines and an analysis of historical trends. Since 2016, the municipality has been executing a new vision as specified in the draft territorial development strategy. The capital investment plan guides the prioritization of investments, despite constraints to access to capital, such as local borrowing and the issuance of debt.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing the local tax collection rate with a particular focus on households and improving the collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the draft of the new local finances law to allow for more stable and substantial sources of financing for municipalities. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

CITY OF BANJA LUKA

CITY PROFILE

Territorial organization: Administrative center of the Bosnia and Herzegovina of Republic of Srpska, consists of 57 sub-municipalities. Total area of the city: 1.239 km². Situated on 17°12' of longitude and 44°46' of latitude.

Population: Total population in 2013-180.056; 2016-182.848 (estimate RS Bureau of Statistics); preliminary census in 2013 BiH-199.191 (BiH Agency of Statistics) Annual growth: +0.4%. (2013-16) status in the country: 2nd place (status in the RS: 1st place). Density: 147.6/km².

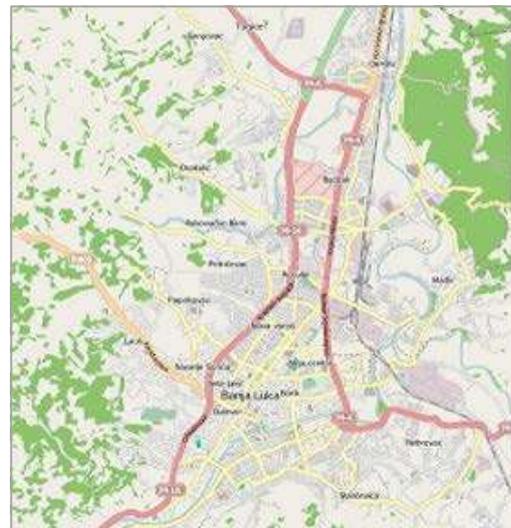
Economy: GDP per capita: 3.302 EUR (estimate 2016).Banja Luka holds 9.497 business entities, not including individual entrepreneurs, and a labor force of 58.482, (basic activity, head office on the city territory). The unemployment rate declined from 20% in 2015 to 17% in 2016. Banja Luka is a university, economic, political and administrative center of the Republic of Srpska with favorable geographic location (highway 50 km, connected to the highway Zagreb-Belgrade; highway Banja Luka-Doboj is nearly completed, as a connection between corridor 5c;international airport is 25 km from the city).Its economic potential is related to development of trade, services (IT), tourism, agriculture and processing industry. Due to the large number of green areas (parks and alleys),it is called the "City of greenery. It is also called "the city of young people, sports and culture. The City is preparing its candidacy for the European Capital of Culture in 2024.

Utilities management: The city of Banja Luka is either majority or significant owner of 5 utility companies operating in: waste management and recycling, heating, water supply and sewerage management, sanitation and funeral services. Also, the city is the founder of 1 public company providing entertainment and recreation, majority owner of 1 shareholders' company for utility fee collection and design and engineering work. Construction and maintenance of street lighting, construction and maintenance of road infrastructure, are funded by the city budget through public procurements and contracts with private companies. Public transport services are provided by private transport companies based on the city permit. Public parking services are provided by the city administration through one of its departments.

Municipal staff: 750 in city administration and 606 in public institutions and organizations funded through city budget in 100% (2016).

Current Project Investment Plan: Capital expenditure plan was adopted for the period 2015-2017. **Planned investments in millions of BAM** (defined source of funding): **8.7** (2015), **49** (2016), **59.4** (2017). Investment structure: 17% economy; 41,4% transport and utility infrastructure; 41,6% for housing, education, social welfare and health care, and sports and culture, environment protection. Development of a new capital investments plan is under way, which will define new list of priorities and realistic sources of funding.

Urban issues & challenges: Upgrading the City as a regional center. Strategic goals: sustained development and larger efficiency in resource management, (goal 1); diversified economic structure ensuring full employment (goal 2); infrastructure efficiency and efficacy (goal 3); well integrated local community (goal 4); revitalized rural areas with ensured conditions for self-sustainable development (strategic goal 5). (Source: Reviewed "City Development Strategy 2007-2019").



FINANCIAL SITUATION

Items (in BAM)	2013	2014	2015	2016	Growth Index
Current revenue	111,160,055	109,040,498	112,365,781	116,658,869	1.6%
Operating expenditure	85,771,700	84,756,429	79,901,232	82,576,098	-1.3%
Gross Operating balance	25,388,355	24,284,069	32,464,549	34,082,771	10.3%
Debt service and borrowing costs	56,656,439	27,985,095	24,120,911	27,106,485	-21.8%
NET CURRENT BALANCE	-31,268,084	-3,701,026	8,343,638	6,976,286	160.7%
Capital Revenues	3,370,173	3,512,335	2,995,594	2,522,616	-9.2%
Own capital revenues	3,130,171	3,151,784	2,905,471	2,358,115	-9.0%
Investment grants and donations	240,002	360,551	90,123	164,501	-11.8%
Capital investment expenditures	31,865,594	12,525,708	9,795,741	18,773,229	-16.2%
BALANCE AFTER INVESTMENTS	-59,763,505	-12,714,399	1,543,491	-9,274,327	46.3%
Cash reserves from previous years	92,124	60,238	99,200	4,962,571	277.7%
Loan proceeds	58,094,155	5,513,505	5,397,209	5,687,791	-53.9%
OVERALL CLOSING BALANCE	-1,577,226	-7,140,656	7,039,900	1,376,035	n.a.

Exchange: 1 BAM = 0.51129 EUR / 1 EUR = 1.95583
BAM. Inflation index:
 2013 / 2014 / 2015 / 2016 / 2017 (RS, 2017-estimate)
 0.0% 1.2% +1.4% -0.4% 1.3%

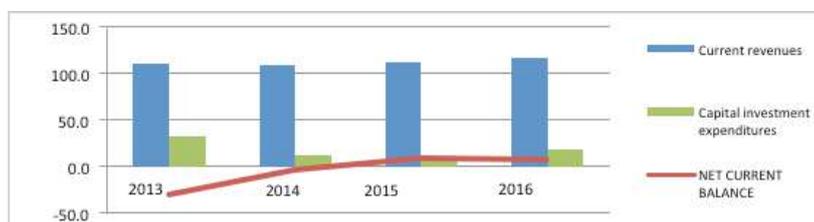
- 2016 actual budget of the City of Banja Luka is EUR 65.1 million, of which EUR 59,7 million is from current revenues.

- Average annual growth of current revenues in the period under review was 1.6%, which is the result of decreased state tax transfers with increased own-source revenues.

- Debt service: 2013 refinancing of loans, which significantly reduced net current balance. Afterwards, due to the reduced current expenditures and rise in revenue, net current balance increased since 2014. In 2017, debt is refinanced again, hence annual debt service is reduced from 11.6 mil. EUR to 9.1 mil. EUR (around 6 mil. EUR in the following years).

- Operating exp. were in 2016 42.2 mil. EUR, with a decline of 1.3% in the period under review.

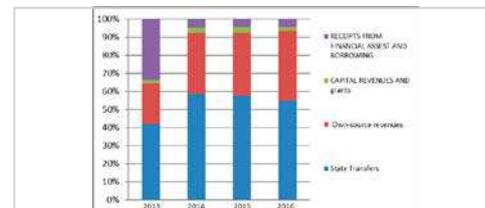
- Capital expenditures in 2016 were 9.6 mil. EUR. In 2013, 5.1 mil. EUR was invested in recapitalization of heating company (Toplana). Compared to 2013, decline in investment is for 16.2%, which is mainly a consequence of reduced credit inflow, decline in capital revenues and flood repairs in 2014 funded from the current revenues



HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Description	Million BAM				Million EUR	
	2013 Execution	2014 Execution	2015 Execution	2016 Execution	2016 Execution	Growth 2013-16
TOTAL CURRENT REVENUES	111,2	109,1	112,3	116,7	59,6	1,6%
State Transfers	72,2	68,9	70	68,4	35,0	-1,8%
Shared taxes	69,3	65,7	65,9	64,7	33,1	-2,3%
Unconditional transfers	0	0	0	0	0,0	-
Conditional transfers-social protection and others	2,9	3,2	4,1	3,7	1,9	8,5%
Conditional transfers for development	0	0	0	0	0,0	-
Own-source revenues	39	40,2	42,3	48,25	24,7	7,4%
Local taxes	8,4	8,6	9,1	10,1	5,2	6,3%
Local fees	7,2	8	8	7,6	3,9	1,8%
Local income from property	11,3	10,5	13,8	20,25	10,4	21,5%
Other local income	12,1	13,1	11,4	10,3	5,3	-5,2%
CAPITAL REVENUES AND grants	3,4	3,5	3,8	2,5	1,3	-9,7%
RECEIPTS FROM FINANCIAL ASSET AND BORROWING	58,1	5,5	5,4	5,7	2,9	-53,9%

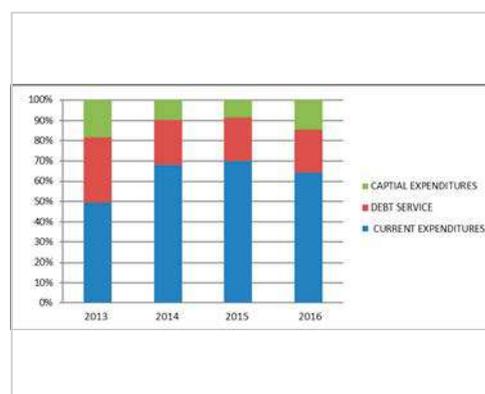
Current Revenues: The most significant sources of current revenue are shared taxes (58%), The most significant sources of current revenue are shared taxes (15%), asset revenues (19%), and other local revenues (8%).



The highest share of current revenue comes from indirect taxes with an average share of 37%. Local property tax with an average share of 6% has the potential to be increased in the future. Revenue from state transfers showed a high volatility and decline of 1.8%, while own-source local revenue recorded an average annual growth of 7.4%. In 2013, there was a high share of proceeds from borrowing represented due to refinancing of long-term loans. The share of state transfers from the Republic is reduced and in 2016 it reaches the share of 58%, whereas the share of own-source revenues is increased (42%). Unconditional and conditional (development) transfers, were not allocated. Capital revenues are in decline (-9.7%), but activities were taken to increase it ("Asset Management" project). Proceeds from borrowing became stable after 2013 on 4.5% of the City budget.

Description	Million BAM				Million EUR	
	2013 Execution	2014 Execution	2015 Execution	2016 Execution	2016 Execution	Growth 2013-16
CURRENT EXPENDITURES	85,7	87	79,9	82,5	42,2	-1,3%
Expenses for payroll	36,8	36,6	36,1	36,2	18,5	-0,5%
Expenses for goods and services	29	29,2	23,5	25	12,8	-4,8%
Current subsidies and grants (except capital), social transfers to citizens	17,9	18,9	18,3	19,8	10,1	3,4%
Other current expenditures (VAT)	2	2,3	2	1,5	0,8	-9,1%
DEBT SERVICE	56,7	28	24,1	27,1	13,9	-21,8%
CAPITAL EXPENDITURES	31,9	12,5	9,8	18,8	9,6	-16,2%
OVERALL EXPENDITURES	174,3	127,5	113,8	128,4	65,6	-9,7%

The shares of current expenses for payroll (except for 2013, when the budget framework was increased due to refinancing), ranged between 28% and 31% with regard to total budget expenditures. These expenditures were reduced (-0.5%) as well as for goods and services (-4.8%). Current transfers, subsidies and grants rose (3.4% with social transfers to citizens and subsidies to companies) and have average share of around 15% (except 2013). Capital expenditures dropped from 18% in 2013 to 15% in 2016. Because of refinancing of loan debt in 2017, large capital investments are expected primarily in the construction of new city heating plan on wood chips and transport infrastructure.



RATIO ANALYSIS

Ratios	Benchmarks	2013	2014	2015	2016
1 Credit worthiness					
Gross Operating savings/ Current revenue	> 30%	23%	22%	29%	32%
2 Indebtedness					
Debt outstanding /Gross operating savings	< 10 years	7.9	7.9	5.4	4.1
Debt service / Total current revenue	< 10 %	51%	26%	22%	22%
Debt outstanding /Budget total	< 60%	116%	163%	146%	125%
3 Fiscal autonomy					
Own (taxes + fees + unconditional grants)	> 80 %	35%	37%	38%	41%
4 Capital investment effort					
Capital investment expenditure / Total Cu	> 40 %	29%	12%	9%	16%
5 Level of service sustainability					
Maintenance works expenditure / Operat	> 15 %	8%	7%	8%	9%
6 Other ratios					
Salaries & wages / Operating actual expen	< 40 %	43%	43%	45%	44%
Number of municipal employees/1000 citi	< 25	7.5	7.4	7.3	7.4
Actual revenue / Planned revenue	95<A/P<1.05	94%	92%	102%	95%

• **Operating margin** increased from 23% to 32% of current revenues and net margin shows rise as positive changes.

• **The debt burden** is reducing, which is good, but annual share of debt service in current revenue is still high.

• Ratio analysis indicates a need to increase the city's **fiscal autonomy**.

• **Share of capital investments** shows volatility (2013 5mil EUR invested in recapitalization of city heating plant). Apart from 2013, share of these expenses gradually increased. As the refinancing of loans was successfully completed in 2017, conditions for additional capital investments in the future period have been created.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

City's revenues are expected to rise by 2% on an annual basis. Smaller operational costs are also expected. New employments are not expected in the forthcoming period. Refinancing will enable lower annual amounts of debt repayment, which will lead to investments in the new district heating plant, business zones, water supply.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Financial improvement plan has two main objectives with financing estimate of 1.5 mil. BAM: (I) Financial improvement and (II) Improved local funds management. **Goal I** has 3 specific objectives which are under the competence of central state or entity (increased share of the City in distribution of income on indirect taxes and personal income tax; control over the implementation of the Income Tax Law; introduction of new utility fees) and 5 specific goals under the competence of local self-governance (debt restructuring; revenue management based on immovable property tax, rental and utility contribution; implementation of public-private partnership projects and the project "Asset Management). **Goal II** has 5 specific objectives: An advanced model of program budgeting (implementation of more complex models and precautionary principle); development of financially sustainable "Capital Investments Plan" and the new "Development Strategy", which will be more focused on public policies; advanced control of budget execution (centralized procurement, improved implementation analysis and monitoring); additional internal audit control; improved budget liquidity (collection of all receivables; write off of suspicious and controversial receivables).

MUNICIPALITY OF FOČA

CITY PROFILE

Territorial organization: Foča is one of the largest municipalities in Bosnia and Herzegovina, with a total area of 1,115 square kilometers. It is located in the south-eastern part of RS, and it occupies a prominent place in the Upper Drina region. Foča comprises 24 local community units (mjesne zajednice).

Demography: Total resident population (2016): 17,200; annual population growth: -0.0232 percent; country population ranking: 65; population density: 15 inhabitants per square kilometer.

Economy: Gross domestic product (GDP) per head (country level): 6,454; GDP real growth (country level): 0.7 percent; active population: 7,200; city unemployed population (registered at national employment service): 3,700; city unemployment rate (percent of active population): 47.3 percent. Tourism, agriculture, and energy are the most prominent economic sectors. The National Park Sutjeska, is in the municipality's territory. It is the oldest and the largest national park in Bosnia and Herzegovina, with an area of 17,250 square kilometers. Perucica, the best preserved primeval forest in Europe with unique beauty is also in this area.

Utilities management: Water supply and wastewater treatment and drainage: Izvor AD (public utility company); collection and disposal of waste, maintenance of municipal cemetery, city streets and parks, and public spaces: Komunalac AD (public utility company). The administrative committee and utility companies determine prices for water supply and wastewater services.

Municipal staff: Municipal administration: 157; general administration, including 3 representatives: 104; preschool administration: 16; social care administration: 16; municipal tourism organization: 5; and cultural administration (culture center and museum): 19.

Existing project investment plan: Foča's development strategy until 2026 includes detailed situational analyses of sectors, a SWOT analysis, a vision statement, main strategic objectives, and strategic programs. The first three-year implementation plan was adopted for 2017–19 in accordance with the development strategy. Financing will be shared by the city budget and funds from international and domestic donors, the European Commission, and the UNDP.

Urban issues & challenges: Improve the quality of life through capital investments. Roads, water supply, sewage, and kindergarten are among the most significant issues. Challenges include land management, commercialization, and employment.



FINANCIAL SITUATION

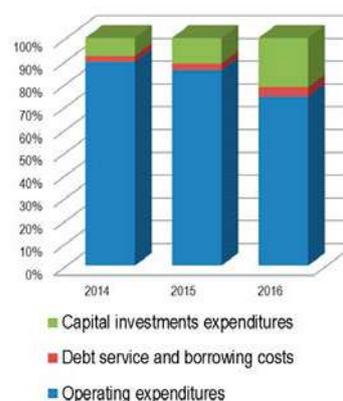
Items (in BAM)	2011	2012	2013	2014	2015	2016	Growth Index (percent)	2016 (€)
Current revenue	8,412,028	10,828,477	8,955,302	8,963,839	9,540,996	10,933,976	6.8	5,590,453
Operating expenditure	6,115,029	7,161,550	7,460,074	9,200,285	8,117,504	8,447,862	8.4	4,319,323
Gross Operating balance	2,297,005	3,666,927	1,495,228	(236,446)	1,423,492	2,486,114	2.0	1,271,130
Debt service and borrowing costs	792,172	130,780	264,682	292,384	288,159	475,207	-12.0	242,969
NET CURRENT BALANCE	1,504,833	3,536,147	1,230,546	(528,830)	1,135,333	2,010,907	7.5	1,028,160
Capital Revenues	165,427	95,588	149,544	119,632	383,725	575,235	36.6	294,113
Own capital revenues	161,515	90,894	9,000	14,047	79,330	58,400	-22.5	29,859
Investment grants and donations	3,912	4,694	140,544	105,585	304,395	516,835	239.0	264,254
Capital investment expenditures	1,643,182	4,775,533	522,012	806,489	1,060,240	2,455,464	10.6	1,255,459
BALANCE AFTER INVESTMENTS	27,078	(1,143,798)	858,078	(1,215,688)	458,818	130,678	48.2	66,815
Cash reserves from previous years	-	-	-	-	-	-	-	-
Loan proceeds	-	2,000,000	-	1,130,000	-	300,000	-	153,388
OVERALL CLOSING BALANCE	2,867	(3,812)	(2,741)	(2,337)	(4,452)	(4,452)	-	(2,276)

Exchange: €1 = BAM 1.95583 / BAM 1 = €0.51129

Inflation index (percent)

2011 / 2012 / 2013 / 2014 / 2015 / 2016
+3.9 +2.1 0.0 -1.2 -1.1 +0.5

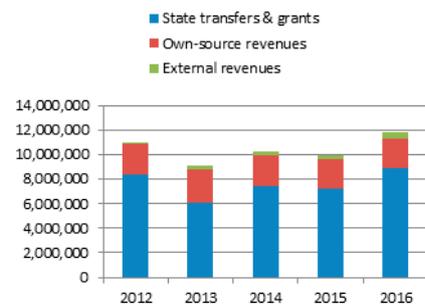
Structure of public expenditures



Revenues and expenditures: The highest share of expenditures went to operating expenditures (2016—74 percent). Capital investments increased during the last three years: 8 percent in 2014, 11 percent in 2015, and 21 percent in 2017; as did borrowing costs and debt services: 2.8 percent in 2014, 3.0 percent in 2015, and 4.1 percent in 2016. Municipal capital revenues, including own-source capital revenues, were much lower than capital investments so a large portion of capital investments were financed with current revenues.

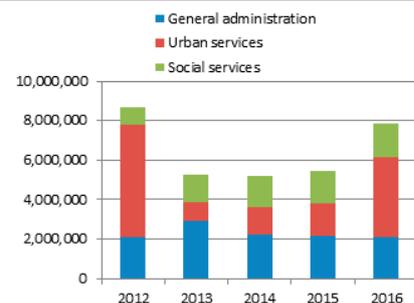
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Items (in BAM)	2011	2012	2013	2014	2015	2016	Share 2016 (percent)
1 State transfers and grants	6,451,086	8,356,701	6,117,689	7,497,864	7,258,431	8,902,909	75.4
2 Own-source revenues	2,207,688	2,560,670	2,715,507	2,518,484	2,441,225	2,388,575	20.2
3 External revenues	80,196	6,694	280,650	211,169	304,395	516,835	4.4
4 TOTAL REVENUES	8,738,970	10,924,065	9,113,846	10,227,517	10,004,051	11,808,319	100.0



Current Revenues: The most significant current revenues were state transfers and grants (75 percent in 2016). The share of revenues increased in correlation with an increasing VAT (value-added tax) and decreasing own-source (non-tax) revenues. State grants financed with the support of donors (European Union and others) were implemented in parallel with the municipal budget.

Items (in BAM)	2011	2012	2013	2014	2015	2016	Share 2016 (percent)
1 General administration	1,716,705	2,116,156	2,921,152	2,202,600	2,153,055	2,120,350	27
2 Urban services	3,320,523	5,678,811	929,073	1,402,536	1,625,678	3,990,784	51
3 Social services	783,987	898,074	1,409,112	1,590,810	1,661,896	1,727,704	22
4 TOTAL EXPENDITURES	5,821,215	8,693,041	5,259,337	5,195,946	5,440,629	7,838,838	100



Current Revenues: The share of current expenses for payroll and goods and services (general administration) were relatively stable accounting for 27 percent of budget expenditures. Current social transfers jumped from BAM 783,987 in 2011 to BAM 1,727,704 in 2016 due to increased social transfers to citizens. The share of capital expenditures to total expenditures was very variable, making it difficult to determine a trend over the short term.

RATIO ANALYSIS

Indicator (definition)	Comparative Index	2011	2012	2013	2014	2015	2016
Creditworthiness							
Gross operating savings/current revenue (percent)	> 30	27.3	33.9	16.7	-2.6	14.9	22.7
Indebtedness							
Debt outstanding/gross operating savings (years)	< 10	0.0	0.0	0.5	-15.7	2.4	1.2
Debt service/total current revenue (percent)	< 10	9.4	1.2	3.0	3.3	3.0	4.3
Debt outstanding/budget total (percent)	< 60	0.0	0.0	8.1	40.8	34.8	25.6
Borrowing/current revenues (percent)	< 15	0.0	18.5	0.0	12.6	0.0	2.74
Fiscal autonomy							
Own (taxes + fees + unconditional grants)/total current revenue (percent)	> 80	26.2	23.6	30.3	28.1	25.6	21.8
Capital investment effort							
Capital investment expenditure/total current revenue (percent)	> 40	19.5	44.1	5.8	9.0	11.1	22.5
Capital investments from earmarked grants/total investment expenditures (percent)	< 50	0.0	0.0	0.0	0.5	1.3	1.3
Level of service sustainability							
Maintenance work/operating expenditures (percent)	> 15	8.7	8.4	6.7	7.5	6.7	6.7
Other ratios							
Salaries and wages/actual operating expenses (percent)	< 40	19.5	19.9	19.4	19.7	17.0	17.0
Number of municipal employees per 1,000 citizens (percent)	< 25	8.0	10.0	10.0	9.0	9.0	9.0
Actual revenue/planned revenue (percent)	95<A/P<105	95.3	110.7	102.7	102.0	99.7	99.7

Operating savings were below the benchmark but relatively volatile over the observed period due to changes in revenues and expenditures. Indebtedness levels were within acceptable limits.

Fiscal autonomy was significantly low because a major portion of the revenues comes from state transfers. The municipality of Foča has no fiscal autonomy. It depended on state transfers and grants. Foča's lack of fiscal autonomy is based in legislation and compounded by the fact that the VAT (value-added tax) is collected at the state level.

Capital investment efforts by the municipality were below the benchmark. Foča can only increase this indicator by increasing revenues because operating expenditures cannot be significantly reduced. The number of municipal employees per hundred citizens was 9, and salaries and wages were lower than 20 percent of operating expenditures, in accordance with benchmark.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Financial projections: The main assumptions behind revenue projections are historical analyses and DOB. Historical analyses are important because a large portion of municipal revenues is state transfers (shared taxes) on which the municipality depends. Own-source revenues are variable, and it is very difficult to make accurate projections.

Investment programming: The municipality of Foča adopted a development strategy for capital projects and plans for capital investment over three years, including the reconstruction of the primary and secondary water supply system for €3.5 million; reconstruction of the primary and secondary sewerage network for €3.4 million; building of a municipal landfill for €1 million; and building a health center for €1 million.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the municipality's financial situation through the acquisition of additional donations by applying for IPA (Instrument for Pre-Accession) funds; improve land management and commercialization of unused land and forest; **improve the municipality's financial management by** reducing the influence of politics at the budget planning stage rejecting unrealistic capital budget investment requests; and adhering to multiannual financial plans.

MUNICIPALITY OF NOVO SARAJEVO

CITY PROFILE

Territorial organization: Municipality of Novo Sarajevo is one of the four municipalities of the City of Sarajevo, the capital of Bosnia and Herzegovina, which has 297,416 inhabitants and covers 141.5 km². Novo Sarajevo municipality is one of the 9 local communities in the Sarajevo Canton. The total area of the municipality is 9.9 km², and includes 18 local communities (mjesna zajednica).

Demography: Population (Census 2013) was 68,802 and estimates for 2015 is 73,862: Annual population growth is 1%. Density: 7,461 inhabitants / km²

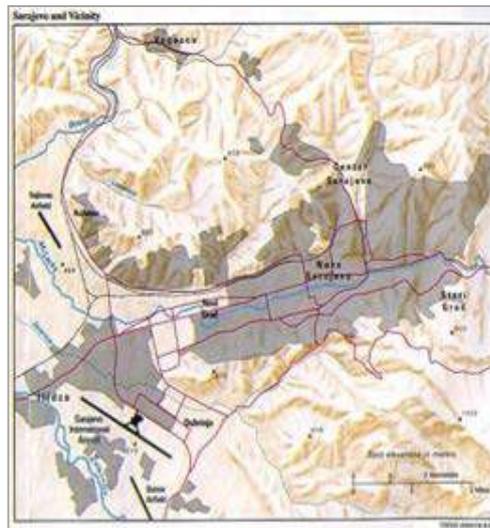
Economy: Total income per capita 209 EUR in 2015, Population activity rate 43,2; Unemployment rate (% of active population) 26.9%; employment rate 74.1%(% of active population); Development Index in the Federation of BiH 146.2.

Utilities management: None of the utility companies are included in the municipal budget, since utility companies are not under the jurisdiction of municipalities in Sarajevo Canton. However, in some cases, the municipality transfers funds to some utility companies for specific projects.

Municipal staff: 200 employees in municipal administration.

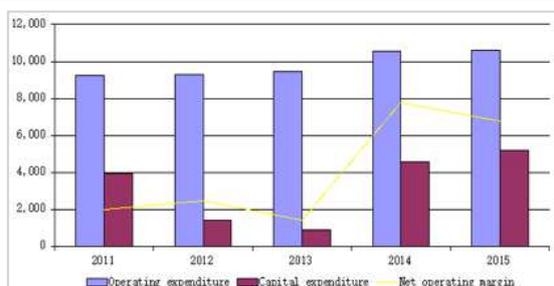
Current Project Investment Plan: Main capital projects and capital investment plan for next three years: Construction of the sewerage network according to the Development strategy, investment of 0.8 EUR, Reconstruction of the Bosko Buha facility for educational and cultural events, investment of 0, 7mil EUR, Construction of a community building and an outpatient clinic in the settlement Hrasno Brdo, investment of 0.8 mil EUR

Urban issues & challenges: Development strategy of the municipality includes social, economic and environmental development in order to improve quality of citizens' life and overall development of the municipality. New sectoral goals are set for following 5 years, while operating plans are prepared for 3 years as well as capital investment plans with new projects. Issues to address include local asset management and illegal constructions. Challenges are improving citizens' quality of life, creating conditions for attracting investment, and creating new employment opportunities for the citizens.



FINANCIAL SITUATION

Items in 000 BAM	2011	2012	2013	2014	2015	Growth index (2011-15)	2015 (000 EUR)
Current revenue	11,228	11,718	10,845	18,322	17,404	12%	8,898
Operating expenditure	9,217	9,279	9,450	10,551	10,622	4%	5,431
Gross operating balance	2,011	2,438	1,394	7,771	6,781	36%	3,467
Debt service and borrowing costs	0	0	0	0	0		0
NET CURRENT BALANCE	2,011	2,438	1,394	7,771	6,781	36%	3,467
Capital revenues	0	0	0	0	0		0
Own capital revenues	0	0	0	0	0		0
Investment grants and donations	0	0	0	0	0		0
Capital investment expenditure	3,926	1,417	866	4,584	5,187	7%	2,652
BALANCE AFTER INVESTMENT	-1,914	1,021	528	3,187	1,594		815
Cash reserved from previous years	0	0	0	0	0		0
Loan proceeds	0	0	0	0	0		0
OVERALL CLOSING BALANCE	-1,914	1,021	528	3,187	1,594		815



Exchange: 1 EURO= 1.95583 BAM

Inflation index:

BiH. 2012: 2.1%, 2013: -0.1%, 2014:-0.9%, 2015:-1.0%. 2016:-1.1%. (Central bank of BiH)

The budget for 2015 was realized in the amount of 8.9 million euros, with strong revenue growth from 2011 to 2015 by 12% annually.

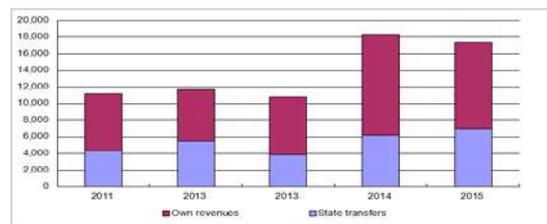
In the period 2011-2015 capital expenditure recorded strong growth in investment activities by 7% annually on average.

The municipality does not have any debt.

Operating margin was only in 2011 lower than capital investment expenditure. Capital expenditure decreased in 2013, but recovered in last two years. Capital expenditure is financed from ongoing revenues, no sales of assets, donations or capital intergovernmental transfers were recorded.

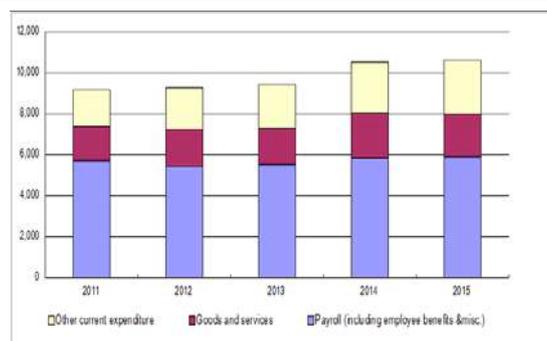
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

'000BAM	2011	2012	2013	2014	2015	Growth index	2015in EUR
State transfers	4,312	5,489	3,870	6,231	7,004	13%	3,581
Own revenues	6,916	6,229	6,975	12,091	10,400	11%	5,317
External revenues	0.0	0.0	0.0	0.0	0.0	n.a.	0.0
Total current revenues	11,228	11,718	10,845	18,322	17,404	12%	8,898



Total municipal revenue increased in 2014, mainly due to higher revenue collected from land development fees. Shared tax were rather stable, until 2015 when state general transfers (indirect tax) increased due to change of Law on public revenue sharing in FBiH (which effects only Sarajevo Canton and its municipalities). Property tax is the sole local tax in FBiH, but in Novo Sarajevo it is shared with the Canton (which also administers it).

Expenditure in 000 BM	2011	2012	2013	2014	2015	Growth (2011-15)	2015 (000 EUR)
Payroll (including employee benefits & misc.)	5,731	5,442	5,538	5,871	5,926	1%	3,030
Goods and services	1,680	1,822	1,768	2,163	2,068	-1%	1,057
Other current expenditure	1,805	2,015	2,145	2,517	2,629	-4%	1,344
Interest expense	0	0	0	0	0	0%	0
TOTAL OPERATING EXPENDITURE	9,217	9,279	9,450	10,551	10,622		5,431



Expenditure structure is dominated by payroll expenditure (including employees benefits), and shows 1% annual growth. In 2011 payroll expenditure were 62% out of total operating expenditure, but since then until 2015 shows decreasing trend and 2015 make 56% in the structure. Other current expenditure from 20% amounted to 25% in the structure, mostly as result of increasing current transfers of social benefits to citizens and NGOs.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2013	2014	2015
1. Credit worthiness						
Operating savings before interest/current revenue	> 0,3	0.2	0.2	0.1	0.4	0.4
2. Indebtedness						
Debt services / Total current revenue	< 10 %	No Loans				
3. Fiscal autonomy						
Own taxes + fees + unconditional grants/Total Current revenues	> 80 %	62%	53%	64%	66%	60%
4. Capital investment effort						
Capital investment expenditure/Current actual revenue	> 40 %	35%	12%	8%	25%	30%
Expenditures for capital investments delegated by the state / total investment expenditures	> 50 %	0%	0%	0%	41%	35%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	2%	2%	2%	2%	3%
6. Others						
Salaries/Operating actual expense	> 40 %	62%	59%	59%	56%	56%
Actual revenue / Planned revenue	> 95%	46%	55%	53%	82%	67%

Creditworthiness: Operating margin shows stable trend and above benchmarks in 2014-15 after a particularly low level in 2013.

Fiscal autonomy is low, substantially below the benchmark. State grants are low about 30% of current revenues, but most earmarked.

Capital investment effort shows great fluctuation, was the lowest in 2013, but effort is on the rise in last two years.

Labor efficiency: Salaries comparing to operating expenses are substantially above the benchmark which indicates issues of over-employment and low rationality of the municipal administration.

Budget predictability is low, but improving.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

It is necessary to harmonize the Development strategy with the municipal finance system. Financial analysis should be prepared every year as a base for revision of the three year operating plans annually.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve financial situation of the municipality: Change legislation in order to stop current sharing property tax with the Canton, give more flexibility on the local tax policy and Improve coordination with tax administration in local tax collection.

Improve financial management of the municipality: Improve reliability of forecasting revenues and expenditures, Improve cost analysis of main expenditure categories, Improve expenditure monitoring, Improve Budget execution reporting, Establish an asset management system.

MUNICIPALITY OF ODŽAK

MUNICIPAL PROFILE

Territorial organization: The municipality of Odzak is located in the northern part of Bosnia and Herzegovina and is one of the 3 local self-government units in the Posavska County. The total area of the municipality of Odzak is 158.4 km² and includes 22 local communities (mjesne zajednice). The municipality was hit by floods on two occasions in 2014, which was the biggest natural disaster this municipality has ever experienced.

Demography: According to the 2013 Census, the number of inhabitants is 21,289, and 18,397 according to estimates for 2016, with a population density of 116 inhabitants/km². The number of inhabitants has a steady downward trend, and in 2016, the annual growth was -149, while natural increase per 1000 inhabitants was -8.10.

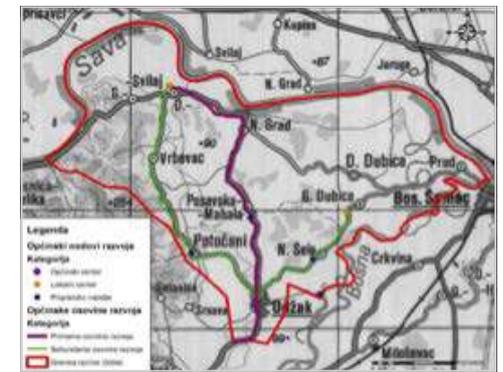
Economy: In 2016, the municipality had 160 active legal entities and 203 small craft businesses. All economic indicators analyzed have a growth trend (total income, profit, employment, equity, coverage of import by export amounts to over 90%). The strongest economic activity in the municipality of Odzak is the manufacturing industry: 42 entities, 860 employees, 80 million KM of the total income, more than 50% products are exported to the market, over 3 million EUR profit). Tax revenue per capita in 2016 amounted to 56 EUR. The employment rate of the active population in 2016 was 51.4; the unemployment rate (% of the working population) is 48.6%, and the employment rate is 17.1%; According to the development of municipalities, Odzak is 57th out of 79 municipalities in the Federation of Bosnia and Herzegovina.

Utility Management: The Odzak Municipality provides water, wastewater treatment and waste disposal services through its majority public company JP Komunalac.

Municipal staff: 48 employees in the municipal administration.

Current Investment Plan: The Key Strategic Planning Document is the Revised Development Strategy of the Municipality of Odzak for the period 2016-2020. A public debate on the new Spatial Plan of the Odzak municipality for the period 2016-2035 is under way and The Plan is expected to be adopted in 2017. Capital Investment Plan 2017-2019, among other, includes the following investments: construction and reconstruction of water supply; expansion of business zones North at a future border crossing; strengthening tourism especially hunting and fishing; expansion and rehabilitation of the sewerage system in the municipality of Odzak; rehabilitation of an existing landfill for the disposal of waste and illegal landfills; reconstruction of the existing road network destroyed in floods, field roads and channels; irrigation; completion of land consolidation; demining mines of contaminated surfaces; construction of terminal and other facilities at the future border crossing BiH/Croatia.

Urban Issues and Challenges: Urban issues in the municipality of Odzak are a lack of investment, production and business facilities; inactive privatized companies; wild dumps and damage from war and floods; large land area contaminated with mines. Challenges for the municipality of Odzak are: improving the quality of life of citizens; creating conditions for attracting investment and employment by respecting environmental standards, and thus reducing the outflow of the working-age population.

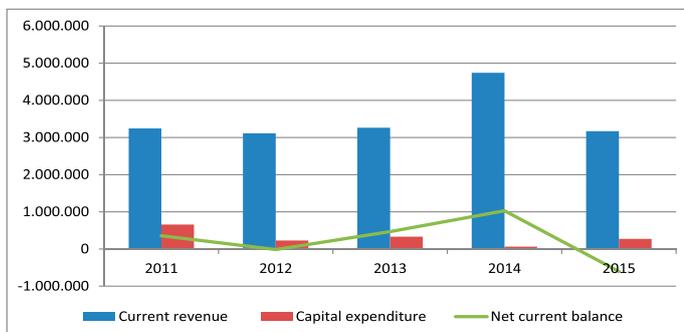


FINANCIAL SITUATION

Items in B AM	2011	2012	2013	2014	2015	Growth Index	2015 (000)
Current revenue	3,241,478	3,113,431	3,261,081	4,740,756	3,171,580	-1%	1,622
Operating expenditure	2,828,907	3,045,421	2,712,610	3,638,185	3,722,701	7%	1,903
Gross Operating balance	412,571	68,010	548,471	1,102,571	-551,121		-282
Debt service and borrowing costs	57,013	81,011	78,970	70,522	50,178	-3%	26
NET CURRENT BALANCE	355,558	-13,001	469,501	1,032,049	-601,299		-307
Capital Revenues	659,221	230,741	330,260	64,184	276,503	-20%	141
Own capital revenues	0	0	0	0	276,503		141
Investment grants and donations	659,221	230,741	330,260	64,184	0		0
Capital investment expenditures	1,209,298	446,893	286,320	249,623	633,750	-15%	324
BALANCE AFTER INVESTMENTS	-194,519	-229,153	513,441	846,610	-958,546	49%	-490

Exchange rate (2011-2015):
1 EURO = 1.95583 BAM .

Inflation index BiH (Central bank of BiH).
2012: 2.1%,
2013: -0.1%,
2014: -0.9%,
2015: -1.0%,
2016: -1.1%

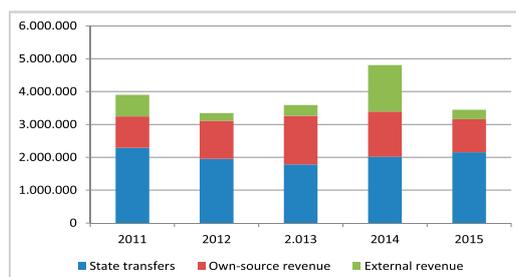


Current revenue show 1% average annual decline while operating expenditure grew fast by 7% annually. Operating expenditure show significant increase from 81% of current revenue in 2011 to 99% in 2014, and resulted in negative gross and net current balances in 2015).

The volatile net savings and the sharply decreasing investment grants resulted in fast decreasing capital investments, the growth index shows (-15% per year). The low predictability and high volatility of revenues resulted in unpredictable closing balances that were negative in three of the surveyed five years. These attributes signal low level of sustainability of the city's financial growth.

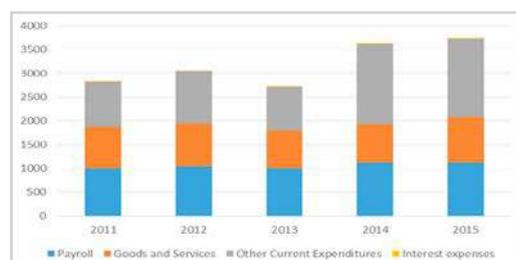
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Items in BAM	2011	2012	2013	2014	2015	Growth index	2015 (000 EUR)
State transfers	2.284.741	1.954.828	1.783.991	2.016.094	2.151.458	-1%	1.100
Own-source revenue	956.737	1.158.603	1.477.093	1.373.190	1.009.907	1%	516
External revenue	659.221	230.741	330.260	1.415.656	286.715	-19%	147
Total revenue	3.900.699	3.344.172	3.591.344	4.804.940	3.448.080	-3%	1.763



Average growth of total revenue 2011-15 per year was -3%. Average growth of transfers from other government levels was -1%; this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue have grown by 1% annually, but was vulnerable because of the volatile nature of local fees (such as development fee). External revenue increased in 2014 due to larger amounts of intergovernmental capital transfers and donations received for flood recovery. Structure of the revenue: State transfers were 51% of total revenues in 2011, but lowest 38% in 2013; own-source revenue increased from 46% in 2011 to 51% in 2015.

Items in BAM	2011	2012	2013	2014	2015	Growth Index 2011-15	2015 (000) EUR
Payroll (including employee benefits & misc.)	1.010.259	1.043.837	1.009.327	1.123.133	1.131.701	3%	579
Goods and services	864.658	900.708	792.091	812.800	951.350	2%	486
Other current expenditure	954.907	1.099.067	924.055	1.697.099	1.656.871	15%	847
Interest expense	13.793	17.570	13.122	9.052	6.082	-19%	3
Total operating expenditure	2.843.617	3.061.182	2.738.595	3.642.084	3.746.004	7%	1.915



Average annual growth of total budget expenditure was 7%. In the structure of total operating expenditures, the share of payroll expenditure decreased from 36% in 2011 to 30% in 2015. Expenditures on goods and services varied from 30 to 33% of total budget expenditures. Interest expense declined by 19% annually. The other current expenditures were spent largely on transfers to individuals for social care (employment rate is only 17.1%), which additional increased in 2014 and 2015 as transfers to help in the flood recovery.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2014	2015
1. Credit worthiness					
Operating savings before interest / current income	> 0,3	0,1	0,0	0,2	-0,2
Net margin / Current actual revenue	> 0,2	0,1	0,0	0,2	-0,2
2. Indebtedness					
Debt services / total current revenue	< 10 %	2%	3%	1%	2%
3. Fiscal autonomy					
own taxes and unconditional grants / current actual revenues	> 80 %	46%	46%	29%	47%
4. Capital investment effort					
Capital investment expenditure / Current actual revenue	> 40 %	37%	14%	5%	20%
5. Others					
Salaries / Operating actual expense	> 40 %	33%	32%	28%	28%
Total number of local officials / population	> 25	2,0	2,5	2,2	2,1
6. Level of services					
Maintenance expenses / operating expenses	> 30 %	3%	6%	6%	8%

Creditworthiness is very low; the ratio is below the benchmark and was declining in the period. Indebtedness was low, but the annual debt repayment is not adequate with regard to operating income. Fiscal autonomy is low due to the current legislation and the administrative structure of FBIH. There is practically no tax policy which municipalities exercise full discretion. Capital investments were at the benchmark in 2011, but drastically fell by 2014, because of the flood, but somewhat recovered in 2015. Salaries compared to operating expenses are below the benchmark, and total number of employees per 1000 inhabitants is low, which indicates the rationality of the city administration.

Maintenance are way below the benchmark and municipality need to improve it.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Most of the project proposals in the operational annual and three-year plans were linked with the budget of the municipality of Odzak to a less linked to the level of the Canton, and not at all with the higher levels of the Federation and Federal and state agencies. Existing legislation on the repayment of foreign debt in BiH is not in favor of local governments, so the change of related laws and laws on the distribution of public revenues between levels of government and local self-government units will improve the financial capacities of local governments in the FBIH.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial situation of the municipality: Improve cooperation with the Tax Administration in collection of tax and non-tax revenues of the municipality of Odzak. Municipality requests from Tax office all resources belonging to the Odzak municipality. The municipality insist on compliance with bylaws that regulate the procedures and deadlines for collecting revenues from the tax administration. Municipality need to improve internal control, improve collection of communal fees, introduce internal audit, increase cost monitoring, accelerate the introduction of program budgeting.

MUNICIPALITY OF ORAŠJE

MUNICIPALITY PROFILE

Territorial organization: The municipality Orašje is located in the northeast of Bosnia and Herzegovina and covers a space of 125 km². The municipality consists of 13 inhabited places, of which one is urban and the other rural. According to the Dayton Peace Agreement, the municipality of Orašje is one of 3 municipalities in Posavina canton.

Demography: The population is 21,584 (Census 2013) and 18,988 according to estimates for 2015. The annual population growth of -0.1% in 2013 increased to 0.6% in 2015. According to the number of inhabitants (Census 2013) Zenica is 4th largest city in BiH with density: 152 inhabitants / km². In Orašje is situated one of the main border crossings between BiH and Republic of Croatia (EU), which is one of the most significant comparative advantages of this area.

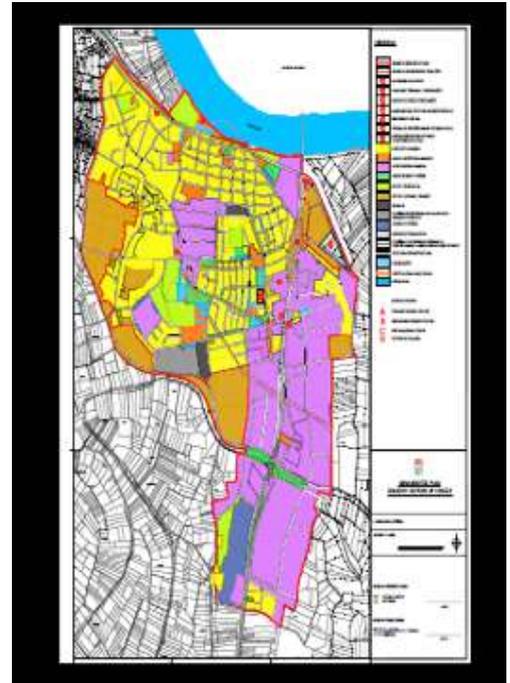
Economy: The most significant activities in Orašje are: wholesale and retail trade and maintenance, manufacturing, transport, warehousing and communications and construction. Total revenue per capita in 2015, based on estimate population, 151 EUR. Tax revenue per capita 61 EUR. Population activity rate is 70.5; unemployment rate (% of working population) is 31; employment rate 52.8; and development Index (in the Federation of Bosnia and Herzegovina) is 79.

Utilities management: The municipality provides services through its public utility companies, as well as through its own department such as parking service. Public companies provide services: water supply and waste water treatment, waste disposal and cemetery.

Municipal staff: number of employees in municipal administration is 80

Urban Issues and Challenges: Due to the lack of investment, manufacturing and business facilities, the unemployment of young, working-active population has increased, which has led to emigration. The main challenge is to stop emigration and create a favorable climate for work and development, create a favorable climate for new investors and thereby raise the quality of life of citizens.

Current Project Investment Plan: Key Strategic Plans are Revised Strategy for Development of the Orašje Municipality 2016-2020. and the Plan for the Implementation of Strategic Projects and Measures for the Period 2017-2019, where we particularly emphasize the project for the construction of a water supply and drainage system worth EUR 3,000,000, the construction of infrastructure in the Business Zone, the construction of a fridge for fruits and vegetables and a Distribution Center in values of 250,000 EUR etc.



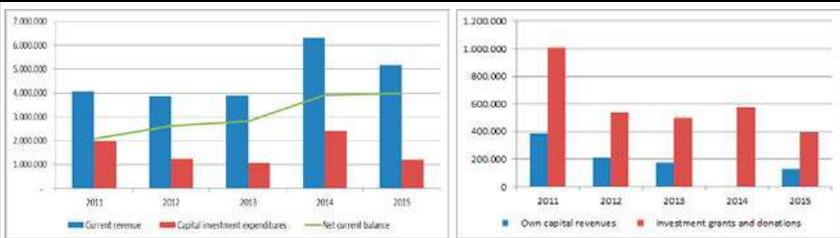
FINANCIAL SITUATION

Items in BAM	2011	2012	2013	2014	2015	Growth index (2011-15)	2015 (000 EUR)
Current revenue	4.069.704	3.866.818	3.902.631	6.315.935	5.173.099	6%	2.645
Operating expenditure	3.604.104	3.564.896	3.510.509	4.513.745	4.315.598	5%	2.207
Gross Operating balance	465.600	301.922	392.122	1.802.190	857.501	16%	438
Debt service and borrowing costs	-	-	-	1.809	5.743	-	3
NET CURRENT BALANCE	465.600	301.922	392.122	1.800.381	851.758	16%	435
Capital Revenues	1.985.021	1.236.998	1.079.740	2.407.571	1.192.079	-12%	610
Own capital revenues	385.202	209.452	177.835	0	131.147	-24%	67
Investment grants and donations	1.007.177	539.425	497.192	1.012.538	487.914	-17%	249
Capital investment expenditures	1.985.021	1.236.998	1.079.740	2.407.571	1.192.079	-12%	610
BALANCE AFTER INVESTMENTS	465.600	301.922	392.122	1.800.381	851.758	16%	435

Exchange rate (2011-2015): 1 EURO = 1.95583 BAM.

Inflation index BiH (Central bank of BiH):

- 2012: 2.1%,
- 2013: -0.1%,
- 2014: -0.9%,
- 2015: -1.0%,
- 2016: -1.1%.



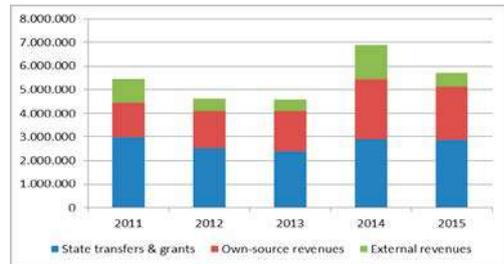
The municipality has a stable but small operating surplus, which has grown fast 16% per year over the last 5 year. Current revenue show average growth 6%, while operating expenditure are growing slower (5% annual growth). Operating expenditure show decrease from 89% of current revenue in 2011 to 83% in 2014.

Capital investments increased in 2014 and funded from large donations due to the floods which have brought enormous destruction in the municipality. The city does not have cash provisions from previous years to finance capital investments, so it depends on current revenues and borrowings.

The city's budget is under good control and shows stable positive balances that have grown by 16% over the analyzed 5 year period, albeit the large balances often are due to the slow utilization of the development grants

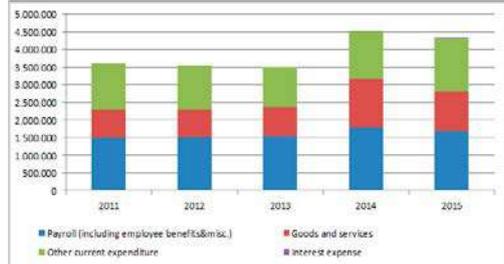
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Items in BAM	2011	2012	2013	2014	2015	Growth index (2011-15)	2015 (000 EUR)
State transfers & grants	2.971.062	2.538.880	2.371.568	2.910.193	2.879.716	-1%	1.472
Own-source revenues	1.483.844	1.537.390	1.713.918	2.533.763	2.241.478	11%	1.146
External revenues	1.007.177	539.425	497.192	1.448.528	579.440	-13%	296
Total current revenues	5.462.083	4.615.695	4.582.678	6.892.484	5.700.634	1%	2.915



Average growth of total revenue 2011-15 is only 1%. Average growth of transfers from other government levels is -1%, this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue has increased since 2013 because of revenue from local fees but is vulnerable because of the volatile nature of those fees. External revenue increased in 2014 due to the floods which were the worst in 120 years and have brought enormous destruction in the municipality. Structure of the revenue: State transfers were 54% of total revenues in 2011, but lowest 50% in 2013; own-source revenue increased from 27% in 2011 to 39% in 2015.

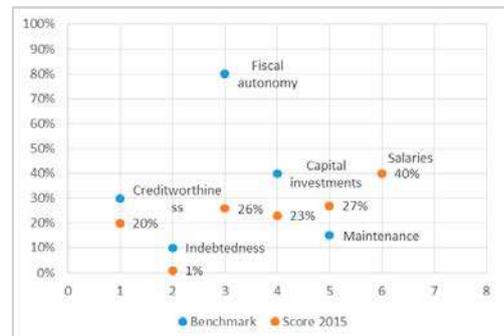
Items in BAM	2011	2012	2013	2014	2015	Growth index (2011-15)	2015 (000 EUR)
Payroll (including employee benefits&misc.)	1.479.133	1.509.525	1.525.279	1.772.171	1.679.029	3%	858
Goods and services	820.202	787.007	829.192	1.399.794	1.126.785	8%	576
Other current expenditure	1.304.769	1.268.364	1.150.539	1.341.780	1.504.784	4%	769
Interest expense	0	0	0	1.809	5.743		3
Total operating expenditure	3.604.104	3.564.896	3.505.010	4.515.554	4.316.341	0	2.207



Average growth of total revenue 2011-15 is only 1%. Average growth of transfers from other government levels is -1%, this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue has increased since 2013 because of revenue from local fees but is vulnerable because of the volatile nature of those fees. External revenue increased in 2014 due to the floods which were the worst in 120 years and have brought enormous destruction in the municipality. Structure of the revenue: State transfers were 54% of total revenues in 2011, but lowest 50% in 2013; own-source revenue increased from 27% in 2011 to 39% in 2015.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2013	2014	2015
1. Credit worthiness						
Operating savings before interest / current income	> 0,3	0,1	0,1	0,1	0,3	0,2
Net margin/Current actual revenue	> 0,2	0,1	0,1	0,1	0,3	0,2
2. Indebtedness						
Debt services/total current revenue	< 10 %	0,0%	0,0%	0,0%	0,03%	0,1%
3. Fiscal autonomy						
own taxes and unconditional grants/current actual revenues	> 80 %	38%	22%	21%	38%	26%
4. Capital investment effort						
Capital investment expenditure/Current actual revenue	> 40 %	49%	32%	28%	38%	23%
Expenditures for capital investments delegated by the state / total investment expenditures	> 50 %	44%	46%	24%	33%	29%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	23%	26%	25%	19%	27%
6. Others						
Salaries/Operating actual expense	> 40 %	42%	43%	39%	39%	40%
Number of municipal employees/1000 citizens	< 25	4	4	4	5	4



Ratio Analysis: The ratio analysis reflects a generally good performance of the municipality with good control of expenditures, however improvements are constrained by the low fiscal autonomy and thus the low level of local revenues.

Credit worthiness ratio (operating Savings before interest/current revenue) is way below the benchmark, only 2014 was on the level of the benchmark. The debt service is very low, easy to serve from operating savings. **Fiscal autonomy** is low due to the current legislation and the administrative structure of FBiH. There is practically no tax policy which municipalities exercise full discretion. **Capital investments** were decreasing from 2011 to 2014, the high investments in 2014 were mostly investments in the flood recovery. **Maintenance** ratios were stable and steadily above the benchmark that show good policies of the local government. **Salary expenditures** comparing to operating expenditure were above the benchmark in 2011 and 2012, but were below or at the benchmark in the last three years. **Number of employees** were way below the benchmark which indicates the rationality of the city administration.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

It is necessary to harmonize the Development strategy with the financial system (the financial capacity of the City), which implies previous financial analysis; at the local level, the level of cantons, federation and state government. Existing legislation of foreign debt repayment in BiH is not in favor of local governments, thus change of related laws and laws of public revenues allocation between level of governments and local self-government units will improve financial capacity of local governments in FBiH.

MUNICIPAL FINANCE IMPROVEMENT ACTION PLAN

The municipal finance improvement plan is primarily possible with greater control: increase internal control, introduce internal audit, and increase cost control. Also, emphasis should be placed on improving the cooperation with the FBiH Tax Administration in collecting municipal tax and non-tax revenues, as well as insisting on compliance with subordinate legislation governing the procedures and deadlines for revenue collection by the tax administration.

CITY OF PRIJEDOR

CITY PROFILE

Territorial organization: Prijedor is located in the northwestern part of Bosnia and Herzegovina and it is the third largest city in the Republic of Srpska and the sixth in Bosnia and Herzegovina. The city is divided into 49 local communities. City area: 834 km².

Population: Prijedor has about 105,000 inhabitants and the population density is 126 inhabitants / km².

Economy: Representatives from trade, hotel and catering, services and light industry (wood, metal, mining and textile) are represented. The number of registered legal entities is 425 and the entrepreneur is about 1,327.

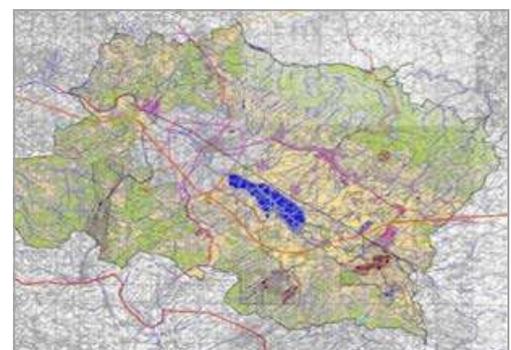
Public Utility Companies: In the majority ownership of the City of Prijedor there are 5 public companies: water supply and sewerage; garbage collection; city market; city heating plant and public transport company. The distribution of electricity is under the jurisdiction of Republika Srpska.

City staff: A total of 426. The City Administration employs 258 civil servants and 168 employees in public institutions financed by the City of Prijedor (Children's Nursery, Center for Social Work, Agency for Local Economic Development, Film Center, Theater, Gallery and Tourism Organization).

Current Capital Investment Plan: It was adopted for the period 2016-2018 and is adopted annually for the current and next two years. The most important projects are: (1) The Water and Sewerage Project in the Republic of Srpska with the EIB, which implementation is in the process from 2012-2020 and for the City of Prijedor, amounts to 35,832,594 KM; (2) Reconstruction of the Fire Station in Prijedor in the amount of 2.000.000 KM and implemented in the period 2017-2019, (3) The Social Housing Project funded by the Development Bank of the Council of Europe in the amount of 1.845.000 KM and implemented from 2016-2018 (4) The World Bank Emergency Rescue Project in the amount of 451.751,23 SDR for the reconstruction of communal infrastructure for the period 2016-2017. (5) Construction of a City Heating Plant on biomass in the amount of KM 20,000,000 (14,000,000 KM of EBRD loan and 6,000,000 grant). The plant for the production of electricity was built with this investment as the part of this cogenerative energetic complex.

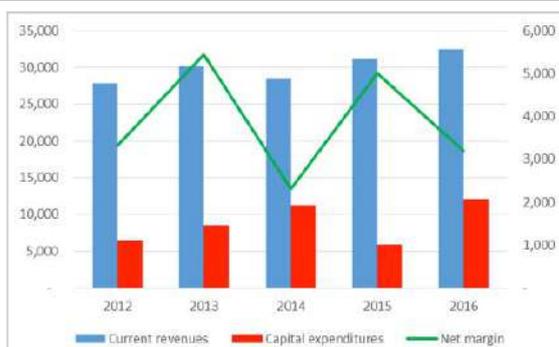
Urban issues & challenges: Vision of the City of Prijedor from the Integrated Development Strategy of the City of Prijedor for the period 2014-2024 is as follows: "Prijedor - a City of Real Investments and Successful People"

The strategic goals of the City of Prijedor are: Built a strong economy that uses all the resources of the city of Prijedor and its surroundings, recovered and reconstructed existing and built new physical infrastructure, developed network of institutions for supporting social development and improved quality of life of citizens and established functional capacities for sustainable environmental management with the application of energy efficiency principles.



FINANCIAL POSITION

'000 KM	2012	2013	2014	2015	2016	Growth index
Current revenues	27,891	30,147	28,528	31,174	32,535	3.93%
Operating expenditure	23,545	23,113	24,607	24,352	27,256	3.73%
Operating margin	4,346	7,034	3,921	6,822	5,279	4.99%
Debt repayment	1,023	1,593	1,608	1,808	2,091	19.57%
Net margin	3,323	5,441	2,313	5,014	3,188	-1.03%
Capital revenues	2,698	1,385	2,460	621	588	-31.67%
- Own capital investment	142	322	168	354	81	-13.09%
- Investments grants	2,556	1,063	2,292	267	507	-33.26%
Capital expenditure	6,471	8,470	11,277	5,908	12,049	16.81%
Investment balance	(451)	(1,644)	(6,504)	(273)	(8,273)	n.a.
Cash reserves from previous	2,348	295	578	-	1,479	-10.91%
Loan proceeds	0.0	0.0	0.0	0.0	0.0	n.a.
Overall closing balance	1,898	(1,349)	(5,926)	(273)	(6,794)	n.a.



Exchange: 1 EUR = 1,95583 KM

Inflation index (percent)

2012: 2.1%; 2013: 0.0%; 2014: -1.2%, 2015: -1.6%; 2016: -0.20%.

Total current revenues had a 3.93% growth trend due to a change in the decision on the allocation of VAT revenues belonging to local communities that, due to the results of the population census and the number of inhabitants as distribution criteria, increased the City's revenues on this basis.

Operating expenses had a growth trend of 3.73% due to the large increase in the number of social protection beneficiaries. According to the Law on Social Protection, local communities co-finance 50% of social protection, and due to the difficult economic situation, the number of users of these services is increasing.

Debt repayment had a growth trend of 19.6% due to repayment of previous loans for capital investments and new borrowing for the same purposes.

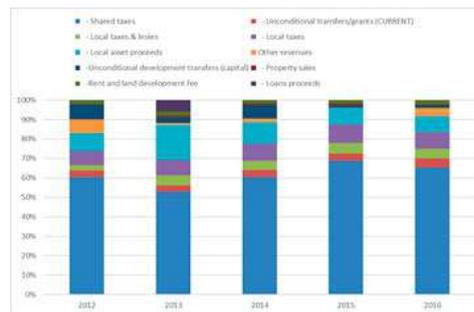
Capital expenditures in 2016 amount to KM 12,049,725. If we compare 2012 and 2016, the average increase in capital expenditures is 16.8% and varies by age in accordance with the Development Strategy and Capital Investment Plan of the City of Prijedor.

The net margin has an average downward trend of -1.03%, which is the result of a faster growth of current expenditures than current revenues, as well as the advances and increases in repayments for loans invested in capital investments from an earlier period. Current expenditures also include interest expense for previously borrowed loans.

Own capital revenues have an average downward trend of -31.7% due to a decrease in private construction activity and thus drop of development fee revenues caused by a major economic crisis and falling demand on the market for residential and business premises.

HISTORICAL ANALYSIS: REVENUES AND EXPENDITURES

Items	2012	2013	2014	2015	2016	Average annual growth %
	actual	actual	actual	actual	actual	
TOTAL CURRENT REVENUES	30.244.559	30.442.803	29.105.214	31.174.363	34.014.757	2,98
State transfers	21.461.696	19.357.231	20.615.769	23.502.519	24.832.360	3,71
- Shared taxes	20.299.605	18.257.116	19.462.125	22.296.536	23.206.807	3,40
- Unconditional transfers/grants (CURRENT)	1.162.091	1.100.113	1.153.644	1.205.983	1.625.553	8,75
Own revenues -land development fee excluded	6.434.826	10.790.200	7.911.847	7.671.844	7.703.079	4,60
- Local taxes & levies	860.591	1.852.741	1.500.923	1.756.930	1.758.249	19,56
- Local taxes	2.475.094	2.747.146	2.820.653	3.043.167	2.949.788	4,48
- Local asset proceeds	3.099.141	6.190.313	3.590.271	2.871.747	2.995.042	-0,85
Other revenues	2.348.037	295.372	577.598	0	1.479.318	-10,91
- Surplus Y-1	2.348.037	295.372	577.598	0	1.479.318	-10,91
TOTAL NON-RECURRENT REVENUES (CAPITAL)	3.344.148	4.125.689	3.065.986	1.214.719	1.428.888	-19,15
State transfers and grants	2.555.884	1.063.491	2.291.548	266.648	507.491	-33,25
-Unconditional development transfers (capital)	2.555.884	1.063.491	2.291.548	266.648	507.491	-33,25
Own revenues	788.240	1.050.095	772.771	946.314	920.258	3,95
- Property sales	142.124	322.466	167.986	353.834	81.067	-13,10
-Rent and land development fee	646.116	727.629	604.805	592.480	839.191	6,75
External revenues	24	2.012.103	1.667	1.757	1.139	162,47
- Loans proceeds	24	2.012.103	1.667	1.757	1.139	162,47
TOTAL REVENUES SURPLUS INCLUDED	33.588.707	34.568.492	32.171.200	32.389.082	35.443.645	1,35



The most important revenue is from revenues shared with the entity (VAT and personal income tax) 70,1%, revenues by city decisions (property tax, concession fee, taxes, etc.) 21,7%

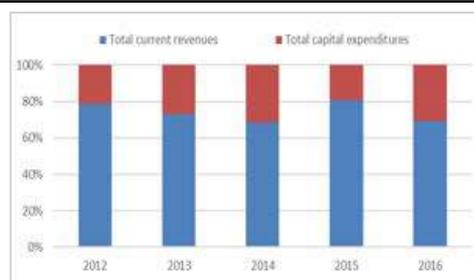
The revenues from indirect taxes make the most significant share in local community revenues and amount to about 63%. The potential risk of this type of revenue is the fact that from these revenues the external debt is first settled, then the expenditures of joint state bodies, the costs of the entity and then the needs of local communities. Any increase in external debt repayment significantly jeopardizes the functioning of local communities that have identified the distribution among local communities according to commonly established criteria.

The wage tax is about 8% and depends on economic development and the rate of increase in employment, while concession fees, annuities and construction land and other fees depend on the level of construction activity.

Property tax represents potential in this local community because a large number of citizens reside abroad and did not even register in the register of assets, which is the prerequisite for tax collection and collection.

Unconditional transfers have a significant trend of growth, but they represent the provision of 50% in the participation of the total social security costs of citizens and thus increase the participation of this type of expenditures from the local level.

Items	2012	2013	2014	2015	2016
	actual	actual	actual	actual	actual
Total current revenues	23.545.295	23.113.712	24.607.225	24.352.709	27.255.968
Staff wages	8.574.116	8.513.934	8.546.782	8.661.544	9.044.425
Operative costs	12.922.246	13.038.441	14.038.662	13.849.159	15.826.870
Maintenance costs	2.048.933	1.561.337	2.021.781	1.842.006	2.384.673
Total capital expenditures	6.471.008	8.470.518	11.277.036	5.908.441	12.049.725
Total expenditures	30.016.303	31.584.230	35.884.261	30.261.150	39.305.693



The share of wages and salaries in total costs before interest payment is around 26%, current maintenance costs are 7% and increase with increasing capital investments, interest rates on loans increase with the level of indebtedness and other operating expenses are also affected by the increase in retail prices.

RATIO ANALYSIS

CRITERIA-INDICATOR	COMPARATIVE INDEX (BENCHMARK)-EU	2012	2013	2014	2015	2016
1. Credit worthiness						
Operating Savings before interests / Current actual revenue	>0,3	0,28	0,27	0,18	0,24	0,23
Net Operating Surplus (after debt service including capital repayment) / Current actual revenue	>0,2	0,18	0,19	0,1	0,16	0,14
Cash (end of the year) / current liabilities (divided by 365 days)	90 days	53	78	41	68	35
2. Indebtedness						
Debt outstanding / operating surplus (capacity to clear its debt)	<10 years	8	7	13	9	9
Debt service / Total current revenue	<10%	9,64%	8,01%	8,26%	8,34%	9,07%
3. Fiscal autonomy						
Own tax receipts + unconditional grants / Current actual revenue	>80%	21,28%	35,44%	27,18%	24,61%	22,65%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	>40%	23%	28%	40%	19%	37%
Capital investment expenditure delegated by State / Total investment expenditure	<50%	39,50%	12,56%	20,32%	4,51%	4,21%
5. Level of service						
Maintenance works expenditure / Operating expenditures	>30%	8,70%	6,76%	8,22%	7,56%	8,75%
6. Other						
Salaries & wages / Operating actual expense	>40%	36,42%	36,83%	34,73%	35,57%	33,18%
Actual revenue / Estimated revenue	>95%	94,60%	89,15%	89,63%	95,14%	87,03%

Capital expenditures in 2016 amount to KM 12.049.725. If we compare 2012 and 2016, the average increase in capital expenditures is 16.8% and varies by age in accordance with the Development Strategy and Capital Investment Plan of the City of Prijedor.

The net margin has an average downward trend of -1.03%, which is the result of a faster growth of current expenditures than current revenues, as well as the advances and increases in repayments for loans invested in capital investments from an earlier period. Current expenditures also include interest expense for previously borrowed loans.

Own capital revenues have an average downward trend of -31.7% due to a decrease in private construction activity and thus drop of development fee revenues caused by a major economic crisis and falling demand on the market for residential and business premises.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Financial projections are based on historical data on revenues and expenditures and are projected on the basis of the Framework Budget Document issued by the Government of Republika Srpska for the current and next two years. It is necessary to constantly balance the vision of urban development with the city financial system.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Financial Sustainable Capital Investment Plan with the aim of implementing the objectives of the City Development Strategy for the period 2014-2024. Introduction of project budgeting instead of nominal; Improve monitoring of main revenues and expenditures during the year; Increase transparency and increase citizens' participation in planning and reporting on the budget process; Increase citizen satisfaction with local community services with other departments through the establishment of funding allocation criteria and the ongoing evaluation of the budget process; Consistent application of the Law on Public Procurement and other laws that indirectly influence the increase of revenues and reduction of expenditures; Improving the level of property management; By increasing the control over the operations of public companies etc.

MUNICIPALITY OF PRNJAVOR

CITY PROFILE

Territorial organization: Prnjavor municipality is located in the northern part of Bosnia and Herzegovina, in Republika Srpska, near the Ljubić Mountain and Ukrina River and 50 kilometers from the capital city of Banja Luka. The municipality comprises 34 local communes (mjesna zajednica). The total area of the municipality is 630 square kilometers.

Population: Total, according to the 2013 census: 34,357; density: 57 inhabitants per hectare

Economy: Gross domestic product per capita: €4,145 (2016 estimate); business entities: 731; individual entrepreneurs: 1,554; number of unemployed: 5,725, 2,419 of whom are in the active labor force, and 3,306 of whom applied to exercise other rights; unemployment rate (2016): 19.3 percent. Prnjavor’s favorable geographic position connects with neighboring municipalities by main roads, is close to the European Union border and the exit to the Belgrade-Zagreb highway (60 kilometers), and the new highway Doboj-Banja Luka will pass through the municipality. The business environment is dominated by the light metal industry, the woodworking industry, footwear production, trade, and catering.

Utilities management: The municipality is the founder and majority owner of two utility companies: PARK a.d. for waste management and sanitation and VODOVOD a.d. for water supply and sewerage, which are not included in the municipal budget but are co-financed through dedicated projects, funds, and grants.

Municipal staff: Total: 205; city administration: 161; preschool administration: 21; social care 13; other external budget users: 10.

Current Project Investment Plan: The municipality of Prnjavor has a development strategy for 2012–20. An evaluation was conducted in 2016 and the strategy revised in 2017. The capital investment program is annually renewed during the budget adoption process, which coincides somewhat with the development strategy. Currently, there are three stages of capital investment projects in different phases: POVELIĆ, a water supply project (2002–20); new music school construction (2015–17); and “Our Joy” kindergarten expansion (2015–17).

Urban issues & challenges: The most important issues include the completion of the project to supply water throughout the municipality, the opening of the business zone—Vijaka, road improvement through the construction of circular flows, wastewater treatment and expansion of the sewerage network, electricity network improvements throughout the municipality, and increasing the employment rate.



FINANCIAL SITUATION

	2014 (in €, millions)	2015 (in €, millions)	2016 (in €, millions)	2017 Projection (in €, millions)	Growth 2014–17 (percent)
Total current revenue	6.588	6.487	6.689	6.707	0.59
Balance N-1 (if surplus)					
Current revenue year N	6.588	6.487	6.689	6.707	0.59
Operating expenditures	3.944	3.851	4.118	3.945	0.01
Operating margin	2.644	2.636	2.570	2.761	1.45
Debt repayment	0.917	1.026	0.750	0.832	-3.20
Net margin	1.727	1.610	1.820	1.929	3.76
Capital expenditures	2.658	2.048	2.332	2.272	-5.09
Financing	0.931	0.438	0.511	0.343	-28.32
	0.463	0.511	0.211	0.343	-9.54
	0.005	0.046			-100.00
	0.463	(0.119)	0.301		-100.00
Investment balance					
Overall closing balance	0.917	1.026	0.750	0.832	-3.20

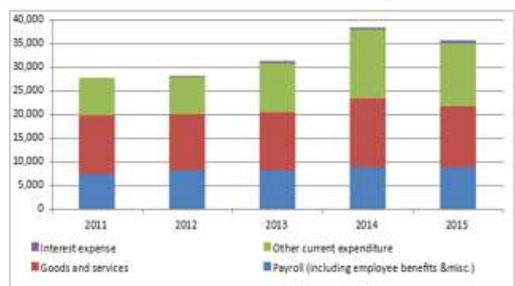
Exchange: BAM 1 = €0.51129 /€1 EUR = BAM 1.95583 (fixed exchange rate—currency board)

Inflation index (percent)
2014: -1.2%; 2015: -1.4%; 2016: -0.4%; 2017: +1.3% (projected)

The municipality’s actual 2017 budget was €6.7 million, all from current revenues. The average annual growth rate for current revenues during the observed period was 0.59 percent. Debt service increased slightly. Capital investment spending remained at virtually the same level as current revenue, and investments were funded with the municipality’s own-source revenues. Social benefits, salaries, and repayment of loans limited the potential for investment.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

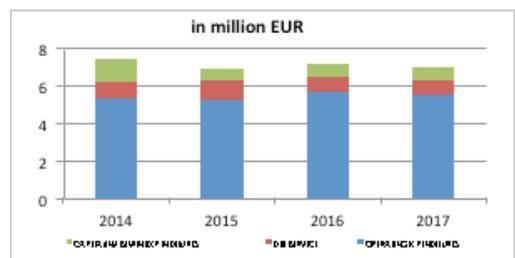
	2014 (€ millions)	2015 (€ millions)	2016 (€ millions)	2017 Projection (€ millions)	Percent of Structure
Current revenue	6.588	6.487	6.589	6.707	100
State transfers	5.304	5.39	5.662	5.614	84.65
Own-source revenues	1.284	1.098	1.026	1.093	15.35
Local taxes	0.378	0.381	0.413	0.411	6.17
Local fees	0.43	0.386	0.402	0.368	6.01
Fines	0.004	0.005	0.005	0.006	0.07
Local nontax revenues	0.472	0.325	0.207	0.308	3.1
Noncurrent revenue	1.14	0.557	0.364	0.343	100
State transfers	0.025	0.063	0.043	0	11.62
Own-source revenues	0.443	0.485	0.163	0.343	44.78
External revenues	0.672	0.009	0.158	0	43.41
Total revenues	7.729	7.044	7.053	7.049	100
State transfers	5.329	5.452	5.705	5.614	80.69
Own-source revenues	1.728	1.583	1.189	1.436	16.87
External revenues	0.672	0.009	0.158	0	2.24



Current revenues: The most significant sources of current revenues were shared taxes (VAT taxes represented 76 percent of current state transfers), local taxes and fees, and local nontax revenues.

The highest share of current revenue came from the VAT, with an average share of 62.4 percent; followed by personal income tax, with an average share of 8.4 percent. Local property taxes represented an average share of about 4 percent; and noncurrent state transfers were negligible during the observed period. The ratio of total municipality and state incomes of 81 percent: 17 percent shows little influence on total budget revenues by local politics.

Items (million EUR)	2014 (€, millions)	2015 (€, millions)	2016 (€, millions)	2017 (€, millions)	Growth 2014-17 (percent)
Operating expenditures	5.377	5.287	5.734	5.539	0.99
Payroll (including employee benefits)	2.165	2.171	2.126	2.069	1.50
Goods and services	1.401	1.324	1.611	1.272	3.16
Current subsidies, grants, and transfers	1.811	1.792	1.997	1.946	42
Other current expenditures	0.000	0.000	0.000	0.252	-
Debt service	0.917	1.026	0.750	0.832	-3.20
Capital investment expenditures	1.225	0.611	0.716	0.679	-17.87



RATIO ANALYSIS

Indicator (definition)	Comparative Index (benchmark)	2014	2015	2016	Plan 2017
Creditworthiness					
Gross operating savings/current revenues (percent)	> 30	40	41	38	41
Indebtedness					
Debt outstanding/gross operating savings (years)	< 10	2.91	2.48	2.48	2.17
Debt service/total current revenues (percent)	< 10	13.9	15.8	11.2	12.4
Debt outstanding/budget total (percent)	< 60	200	93	90	85
Fiscal autonomy					
Own (taxes + fees + unconditional grants)/total current revenues (percent)	> 80	64.6	65.7	62.5	62.1
Capital investment effort					
Capital investment expenditures/total current revenue (percent)	< 40	40.4	31.6	34.9	33.9
Capital investments from earmarked grants/total investment expenditures (percent)	< 50	0.2	2.3	0	0
Level of service sustainability					
Maintenance works/operating expenditures (percent)	> 15	6	5.6	6.3	5.3
Fees collected/billed (percent)	> 90	99.3	99.6	94.7	
Taxes collected/levied (percent)	> 90	100.5	99.8	107	
Other ratios					
Salaries and wages/actual operating expenses (percent)	< 80	82.4	84.7	85.7	87.7
Number of municipal employees per 1,000 citizens	< 25	5.2	5	4.7	4.7
Actual revenues/Planned revenue	93-100%+1.05	96.1 percent	98.3 percent	91.2 percent	

Creditworthiness was above the benchmark limit, but there was little space for new borrowing. The indebtedness parameters were above the reference values but within the limits allowed by Republika Srpska's law on borrowing. There was a high level of fiscal autonomy during the observed period. The level of capital investment is below the comparative index because the potential for investments was limited by the allocation of social benefits, the repayment of debts, and cost of salaries. Service sustainability was high above the benchmark, reflecting a stable and well-planned budget. Salary and wage allocations were above the benchmark but tended to decline; they will continue to be harmonized under the new local government law.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Financial projections are based on historical analysis as well as projections and guidelines from the ministry of finance's budget framework document.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Increase cooperation with the tax administration of the Republik of Srpska to increase property tax collection and better control tax returns. Improve the collection of doubtful and contested claims. Attract investors by creating a favorable business environment (Business Friendly Certificate/BFC), and expanding the base of local revenue sources.

Build a business-industrial zone as a prerequisite for expanding domestic entrepreneurial activities and for attracting new investments. Improve coordination among municipal administration departments in terms of monitoring, controlling, and collecting local revenues and educating budget users on planning and monitoring the execution of the budget. Increase the municipality's share of distributed joint budget revenues with Srpska's budget (Income Tax - ratio 36:65). Lobby through the Association of Local authorities of Republika Srpska to change legal regulations to prevent borrowing at the level of Bosnia and Herzegovina] from affecting the reduction of the amount of revenue from the allocation of VAT distributed to municipalities. Rationalize the costs of the municipal administration by it with the new Law on Local Self-Government.

CITY OF TUZLA

CITY PROFILE

Territorial organization: Tuzla is located in north-east Bosnia and Herzegovina, on the slopes of the Majeвица mountain. The elevation of the city is 239 meters above sea level. Its favorable geographic position enables Tuzla to have good connections with other regions in Bosnia and Herzegovina, as well as with neighboring countries, Croatia, Serbia and Monte Negro, but almost equally with the regions of South-East, Central and Western Europe. The total area of Tuzla is 294 km² and includes 40 local communities.

Demography: Population reaches 110,979 (list 2013) and 110,642 according to data for 2016. Tuzla is the third largest city in BiH with a population density of 376.3 inhabitants / km².

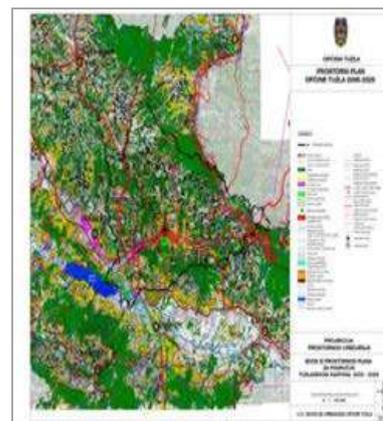
Economy: Tax revenues realized in the city of Tuzla amount to KM 19.8 million. The highest tax revenues per capita in the city of Tuzla amount to KM 179. Gross domestic product (GDP) of the city of Tuzla in the amount of about KM 1.2 billion represents 6.6% of the GDP of the entire Federation of BiH. GDP per capita of the city of Tuzla is estimated at KM 8.911 and it is about 43% higher than the average GDP of the Federation of BiH, estimated at KM 6.231. The development level of the city of Tuzla, i.e. the development index is 129.7, i.e. 29.9 points higher than the average development index of the Canton. The employment rate is 61.5%, i.e. higher than the average employment rate of the Canton, estimated at 46.2%. The registered number of legal entities in the city of Tuzla is 3,654, The registered number of craftsmen is 3,518.

Public Utility Services: The city of Tuzla provides services through its public utility companies: central heating delivery, collection, treatment and distribution of water, collection and drainage of waste water, collection and transport of waste, maintenance of green areas and hygiene in public areas, maintenance of public areas in winter, solid waste management at sanitary landfill, public parking management, horizontal, vertical and semaphore signaling maintenance, free wireless internet system management, video surveillance and funeral service management

The number of Public Administration employees: 431

Current Investment Plan: The key strategic planning document is the Development Strategy of the City of Tuzla 2026, followed by Draft Strategy for Youth of the City of Tuzla 2017-2026, Spatial Plan of the City of Tuzla 2010-2030. The Capital Investment Plan for 2017, among others, includes the following investments: construction and reconstruction of water supply system, reconstruction and rehabilitation of the existing road network, central heating supply to residential buildings.

Urban issues & challenges: Urban Issues: Continuity in the development of culture, creative innovation, healthy and pleasant living, ensuring economic and social attractiveness, development opportunities and good quality of life for citizens and investors. Challenges of the city of Tuzla: improving the quality of life, continuing and intensifying activities to create more favorable conditions for new investments, economic growth that will lead to job creation.



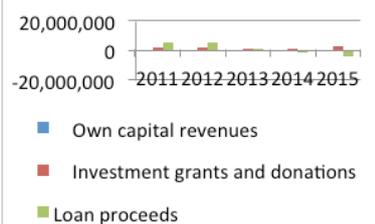
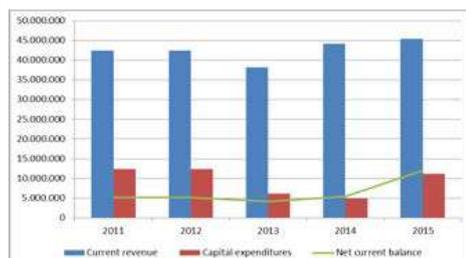
FINANCIAL SITUATION

Items in BAM	2011	2012	2013	2014	2015	Growth Index 2011-15	2015 (000) EUR
Current revenue	36,281,386	42,463,845	38,239,122	44,140,908	45,400,622	6%	23,213
Operating expenditure	32,366,375	37,080,531	33,597,173	36,744,516	32,811,413	0%	16,674
Gross Operating balance	3,915,011	5,383,314	4,641,949	7,396,392	12,789,209	34%	6,539
Debt service and borrowing costs	375,611	262,970	522,025	2,018,598	792,457	21%	405
NET CURRENT BALANCE	3,539,400	5,120,344	4,119,924	5,377,794	11,996,752	36%	6,134
Capital Revenues	928,832	1,777,196	1,412,250	547,303	2,990,033	34%	1,529
Own capital revenues	0	0	0	0	0		0
Investment grants and donations	928,832	1,777,196	1,412,250	547,303	2,990,033	34%	1,529
Capital investment expenditures	5,957,768	12,391,029	6,150,814	4,954,577	11,125,048	17%	5,688
BALANCE AFTER INVESTMENTS	1,489,536	5,493,489	6,180,640	-970,520	-3,861,737		-1,974

Exchange rate (2011-2015): 1 EURO = 1,9583 BAM

Inflation index BiH (Central bank of BiH).

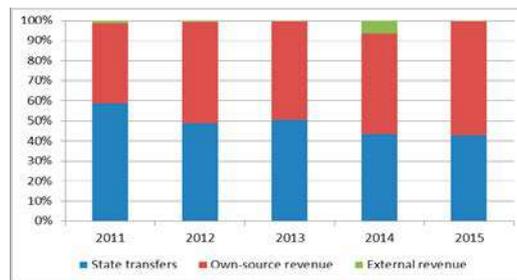
2012: 2.1%,
2013: -0.1%,
2014: -0.9%,
2015: -1.0%,
2016: -1.1%.



The city has a stable operating surplus, which has grown 34% per year over the 5 years. Current revenue show average growth 6%, while operating expenditure remained on the same level and grew only by 0.2% per year. Capital investment vary from year to year, but average growth was 17% annually. The city does not have cash provisions from previous years to finance capital investments, so it depends on current revenues, donations, and borrowings. The city budget is under good control and shows stable positive operating balances, however, the overall closing balance turned to be negative in 2014 and 2015. But the overall balance were still positive when loan proceeds are accounted.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

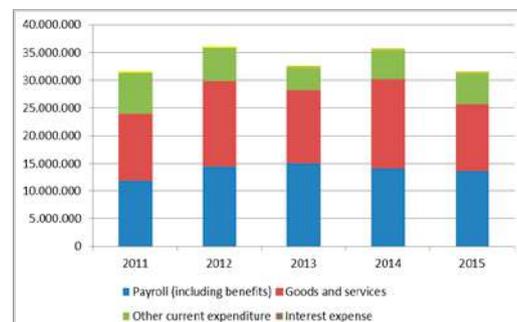
Items 000 BAM	2011	2012	2013	2014	2015	Growth index	2015 (000 EUR)
State transfers	21.886.951	21.564.016	19.972.628	19.347.207	20.746.687	-1%	8.767
Own-source revenue	14.929.079	22.389.657	19.578.625	22.428.213	27.481.746	16%	11.485
External revenue	394.188	287.368	100.119	2.912.791	162.222	-20%	2.084
Total revenue	37.210.218	44.241.041	39.651.372	44.688.211	48.390.655	7%	22.335



Average growth of total revenue 2012-15 was 7% per year. Average growth of transfers from other government levels declined by 1% per year, this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue has increased by 16% annual mostly pursuant to the Law on allocation of the revenues collected by public companies and other legal entities which generate revenues from the operation of Thermal Power plant in Tuzla- External revenues were very volatile and decreased eventually by 20% on average annually. .

Structure of the revenue: State transfers were 59% of total revenues in 2011, but only 43% in 2015; in turn own-source revenues increased from 40% in 2012 to 57% in 2015.

Items in BAM	2011	2012	2013	2014	2015	Growth index	2015 (000 EUR)
Payroll (including benefits)	11.777.705	14.516.522	15.008.138	14.075.865	13.672.982	4%	6.991
Goods and services	12.202.458	15.351.460	13.181.808	16.140.963	11.985.209	-0.4%	6.128
Other current expenditure	7.407.820	5.992.910	4.132.229	5.213.515	5.675.536	-6%	2.902
Interest expense	20.811	104.926	243.735	248.956	179.197	71%	92
Total operating expenditure	31.387.983	35.860.892	32.322.175	35.430.343	31.333.727	0,0%	16.021



Average annual growth of operating expenditure was virtually zero. In the structure of total operating expenditure however, the share of payroll expenditure increased from 36% in 2011 to 43% in 2015. Expenditure for goods and services were on the highest level of total budget expenditure were 46% in 2014. Interest expense annual growth was 71%, which is alarming, albeit it started from very low level.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2013	2014	2015
1. Credit worthiness						
Operating savings before interest / current income	> 0.3	0.11	0.13	0.12	0.17	0.28
Net margin/Current actual revenue	> 0.2	0.12	0.11	0.12	0.26	0.19
2. Indebtedness						
Debt services/total current revenue	< 10 %	1.04%	0.62%	1.37%	4.57%	1.75%
3. Fiscal autonomy						
Own taxes and unconditional grants/current actual revenues	> 80 %	26%	27%	27%	26%	26%
4. Capital investment effort						
Capital investment expenditure/Current actual revenue	> 40 %	29%	16%	11%	25%	28%
Expenditures for capital investments delegated by the state /total investment expenditures	> 50 %	14%	23%	11%	27%	14%
5. Others						
Salaries/Operating actual expense	> 40 %	39%	45%	38%	42%	41%
Total number of local officials / population		5	5	5	5	5
6. Level of services						
Maintenance expenses / operating expenses	> 15%	0.1612576	0.19	0.15	0.22	0.10

Ratio Analysis: The ratio analysis reflects a generally good performance of the municipality with good control of expenditures, however improvements are constrained by the low fiscal autonomy and thus the low level of local revenues.

Credit worthiness ratio is below the benchmark until 2015. The debt service is very low, easy to serve from operating savings. Fiscal autonomy is low due to the current legislation and the administrative structure of FBiH. There is practically no tax policy which municipalities exercise full discretion.

Capital investments were decreasing from 2011 to 2013, the high investments in 2015 and seems the investments are increasing again. **Maintenance** ratios were stable and steadily above the benchmark that show good policies of the local government.

Salary expenditures comparing to operating expenditure were above the benchmark in 2012, in 2013 were below, but in 2014 and 2015 above the benchmark. **Number of employees** were way below the benchmark which indicates the rationality of the city administration.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Obligation and commitment of Tuzla City Administration to align the development planning process with the financial plan, i.e. the plan for the implementation of strategic and other development documents must be aligned and in accordance with the Budget of Tuzla City Administration.

FINANCE IMPROVEMENT PLAN

Amendments to Legislative Regulations aimed at developing and creating a better business environment, related to the amendment of Real Rights Law, the Request for Transfer of the Right of Use of Abandoned Mines in order to become operational and turned into new business areas, Amendment of the Law on Public Revenue Initiative

CITY OF ZENICA

CITY PROFILE

Territorial organization: The city of Zenica is located in the central part of Bosnia and Herzegovina and is one of the 12 local government units in the Zenica-Doboj Canton. The total area of Zenica is 558.5 km and includes 73 local communities (mjesna zajednica).

Demography: The population is 110,663 (Census 2013) and 109,950 according to estimates for 2015. The annual population growth of -0.1% in 2013 increased to 0.6% in 2015. According to the number of inhabitants (Census 2013) Zenica is 4th largest city in BiH with density: 198.14 inhabitants / km².

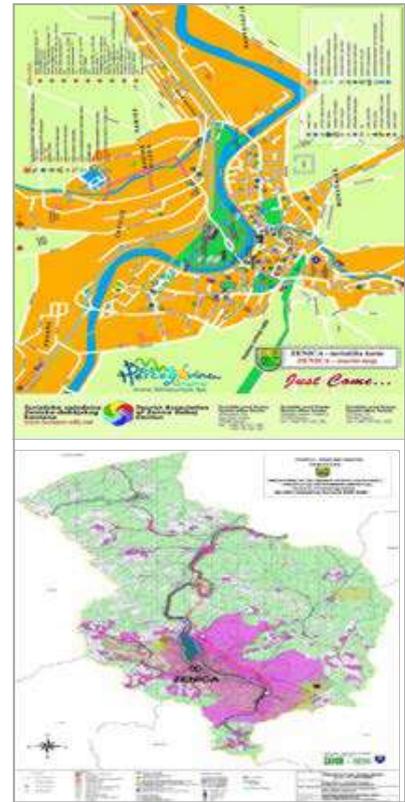
Economy: Total revenue per capita in 2015, based on estimate population, 203 EUR. Tax revenue per capita 91 EUR. Population activity rate is 69; unemployment rate (% of working population) is 48.2; employment rate 51,1; and development Index (in the Federation of Bosnia and Herzegovina) is 105.3..

Utilities management: The city provides services through its majority owned enterprises and public utility companies: for heating distribution, water supply and waste water treatment, waste disposal (city co-founder and co-owner), funeral services, and for city parking services.

Municipal staff: 282 employees in city administration, 738 employees in public companies.

Current Project Investment Plan: Key strategic planning document is Integrated Development Strategy of Zenica 2012-2022. Public debate on new Spatial Plan of Zenica 2016 to 2036 is over and the Plan is in the process of adoption. Capital investment plan 2017-19 among others, list following investments: construction and reconstruction of water supply EUR 23.6 millions; expansion of the Business zone EUR 920,340; strengthening tourism 296,554 EUR, sewerage 10,8 million EUR, reconstruction and rehabilitation of the existing road network 1, 6 mil. EUR

Urban issues & challenges: Urban issues in Zenica are lack of investment, production and business facilities; illegal constructions; wild landfills and landslides. Challenges for the city are: improving citizens quality of life, creating conditions for attracting investment and employment, while respecting environmental standards.



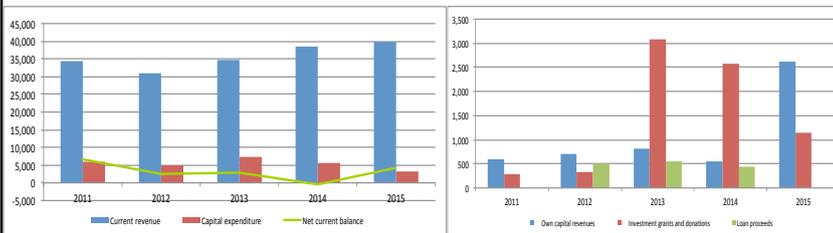
FINANCIAL SITUATION

Items in 000 BAM	2011	2012	2013	2014	2015	Growth index (2011-15)	2015 (000 EUR)
Current revenue	34,289	31,077	34,763	38,427	39,930	4%	20,416
Operating expenditure	27,633	27,923	30,900	37,926	34,887	6%	17,837
Gross operating balance	6,656	3,154	3,863	501	5,043	-7%	2,578
Debt service and borrowing costs	138	636	853	933	692	50%	354
NET CURRENT BALANCE	6,518	2,518	3,010	-432	4,351	-10%	2,225
Capital revenues	873	1,026	3,882	3,117	3,753	44%	1,919
Own capital revenues	594	705	810	552	2,617	45%	1,338
Investment grants and donations	279	321	3,072	2,565	1,136	42%	581
Capital investment expenditure	6,113	4,875	7,445	5,533	3,263	-15%	1,668
BALANCE AFTER INVESTMENT	1,278	-1,331	-653	-2,848	4,841		2,475
Cash reserved from previous years	0	0	0	0	0		
Loan proceeds	0	507	550	443	0		0
OVERALL CLOSING BALANCE	1,278	-824	-3	-2,405	4,841		2,475

Exchange rate (2011-2015): 1 EURO = 1,95583 BAM

Inflation index BiH (Central bank of BiH).

2012: 2.1%,
2013: -0.1%,
2014: -0.9%,
2015: -1.0%,
2016: -1.1%.



Current revenue show average growth 4%, while operating expenditure are growing faster and resulted in -7% annual growth. Operating expenditure show significant increase from 81% of current revenue in 2011 to 99% in 2014, and provided extremely low net current balance (-1% in 2014).

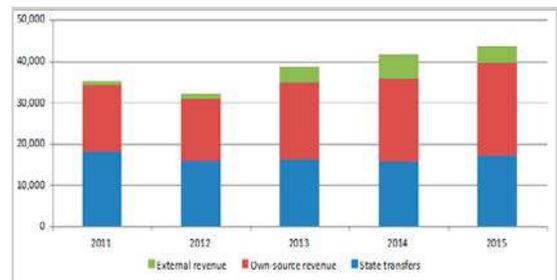
The city does not have cash provisions from previous years to finance capital investments, so it depends on current revenues and borrowings.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

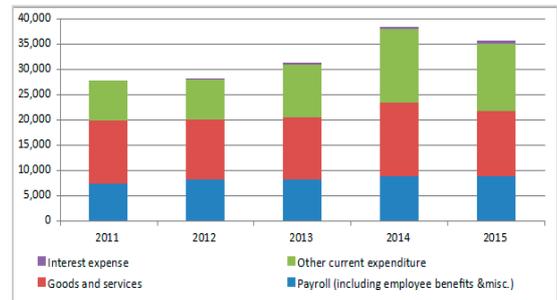
Items 000 BAM	2011	2012	2013	2014	2015	Growth index	2015 (000 EUR)
State transfers	17,979	16,071	16,191	15,814	17,146	-1%	8,767
Own n-source revenue	16,310	15,006	18,572	19,925	22,462	8%	11,485
External revenue	873	1,026	3,882	5,805	4,075	47%	2,084
Total current revenue	35,162	32,103	38,645	41,544	43,683	6%	22,335

Average growth of total revenue 2011-15 only 6%. Average growth of transfers from other government levels is -1%, this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue has increased since 2013 because of revenue from land development fees but is vulnerable because of the volatile nature of those fees. External revenue increased in 2013 and 2014 due to larger amounts of intergovernmental capital transfers and donations received.

Structure of the revenue: State transfers were 51% of total revenues in 2011, but lowest 38% in 2013; own-source revenue increased from 46% in 2011 to 51% in 2015



Items 000 BAM	2011	2012	2013	2014	2015	Growth index 2011-15	2015 (000 EUR)
Payroll (including employee benefits & misc.)	7,224	8,067	8,152	8,702	8,795	5%	4,497
Goods and services	12,487	11,929	12,250	14,688	12,836	1%	6,563
Other current expenditure	7,922	7,927	10,498	14,536	13,256	14%	6,778
Interest expense	138	129	303	490	692	50%	354
TOTAL OPERATING EXPENDITURE	27,771	28,052	31,203	38,416	35,579	6%	18,191



Average annual growth of total budget expenditure is 6%. In the structure of total operating expenditure, the share of payroll expenditure decreased from 26% in 2011 to 25% in 2015. (vary from 20 to 22%), for goods and services (vary from 30 to 33%) of total budget expenditure. Interest expense annual growth of 50% is result of 5 years grace period for 25 mil \$ loan, which principal repayment started in 2016.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2013	2014	2015
1. Credit worthiness						
Operating savings before interest/current revenue	> 0,3	0,19	0,10	0,11	0,01	0,13
Net margin/Current actual revenue	> 0,2	0,24	0,09	0,10	-0,01	0,12
2. Indebtedness						
Debt services/total current revenue	< 10 %	0,4%	2,0%	2,2%	2,2%	1,6%
3. Fiscal autonomy						
Own taxes + fees + unconditional grants/Total current revenues	> 80 %	46%	47%	48%	48%	51%
4. Capital investment effort						
Capital investment expenditure/Current actual revenue	> 40 %	18%	16%	21%	14%	8%
Expenditures for capital investments delegated by the state / total investment expenditures	> 50 %	3%	1%	23%	13%	24%
5. Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	8%	7%	5%	11%	7%
6. Others						
Salaries/Operating actual expense	> 40 %	24%	26%	24%	21%	23%
Actual revenue / Planned revenue	> 95%	95%	78%	82%	88%	97%

Credit worthiness ratio is below the benchmark. The annual debt repayment is not adequate with regard to operating income.

Fiscal autonomy is low due to the current legislation and the administrative structure of FBiH. There is practically no tax policy which municipalities exercise full discretion.

Capital investments tend to fall by the end of 2015. Ongoing capital projects are funded by with loans still in the grace period. However, the plan of capital investments from 2017 to 2019 is very ambitious, and expect significant investments.

Salaries comparing to operating expenses are below the benchmark, and total number of employees per 1000 inhabitants is low, which indicates the rationality of the city administration.

City improved budget estimations since 2012 and achieved reliable budget in 2015.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

It is necessary to harmonize the Development strategy with the financial system (the financial capacity of the City), which implies previous financial analysis; at the local level, the level of cantons, federation and state government. Existing legislation of foreign debt repayment in BiH is not in favor of local governments, thus change of related laws and laws of public revenues allocation between level of governments and local self-government units will improve financial capacity of local governments in FBiH.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve financial situation of the municipality: Improve cooperation with FBiH Tax administration in the collection of tax and non-tax revenues of the City. Insist on compliance with the bylaws that regulate the procedures and deadlines for collecting city revenues by the tax administration. Increase monitoring in collection of non-tax revenues by a sectoral principle (city services). Improve internal control, introduce internal audit, increase monitoring of expenditure, accelerate the introduction of program budgeting.

MUNICIPALITY OF ŽEPČE

MUNICIPAL PROFILE

Territorial organization: Žepče is located in the central part of Bosnia and Herzegovina as one of the 12 local self-government in the Zenica-Doboj Canton. The total area of the Žepče municipality is 282.3 km and covers 43 local communities (mjesne zajednice). Žepče was hit by floods on two occasions in 2014. It was the biggest natural disaster this municipality has ever experienced.

Demography: The population is 30,219 (Census 2013) and 31,015 according to estimates for 2015. The average population density is 110 inhabitants per km².

Economy: Total revenue per capita in 2015, based on estimate population, 96 EUR. Tax revenue per capita 74 EUR. Population activity rate is 70; unemployment rate (% of working population) is 48,8; employment rate 55,0; development Index (in the Federation of Bosnia and Herzegovina) is 155,1 which brings Žepče to fourth place on the list of developed local governments in FBiH

Utility management: The city provides services through its majority owned companies and public utility companies: for the distribution of heating, water supply and wastewater treatment, waste disposal and parking services for the city.

Municipal staff: 59 employees in the municipal administration, 14 employees in the fire department and 12 employees in the Social Protection Center

Current investment plan of the project: The program of capital investments for 2017 plans 49 development and 37 infrastructure projects. In 2016, 46 projects have been planned, 24 projects have been fully implemented and the remainder will continue to work in 2017. In 2016 was allocated for: the road infrastructure 84023 thousands EUR, water supply and sewerage 245 thousands EUR, electricity 23 thousands EUR, economy and agriculture 102 thousands EUR, education, sport and culture 164 thousands EUR and for projects from other areas cca 205 thousands EUR.

Urban issues & challenges: Urban issues in the municipality of Zepce are a lack of investment, production and business facilities; wild landfills and landslides. The challenges for the city are: improving the quality of life of citizens, creating conditions for attracting investment and employment, while respecting environmental standards.



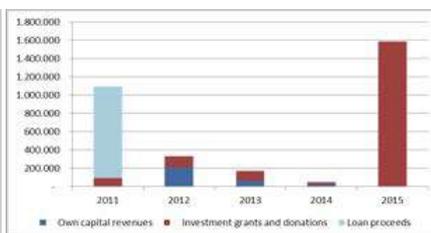
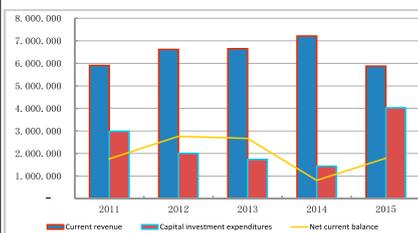
FINANCIAL SITUATION

Items in BAM	2011	2012	2013	2014	2015	Growth Index 2011-15	2015 in (000) EUR
Current revenue	5.905.445	6.617.879	6.646.974	7.213.158	5.878.453	-0,1%	3.006
Operating expenditure	4.043.842	3.817.533	3.947.942	6.378.270	4.064.480	0,1%	2.078
Gross Operating balance	1.861.603	2.800.346	2.699.032	834.888	1.813.973	-0,6%	927
Debt service and borrowing costs	103.018	37.456	31.195	25.302	25.302	-29,6%	13
NET CURRENT BALANCE	1.758.585	2.762.890	2.667.837	809.586	1.788.671	0,4%	915
Capital Revenues	89.535	330.799	168.809	45.450	1.584.799	105,1%	810
Own capital revenues	-	206.973	64.610	26.500	2.620	-	1
Investment grants and donations	89.535	123.826	104.199	18.950	1.582.179	105,0%	809
Capital investment expenditures	2.984.395	2.006.051	1.733.246	1.436.914	4.031.803	7,8%	2.061
BALANCE AFTER INVESTMENTS	1.136.275	1.675.252	1.564.437	581.878	658.333	-12,8%	337

Exchange rate (2011-2015): 1 EURO = 1,95583 BAM.

Inflation index BiH (Central bank of BiH).

2012: 2.1%,
2013: -0.1%,
2014: -0.9%,
2015: -1.0%,
2016: -1.1%.

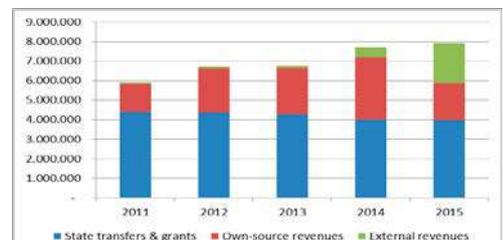


Current revenue show average growth -0.1%, while operating expenditure show average 0.1% annual growth. Operating expenditure show significant increase from 68% of current revenue in 2011 to 88% in 2014 (flood recovery transfers/grants), but amounted back to usual level (69%) in 2015.

The city does not have cash provisions from previous years to finance capital investments, so it depends on current revenues and borrowings.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

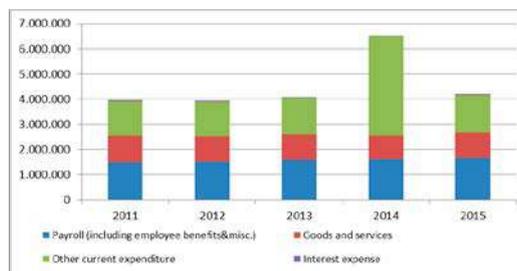
Average growth of total revenue 2011-15 is -0.1%. Average growth of transfers from other government levels is -2.4%, this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue has increased since 2013 because of revenue from land development fees but is vulnerable because of the volatile nature of those fees. External revenue increased in 2014 and 2015 due to larger amounts of intergovernmental capital transfers and donations received for flood recovery.



Items in BAM	2011	2012	2013	2014	2015	Growth Index 2011-15	2015 in (000) BAM
State transfers & grants	4.384.978	4.384.978	4.267.619	4.010.114	3.980.148	-2,4%	2.035
Own-source revenues	1.456.384	2.232.901	2.379.355	3.203.044	1.898.305	6,8%	971
External revenues	64.083	123.826	104.199	481.404	2.034.585	137,4%	1.040
Total Current revenue	5.905.445	6.617.879	6.646.974	7.213.158	5.878.453	-0,1%	3.006

Structure of the revenue: State transfers were 74% of total revenues in 2011, but 68% in 2015; own-source revenue increased from 25% in 2011 to 34% in 2015. External revenue increased from 1% in 2011 to 35% in 2015 (due to the flood recovery grants and donations received)

Items in BAM	2011	2012	2013	2014	2015	Growth index	2015 (000) EUR
Payroll (including employee benefits&misc.)	1.475.840	1.530.022	1.596.774	1.607.512	1.654.282	3%	522
Goods and services	1.059.929	978.992	1.027.543	939.473	1.021.544	-1%	762
Other current expenditure	1.380.588	1.388.190	1.432.016	3.931.861	1.491.007	2%	13
Interest expense	38.912	37.456	31.196	25.302	25.302	-10%	2.143
Total operating expenditure	3.955.269	3.934.660	4.087.529	6.504.148	4.192.135	1%	3.441



Average annual growth of total operating expenditure is 3%. In the structure of total operating expenditure, the share of payroll expenditure increased from 37% in 2011 to 39% in 2015, but still below the benchmark (40%). Other current expenditure growth is result of goods and services (vary from 30 to 33%) of total budget expenditure. Interest expense annual growth of -10% since municipality has one loan which will be repaid 2018.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2013	2014	2015
1. Credit worthiness						
Gross Operating savings/ Current revenue	> 0,3	0,32	0,42	0,41	0,12	0,31
Net margin/Current actual revenue	> 0,2	0,30	0,42	0,40	0,11	0,30
2. Indebtedness						
Debt service / Total current revenue	< 10 %	1,7%	0,6%	0,5%	0,4%	0,4%
Debt outstanding /Budget total	< 60%	0,0%	13,9%	11,6%	8,2%	6,0%
Borrowing /Current revenues	< 15%	16,7%	0,0%	0,0%	0,0%	0,0%
3. Fiscal autonomy						
Own taxes and unconditional grants/current actual revenues	> 80 %	24,7%	33,7%	35,8%	44,4%	32,3%
4. Capital investment effort						
Capital investment expenditure/Current actual revenue	> 40 %	49,8%	29,8%	25,7%	18,7%	51,0%
5. Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	8,1%	7,1%	6,4%	3,9%	6,6%
6. Others						
Salaries/Operating actual expense	> 40 %	37,6%	37,8%	24,2%	38,1%	37,3%
Number of municipal employees/1000 citizens	< 25	2,7	2,7	2,7	2,7	2,7

Credit worthiness ratio is below the benchmark only in 2014, due to the significant increase of awarded current grants to individuals for flood recovery. Otherwise, creditworthiness indicator shows that municipality has capacity of borrowing and investing. The annual debt repayment is adequate with regard to operating income.

Fiscal autonomy is low due to the current legislation and the administrative structure of FBiH.

Capital investments tend to fall by the end of 2014, but sharply recovered in 2015.

Salaries comparing to operating expenses are below the benchmark, and total number of employees per 1000 inhabitants is low, which indicates the rationality of the city administration.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

It is necessary to harmonize the Development strategy with the financial system (the financial capacity of the City), which implies previous financial analysis; at the local level, the level of cantons, federation and state government. Existing legislation of foreign debt repayment in BiH is not in favor of local governments, thus change of related laws and laws of public revenues allocation between level of governments and local self-government units will improve financial capacity of local governments in FBiH.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve financial situation of the municipality: Improve cooperation with FBiH Tax administration in the collection of tax and non-tax revenues of the City. Insist on compliance with the bylaws that regulate the procedures and deadlines for collecting city revenues by the tax administration. Increase monitoring in collection of non-tax revenues by a sectoral principle (city services). Improve internal control, internal audit, increase monitoring of expenditure, accelerate the introduction of program budgeting.

CITY OF JASTREBARSKO

CITY PROFILE

Territorial organization: The city of Jastrebarsko is 30 kilometers away from Zagreb, the country's administrative center. Part of the Zagreb metropolitan area, it encompasses the town of Jastrebarsko and 58 surrounding suburbs. The city has two districts—Upper and Lower Jask, and its suburban settlements include 30 established local communes.

Demography: Total resident population, according to 2011 census: 15,886; in-country ranking: 36; vital index: 62.3; density: 79 inhabitants per square kilometer.

Economy: Gross income per capita (2015): €7.813; activity rate (2015): 62.4; unemployment rate (percent active population): 6.0; national development index: 100–125 percent; exchange rate: €1 = HRK 7.583; inflation index: 3.4 (2012), 2.2 (2013), -0.2 (2014), -0.5 (2015), -1.1 (2016). Source: CSO and Ministry of Finance.

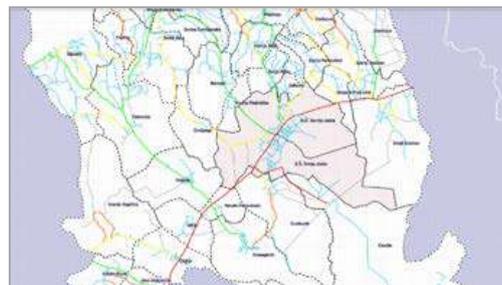
Utilities management: City utility (communal) companies: (1) Roads Jastrebarsko Ltd.: maintenance of roads, cleanliness of green and public spaces, winter services, public lighting, and other items); (2) Waters of Jastrebarsko Ltd.: water supply and drainage; (3) Cemeteries Jastrebarsko Ltd.

Municipal staff: General administration: 26; representatives: 3; employees in budgetary userS (2015): 98.

Decentralized functions: Primary and secondary education, welfare, and fire protection.

Existing project investment plan: Main capital projects and three-year capital investment plan: the development of economic zones—“Jalševac” (€2.2 million); road reconstruction (€320,000).

Urban issues and challenges: Increase the overall standard of living of the population; expand opportunities to create new jobs; improve the community's cultural, social, and sporting life.



FINANCIAL SITUATION

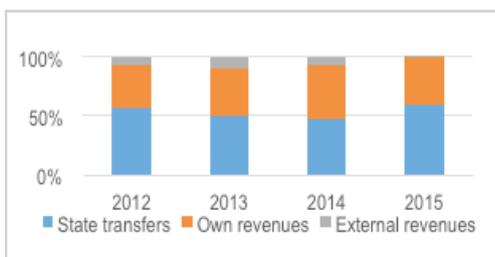
Items	2012	2013	2014	2015	Average annual growth	average
	Outturn	Outturn	Outturn	Outturn		
1 Total current revenue	6.478.364	8.766.387	7.480.017	6.690.970	0,8%	7.353.934
2 Operating expenditure	4.687.803	5.484.767	4.706.425	4.884.796	1,0%	4.940.948
3 Gross operating balance	1.790.561	3.281.620	2.773.592	1.806.174	0,2%	2.412.987
4 Debt repayment and borrowing costs	127.678	155.080	166.800	183.221	9,4%	158.195
5 NET CURRENT BALANCE	1.662.883	3.126.540	2.606.792	1.622.952	-0,6%	2.254.792
6 Capital revenue	92.554	111.375	45.270	27.978	-25,9%	69.294
7 - Own capital investment revenue	92.554	111.375	45.270	27.978	-25,9%	69.294
8 - Investment grants	0	0	0	0		
9 Capital expenditure	2.123.417	2.445.734	2.736.042	1.301.958	-11,5%	2.151.788
10 BALANCE AFTER INVESTMENT	-367.979	792.181	-83.980	348.973		172.299
11 Cash reserves from previous year	0	0	0	0		
11 Loans proceeds	470.388	841.771	559.124	9.422	-62,4%	470.176
12 OVERALL CLOSING BALANCE	102.408	1.633.952	475.144	358.395	36,8%	642.475

Current revenues were higher than expenditures throughout the observed period. The city achieved an average budget surplus of 0.2 percent per year even after debt repayment expenditures were subtracted. The average net current balance (primary surplus) is about €2.2 million; it decreased by about 0.6 percent per year. Capital expenditures grew until 2014; they then decreased by 50 percent. Capital revenues are low and do not represent a significant source of financing for capital investment projects.

Even after the net interest on loan repayments was deducted from the balance after investment, the overall closing balance was positive or in surplus. Receipts from borrowing were low, and in 2015, almost disappear because the city repaid the loan installments from previous years. The financial position of the city is stable, which is confirmed by solid liquidity indicators.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

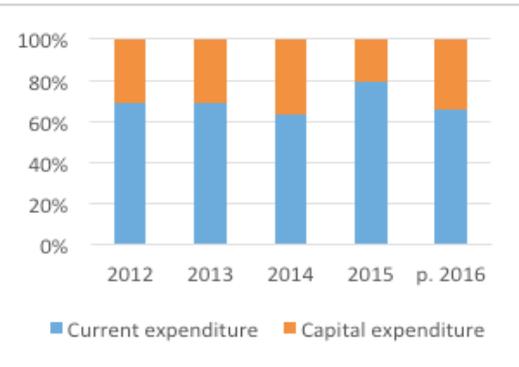
Items	2012	2013	2014	2015	2016	Average Annual growth	% Structure (2015)
	outturn	outturn	outturn	outturn	plan		
TOTAL CURRENT REVENUE	5.979.762	7.724.276	7.152.877	6.000.344	5.716.885	1,02	89,2%
1 State Transfers	3.483.416	3.882.898	3.531.353	3.288.184	3.333.146	0,99	48,9%
- Shared taxes	3.443.125	3.836.142	3.495.740	3.251.403	3.289.758	0,99	48,3%
- Conditional operating transfers	50.291	46.546	35.614	36.781	43.389	0,91	0,6%
2 Own revenue	1.803.948	3.739.940	1.999.664	2.235.742	2.383.739	1,25	33,2%
- Local taxes & levies	175.856	183.811	182.867	188.192	197.821	1,03	2,8%
- Local fees	1.263.708	3.170.024	1.361.913	1.569.246	1.774.715	1,37	23,3%
- Local asset revenues	364.384	386.105	454.883	478.303	411.203	1,1	7,1%
3 Other revenue	682.399	101.648	1.621.860	476.418	0	5,51	7,1%
- Surplus Y-1	682.399	101.648	1.621.860	476.418	0	5,51	7,1%
- Revenues from PUCs	0	0	0	0	0		0,0%
TOTAL NON-CURRENT REVENUE	1.061.544	1.995.256	931.534	728.028	1.818.305	1,06	10,8%
1 State Transfers and grants	474.813	962.008	314.935	668.615	605.199	1,5	9,9%
2 Own revenue	92.554	111.375	45.270	27.978	363.703	0,75	0,4%
3 External revenue	494.177	921.873	571.329	31.433	859.402	0,85	0,5%
TOTAL REVENUE	7.041.306	9.719.532	8.084.411	6.728.371	7.335.190	1,02	100,0%
1 State transfers	3.968.229	4.844.896	3.848.288	3.966.799	3.938.345	1,02	58,8%
2 Own revenues	2.578.901	3.952.963	3.666.793	2.740.139	2.737.442	1,07	40,7%
3 External revenues	494.177	921.873	571.329	31.433	859.402	0,85	0,5%



Main revenue sources: State transfers: 58 percent; dominance of shared (income) taxes: 48 percent; own-source revenue: 41 percent; external revenue sources: 1 percent.

Own-source revenue (local fees) consists of communal fees and contributions; they represented a significant source of funding. Communal fees and contributions are revenues earmarked mainly for local infrastructure maintenance. Local taxes were low during the observed period; shared income tax was stable, representing the dominant source of financing for the city.

	Items	2012	2013	2014	2015	P. 2016	% structure (average)
A	Current expenditure	4 687 803	5 484 767	4 706 425	4 884 796	4 652 214	79.0%
1	Payroll (including employees benefits & misc.)	1.659.811	1.701.752	1.751.799	1.784.004	1.865.053	28.8%
	- Administrative staff	546.930	563.627	594.368	564.198	598.342	9.1%
	- Budget users	1.112.882	1.138.125	1.157.431	1.219.807	1.266.712	19.7%
2	Operational costs	2.181.240	2.660.879	1.967.325	2.226.122	1.920.839	36.0%
	Compensation of employees	24 158	26 652	22 413	20 742	18 859	0.3%
	Expenditures for materials	16.544	18.292	16.092	14.479	14.771	0.2%
	- Electric energy	228.117	214.534	232.861	232.093	225.252	3.8%
	- Communication (telephone, post, transport etc.)	40.389	42.790	52.974	52.907	44.707	0.9%
	- Fuel and gas	29.445	30.256	26.482	32.141	32.443	0.6%
	- Other materials	9.365	10.005	14.727	4.666	6.990	0.1%
	- Other services	543.225	583.689	505.560	1.455.054	1.201.626	23.5%
	- Other operational cost	1.282.996	1.734.662	1.097.216	414.039	375.991	6.7%
3	Maintenance costs	846.752	1.122.135	987.300	874.670	866.323	14.1%
	current and capital maintenance	846.752	1.122.135	987.300	874.670	866.323	14.1%
B	Total capital investment costs	2 123 417	2 445 734	2 736 042	1 301 958	2 443 349	21.0%
	- Civil Works	1.226.212	1.760.402	2.100.363	443.019	1.734.623	7.2%
	- Equipment purchase	43.996	104.507	48.234	100.520	53.543	1.6%
	- Others	853.209	580.825	587.445	758.418	655.162	12.3%
	Total (A+B)	6.811.220	7.930.501	7.442.467	6.186.754	7.095.563	100.0%



The total capital investment represented 19.35 percent of total revenues. The largest share of capital expenditures related to construction work—improving infrastructure for the entire metropolitan area. Most capital investments were funded by the city's own revenue sources and from funds from the European Union.

Capital expenditures, mostly related to civil works, constituted 21 percent of total expenditures over the observed period. The city's payroll costs were significant at 29 percent; and operation and maintenance costs were high, accounting for more than 50 percent of total expenditures.

RATIO ANALYSIS

Indicator:	Benchmark	2012	2013	2014	2015	average
Gross Operating savings/ Current revenue	30%	28%	37%	37%	27%	32%
Debt outstanding /Budget total	> 80 %	14%	17%	32%	32%	24%
Borrowing /Current revenues	< 15 %	7%	10%	7%	0%	6%
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	37%	54%	35%	34%	40%
Capital investment expenditure / Total Current revenue	> 40 %	33%	28%	37%	19%	29%
Maintenance works expenditure / Operating expenditures	> 15 %	18%	20%	21%	19%	19%
Salaries & wages / Operating actual expense	< 40 %	35%	31%	37%	37%	35%
Actual revenue / Planned revenue	95<A.P<1.05	98%	99%	94%	100%	98%

All of the city's financial indicators were within the reference values, demonstrating that the city is stable and in a good financial position. Interestingly, current savings were above the reference value, indicating the city's significant financial resources for borrowing. Debt accounted for an average of 24 percent of the total budget, but these large obligations did not pose a significant financial burden.

The city's rate of financial autonomy was about 40 percent, a result of the higher share of the communal fees and contribution revenues. Expenditures for capital investments were below the reference value; on average, they made up only about 29 percent of current revenues. Maintenance costs were in desirable values. Interestingly, wage expenditures were high— 35 percent of total current expenditures. The city planned its budget well: the amounts realized did not significantly deviate from the planned amount of revenues.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

The cost of debt is low. City creditors are mostly private companies. The city regularly settles all of its obligations according to maturities. For the period 2016–18, most of the city's capital investment finance comes from own revenue sources or operating surpluses. After 2016, higher maintenance expenditures and debt repayments are anticipated, but this is not a problem because the city expects to grow its own revenue sources by 8 percent and receive 3 percent higher income from conditional grants. Gross operating savings are growing as net savings. The overall closing balance from 2016 to 2018 is zero. The city's debt involves two long-term loans used to finance capital utility infrastructure projects

MUNICIPAL FINANCE IMPROVEMENT PLAN

Most of the city's plans are long-term activities, but in the short term, the city is focusing its priorities on increasing fiscal autonomy by improving local tax collection and revising decision on city taxes (tax on trade name). The permanent, long-term activities are attracting private investors. The city has successfully established an entrepreneurial zone, and it continues to attract private investment through Improvements of Business Climate Further investments in infrastructure equipment GZ "Jalševac" and "Trešnjevka". In the context of improving business and the development of a competitive local economy, the city is focused on speeding up administrative procedures, connecting entrepreneurs, offering staff training, and providing direct incentives to entrepreneurs. The city is more focused on the new potential source of (co) funding—project application to EU funds and state programs, project preparation for co-financing from European Union funds and the state budget.

CITY OF LABIN

CITY PROFILE

Territorial organization: The city of Labin includes seven local committees. Its population is distributed in 17 settlements. The total area of the city is 72 square kilometers.

Demography: Total resident population, according to 2011 census: 11,642; annual growth: -0.002 percent; in-country ranking: 58; vital index: 81.4; density: 162 inhabitants per square kilometer.

Economy: Income per capita (2015): €12.536; activity rate (2011): 64.1; unemployment rate (percent active population): 6.79; national development index: 100–125 percent; exchange rate: €1 = HRK 7.583; inflation index: 3.4 (2012), 2.2 (2013), -0.2 (2014), -0.5 (2015), -1.1 (2016). Source: CSO [and Ministry of Finance.

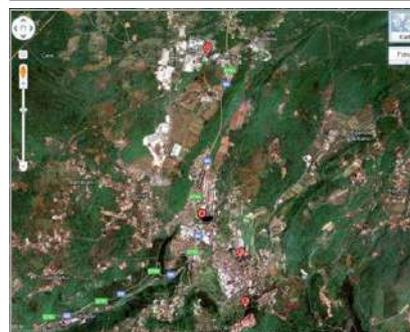
Utilities management: City utility (communal) companies: (1) 1 May Ltd.: garbage collection, park maintenance, cleaning of public areas and parking lots, maintenance of cemeteries and organization of burial and other funeral services, maintenance of unclassified roads, and civil engineering; (2) Vodovod Labin Ltd.: water supply, public drainage, medical testing of drinking water for their own use, performance connections to the municipal water structures, and calibration of water meters; (3) Labin Apartment Ltd.: management of apartment buildings; (4) Labin 2000 Ltd.: parking management in public areas.

Municipal staff: General administration: 34, technical service unit: 3. Number of employees at budget users (2014): 133.

Decentralized functions: Primary and secondary education, welfare, and fire protection.

Existing project investment plan: Main capital projects and three-year capital investment plan: Reconstruction and upgrading of the sports center with extra hall and supporting facilities (€4.4 million); underground city, phase 2: hot links, export tower, and pane in Podlabin (€1.5 million); reconstruction of the entrance to the tourist resort in Rabac (€0.7 million); new kindergarten in Vinež, phase 1 (€1.3 million); home for the elderly in Labin (€5.8 million).

Urban issues and challenges: Increase economic competitiveness; develop human resources; improve quality of life; strengthen infrastructure, environmental protection, sustainable management of space and resources, and Labin's identity and recognition.



FINANCIAL SITUATION

Items	2012	2013	2014	2015	change	average
	outturn	outturn	outturn	outturn		
1 Total current revenue	7.931.754	8.413.321	8.709.229	8.504.182	1,8%	8.389.621
2 Operating expenditure	6.265.084	6.576.769	6.905.970	7.035.363	2,9%	6.695.796
3 Gross operating balance	1.666.669	1.836.552	1.803.260	1.468.819	-3,1%	1.693.825
4 Debt service and borrowing costs	320.538	233.853	204.065	204.613	-10,6%	240.767
5 NET CURRENT BALANCE	1.346.131	1.602.699	1.599.195	1.264.206	-1,6%	1.453.058
6 Capital revenues	632.130	184.923	439.076	196.178	-25,4%	363.077
7 - Own capital revenues	586.470	184.923	403.490	180.058	-25,6%	338.735
8 - Investment grants	45.660	0	35.585	16.119	-22,9%	24.341
9 Capital investment expenditures	1.674.126	1.471.716	1.537.461	975.672	-12,6%	1.414.744
10 BALANCE AFTER INVESTMENT	304.135	315.906	500.809	484.712	12,4%	401.390
11 Cash reserves from previous years	0	0	0	0		0
12 Loans proceeds	0	0	0	0		0
13 OVERALL CLOSING BALANCE	304.135	315.906	500.809	484.712	12,4%	401.390

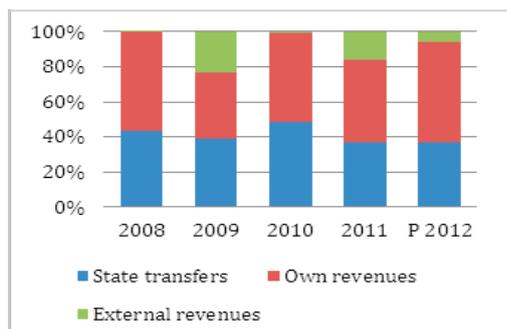
The city of Labin is in a solid and stable financial position. Total current revenues were higher than current expenditures during the observed period so the city recorded a current budget surplus over the entire observed period. After the current surplus was deducted from debt repayments, the primary surplus remained at an average of around €1.5 million.

Debt service was reduced an average of 10.6 percent annually. Capital revenues were low and recorded an average decrease of 25 percent. These were insufficient for financing capital expenditures, which gradually declined by an average of 12.6 percent per year.

The balance after the investment remains in the surplus. When we take into consideration that the city does not borrow, but only pays off its obligations from the previous year then it is clear that the city has a positive overall closing balance throughout the period. The city will probably use total budget surpluses to finance capital projects and maintain a high level of liquidity.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	2012	2013	2014	2015	P 2016	Average annual growth	% in structure 2015
TOTAL CURRENT REVENUE	6.881.046	7.266.580	7.437.173	7.416.134	8.021.048	1,03	
1 State Transfers	3.578.365	3.845.390	3.630.986	3.461.556	3.464.816	0,99	42,2
- Shared taxes	2.968.487	3.310.147	3.090.657	2.834.528	2.828.835	0,99	34,5
- Conditional operating transfers	609.879	535.213	540.329	627.028	635.981	1,02	7,7
2 Own revenue	3.302.681	3.410.220	3.806.187	3.954.578	4.556.232	1,06	48,2
- Local taxes & levies	567.194	629.885	601.122	582.034	594.781	1,01	7,1
- Local fees	2.030.213	1.879.188	1.970.276	2.175.853	2.549.671	1,03	28,5
- Local asset revenues	705.274	901.148	1.234.788	1.196.890	1.411.780	1,21	14,6
3 Other revenue	0	0	0	0	0		0,0
TOTAL NON-CURRENT REVENUE	1.321.385	1.040.785	1.397.584	788.598	3.655.960	0,90	9,6
1 State Transfers and grants	288.163	394.798	498.310	136.125	583.800	0,97	1,6
- Unconditional transfers	0	0	0	0	0		
- Conditional operating transfers	288.163	394.798	498.310	136.125	583.800	0,97	1,6
2 Own revenue	586.470	184.923	403.490	180.058	704.110	0,98	2,2
- Asset sales	586.470	184.923	403.490	180.058	704.110	0,98	2,2
- Long term leases	0	0	0	0	0		
3 External revenue	446.751	461.065	495.763	472.415	2.368.050	1,02	5,8
- Loans proceeds	0	0	0	0	1.846.326		
- Grants from local government for financing kindergartens, fire protection	371.693	394.365	428.928	439.325	497.328	1,06	5,4
- Donation	75.059	66.700	68.836	33.090	24.398	0,80	0,4



Own-source revenues—local fees and asset sales—are the most dominant for the city's revenue.

The main sources of the city's revenues were own sources, accounting for 48.2 percent of total revenue. Own-source revenue are consistent from communal fees and contribution earmarked revenues used for financing and maintaining communal infrastructure. Another important source of revenue was government transfers, accounting for 42.2 percent. State transfers consisted mainly of shared tax revenues, accounting for 82 percent of total transfers. Direct transfers from the central government represented 18 percent of total transfers.

	Items	2012	2013	2014	2015	p 2016	% in structure (av.)
A	CURRENT EXPENSE	6.265.084	6.576.769	6.905.970	7.036.363	7.046.473	76.9%
1	Payroll (including employees benefits & misc.)	2.284.337	2.306.763	2.466.056	2.476.227	2.563.145	27.5%
	- Administrative staff	2.284.337	2.306.763	2.466.056	2.476.227	2.563.145	27.5%
	- technical department staff	0	0	0	0	0	0.0%
	- Other staff (contractual)	0	0	0	0	0	0.0%
2	Operational costs	1.250.572	1.421.089	1.336.981	1.307.793	1.306.913	16.0%
	- Office supplies	46.235	44.391	42.443	37.835	40.270	0.5%
	- Electric energy	260.125	407.636	325.669	372.293	472.897	4.2%
	- Communication (telephone, etc.)	166.828	173.620	164.953	149.525	148.779	1.8%
	- Fuel and gas	74.961	92.569	90.721	86.238	0	0.8%
	- Utility services	702.425	702.673	713.165	661.901	644.968	7.8%
	Maintenance costs	638.024	532.096	635.106	860.233	736.806	8.2%
4	Compensations to citizens and households based on insurance	461.888	525.936	495.649	592.697	504.179	5.9%
5	Other expenses - current and capital grants, etc.	591.855	622.500	618.135	582.669	556.206	6.8%
6	Financial expenses, subsidies and grants to abroad	214.955	275.097	203.092	259.358	374.230	3.0%
7	Other material expenses	823.453	892.389	950.361	956.188	1.005.993	10.5%
B	Total capital investment costs	1.672.636	1.471.716	1.537.199	976.672	4.526.086	23.1%
	- Civil Works	992.557	883.710	1.089.968	484.154	3.673.743	16.2%
	- Equipment purchase	378.060	465.765	207.219	86.641	37.982	2.6%
	- Others	302.020	132.240	239.992	404.876	814.362	4.3%
	Total (A+B)	7.937.721	8.048.485	8.443.169	8.011.035	11.572.559	100.0%



Capital investment decreased over the period 2012–15. The city's planned investments for 2016 require more than 30 percent of total expenditures.

Total operating expenditures represented 85.7 percent of total revenues. Wages increased by 3 percent, operating costs by 2 percent, and maintenance costs by 15 percent. The cost of wages includes salaries of city administration employees and budgetary users, directly financed out of the city's budget (kindergarten, fire brigade, city library, open university, and others).

RATIO ANALYSIS

Indicator:	Benchmark	2012	2013	2014	2015	average
Gross Operating savings/ Current revenue	30%	21%	22%	21%	17%	20%
Debt outstanding /Budget total	> 80 %	27%	27%	22%	21%	24%
Borrowing /Current revenues	< 15 %	0%	0%	0%	0%	0%
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	55%	48%	54%	54%	53%
Capital investment expenditure / Total Current revenue	> 40 %	21%	17%	18%	11%	17%
Maintenance works expenditure / Operating expenditures	> 15 %	10%	8%	12%	12%	11%
Salaries & wages / Operating actual expense	< 40 %	36%	35%	36%	35%	36%
Actual revenue / Planned revenue	95<A.P<1.05	90%	89%	95%	95%	92%

The city is in an excellent financial position, with high liquidity. Gross operating savings made up an average of about 20 percent of current revenues over the observed period. Total liabilities represented 24 percent of the budget with a downward trend. The city did not borrow money during the considered period; it only paid off earlier obligations.

Own-source revenue sources represented more than 50 percent of current revenues, demonstrating the city's significant fiscal autonomy. Capital expenditures accounted for about 17 percent of current revenues; they were relatively low and decreasing.

Maintenance expenditures were below the maximum reference value, accounting for an average of 11 percent of current expenditures. Expenditures for employees were high during the observed period, with 36 percent close to the maximum reference value. The city failed to fully ensure execution revenue in accordance with the plan. Revenue outturn represented an average of approximately 92 percent of projections.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Since 2016, the city of Labin has been significantly increasing the financing of capital projects to €2 million by 2018. Most funding sources for capital projects have been realized by surpluses from previous years' income and funds from the European Union. Thanks to its excellent financial position, the city does not need to borrow money. The main capital projects include the construction of the entrance to the tourist resort Rabac and reconstruction of existing intersections in circular and landscaping; new construction of Kindergarten Vinež (phase 1), and reconstruction of Liče Faraguna Labin Center (renewable energy includes). The city has invested a lot in the preparation of documentation for projects financed with European Union funds.

MUNICIPAL FINANCE IMPROVEMENT PLAN

The city's financial plan is primarily focused on making technical improvements of budget execution, transparency, and reliability, including improving the reliability of forecasting, increasing prudence in planning, and stopping the trend toward constant changes in tax regulations. Additional aspects include refining the cost analysis of the most significant expenditure, control in achieving program and projects defined objectives. The city will focus on improving local tax collection and revising the property tax rate for households. Sale of assets that generates costs. Significant effort has been invested into improving the business environment with infrastructure and tourism. The city has implemented a program to support to entrepreneurs and most of the capital project besides savings tend to finance by increase European Union funds utilization.

CITY OF PREGRADA

CITY PROFILE

Territorial organization: The city of Pregrada is located in the westernmost part of the Croatian Zagorje. It is part of the Krapina-Zagorje County administrative zone. The total area of the city is 67.26 square kilometers.

Demography: Total resident population, according to the 2011 census, was 6,594; annual growth: -0.015 percent; in-country ranking: 112; vital index: 50; density: 98 inhabitants per square kilometer.

Economy: Net income per capita (2012): €4,324; activity rate (2011): 59; unemployment rate (percent active population): 18.7; national development index: 75–100 percent; exchange rate: €1 = HRK 7.583; inflation index: 3.4 (2012), 2.2 (2013), -0.2 (2014), -0.5 (2015), -1.1 (2016). Source: CSO and Ministry of Finance.

Utilities management: City utility (communal) companies: (1) Niskogradnja Ltd.: housing and communal activities; (2) Viop Ltd.: water supply and sanitation; (3) Humplin Ltd.: gas distribution system. Three budgetary users: Kindergarten ("Our Joy"), The City Library, Museum. The Music School.

Municipal staff: General administration: 8; representatives: 1. Employees at budgetary users (2015): 22

Decentralized functions: Primary education, welfare, and fire protection.

Existing project investment plan: Main capital projects and three-year capital investment plan: road paving, cultural center, children playgrounds, and business zone infrastructure.

Urban issues and challenges: Increase capacity to attract funds from the European Union, improve the competitiveness and growth of small and medium-size family farms, construct hard and soft infrastructure required for business growth and a comfortable lifestyle, and transform local government to force economic development and enhance attractiveness of the city's for investments.



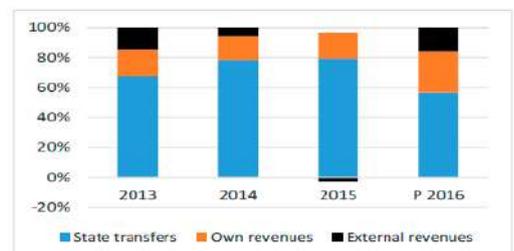
FINANCIAL SITUATION

Items	2013	2014	2015	Average annual growth	average
	outturn	outturn	outturn		
1 Total current revenue	1.488.238	1.582.372	1.329.561	-2.8%	1.480.067
2 Operating expenditure	1.134.967	1.160.512	1.036.747	-2.2%	1.110.742
3 Gross operating savings	353.271	401.860	292.814	-4.6%	349.315
4 Debt services	145.636	216.079	187.478	6.5%	183.064
5 Net current balance	207.635	185.781	105.336	-16.8%	186.261
6 Capital revenues	4.979	10.277	14.888	31.6%	10.048
7 - Own capital revenues	4.979	10.277	14.888	31.5%	10.048
8 - Investment grants	0	0	0		
9 Capital expenditures	408.138	412.071	285.986	-8.6%	368.732
10 BALANCE AFTER INVESTMENT	-403.169	-401.793	-271.098	-9.4%	-358.684
11 Cash reserves from previous years	0	0	0		
12 Loans proceeds	187.759	104.839	65.706	-23.1%	119.435
13 OVERALL CLOSING BALANCE	-7.765	-111.174	-100.068	89.6%	-72.998

After settling liabilities, the city recorded current surpluses over the entire observed period, although the level decreased by an average of 4.6 percent per year. Capital revenues were insufficient to finance capital expenditures, which contracted by an average of 8.5 percent annually. Balance after investment was negative during the entire observed period. The city regularly borrowed on the financial market, and the overall closing balance was negative. There is no potential for the city to finance major capital projects through own-source revenues, but it does have liquidity to settle all of its obligations.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Items	2013	2014	2015	P 2016	% in structure
TOTAL CURRENT REVENUE	1.421.290	1.431.348	1.187.275	1.642.669	83%
1 State Transfers	1.068.972	1.177.062	1.035.578	1.097.780	64%
- Shared taxes	1.042.919	1.063.563	988.476	994.452	60%
- Conditional operating transfers	26.054	113.498	47.102	53.328	4%
2 Own revenue	297.908	261.993	263.168	558.966	20%
- Local taxes & levies	45.253	41.768	39.927	46.026	3%
- Local fees	122.445	92.582	92.247	207.906	8%
- Local asset revenues	130.210	127.644	130.995	305.034	10%
3 Other revenue	54.409	-7.707	-111.472	-4.077	-1%
- Surplus Y-1	54.409	-7.707	-111.472	-4.077	-1%
TOTAL NON-CURRENT REVENUE	259.687	246.141	222.881	407.673	17%
1 State Transfers and grants	71.928	140.600	156.780	78.267	7%
- Conditional operating transfers	71.928	140.600	156.780	78.267	7%
2 Own revenue	297.908	261.993	263.168	558.966	20%
3 External revenue	187.759	105.541	66.101	329.415	10%
- Loans proceeds	187.759	104.839	65.706	328.758	10%
- Donation	0	702	394	658	0%
TOTAL REVENUE	1.680.976	1.677.489	1.410.156	2.050.342	100%
1 State transfers	1.140.900	1.317.662	1.192.358	1.166.037	71%
2 Own revenues	297.908	261.993	263.168	558.966	20%
3 External revenues	242.168	97.833	-45.371	325.338	9%



The city's main revenue sources were government transfers, representing 78.36 percent of total revenue. Own-source revenues accounted for 17.30 percent, and the share of external revenue was 4.34 percent.

Operating revenues were the city's primary source, representing 87.38 percent of total revenues and receipts. Own-source capital revenues accounted for 0.98 percent of the total city revenues, and capital expenditures represented 18.70 percent of the city's total budget revenues and receipts. Debt was related to long-term debt and short-term loans. Short-term loans were included in the debt because they were repaid over two budgetary years.

	Items	2012	2013	2014	2015	p 2016	% in structure (av.)
A	CURRENT EXPENSE	6.265.084	6.576.769	6.905.970	7.035.363	7.046.473	76,9%
1	Payroll (including employees benefits & misc.)	2.284.337	2.306.763	2.466.056	2.476.227	2.563.145	27,5%
	- Administrative staff	2.284.337	2.306.763	2.466.056	2.476.227	2.563.145	27,5%
	- technical department staff	0	0	0	0	0	0,0%
	- Other staff (contractual)	0	0	0	0	0	0,0%
2	Operational costs	1.250.572	1.421.089	1.336.981	1.307.793	1.306.913	16,0%
	- Office supplies	46.235	44.391	42.443	37.835	40.270	0,5%
	- Electric energy	260.125	407.036	325.969	372.293	472.897	4,2%
	- Communication (telephone, etc.)	166.829	173.620	164.993	149.525	148.779	1,8%
	- Fuel and gas	74.961	92.569	90.721	86.238	0	0,8%
	- Utility services	702.425	702.673	713.165	661.901	644.968	7,8%
3	Maintenance costs	638.024	532.096	635.106	860.233	735.806	8,2%
4	Compensations to citizens and households based on insurance	461.588	525.836	495.649	552.697	504.179	5,9%
5	Other expenses - current and capital grants, etc.	591.855	622.500	618.135	562.669	555.206	6,8%
6	Financial expenses, subsidies and grants to abroad	214.955	275.097	203.092	259.358	374.230	3,0%
7	Other material expenses	823.453	892.389	950.951	956.188	1.005.993	10,5%
B	Total capital investment costs	1.672.636	1.471.716	1.537.199	975.672	4.528.086	23,1%
	- Civil Works	992.557	883.710	1.089.988	484.154	3.673.743	16,2%
	- Equipment purchase	378.060	455.766	207.219	86.641	37.982	2,6%
	- Others	302.020	132.240	239.992	404.876	814.362	4,3%
	Total (A+B)	7.937.721	8.048.485	8.443.169	8.011.035	11.572.559	100,0%



From 2013 to 2015, the largest part of investment capital was for construction work. Regarding the financing method, most of the capital expenditure was financed through grants (i.e. applying to grants through various open calls of the central government) and from own-source revenues.

Total operating expenses represented 68.13 percent of total expenditures; salaries, 22.50 percent; operating costs, 38.43 percent; and maintenance costs, 7.2 percent. Cost of salaries included: city administration staff, accounting for 11.35 percent, and wages for workers employed in budgetary users, accounting for 11.15 percent of total expenditures.

RATIO ANALYSIS

Indicator	Benchmark	2012	2013	2014	2015	average
Gross Operating savings/ Current revenue	30%		24%	26%	22%	24%
Debt outstanding /Budget total	> 80 %		25%	18%	12%	18%
Borrowing /Current revenues	< 15 %		13%	7%	5%	8%
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %		33%	24%	25%	27%
Capital investment expenditure / Total Current revenue	> 40 %		27%	26%	22%	25%
Maintenance works expenditure / Operating expenditures	> 15 %		11%	17%	11%	13%
Salaries & wages / Operating actual expense	< 40 %		28%	30%	33%	30%
Actual revenue / Planned revenue	95<A/P<1.05		98%	92%	90%	93%

On average, the current surplus accounted for about 24 percent of current revenues—a good indicator of liquidity. Debt comprised an average of 18 percent of the budget, with a decreasing trend over the observed period. Borrowing receipts accounted for only 8 percent of total revenues, which is low, and shows that the city was managing its finances reasonably well. The city had a low level of financial autonomy because its own-source revenues accounted for only 27 percent of total current revenues. Capital investment was about 25 percent of total current revenues. Maintenance costs were lower than the reference value, accounting for about 13 percent of current expenditures.

Salary expenditures accounted for about 30 percent of total expenditures and were high relative to the maximum reference value. Realized revenues totaled 93 percent of projected revenues. The city's revenue planning process is insufficient, but the deviations are not large and are close to the reference values. In short, the city is liquid and in a relatively solid financial position, but with limited funding opportunities for greater capital investments.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

In accordance with its capabilities, the city of Pregrada ensures proper maintenance of its infrastructure. Financing plans through 2018 mainly refer to expenditures envisaged under the capital investment program as they relate to paving roads, the city's cultural center, the computer program, e-roads, children's playgrounds, and business-zone infrastructure. The city intends to provide liquidity revenues to finance capital projects. It expects an increase in conditional grants from the central government and own-source revenues to finance capital expenditures.

MUNICIPAL FINANCE IMPROVEMENT PLAN

The budgeting capability of the city of Pregrada to finance larger capital projects is relatively modest. The city therefore focuses on activities related to technical enhancements of budget management, such as improving forecast reliability, budget execution (95 percent and more), the cost analysis for capital projects and long-term fiscal planning, city development strategy according to defined strategic economic priorities, and spending by controlling defined city objectives to ensure the implementation of its development vision.

CITY OF ZAPREŠIĆ

CITY PROFILE

Territorial organization: The city of Zaprešić is located in the northwestern part of Zagreb County, 17 kilometers from Zagreb, the county's administrative center. Zaprešić is situated in the valley of three rivers, the Sutla, the Sava, and the Krapina, between Slovenia to the west, the county of Krapina-Zagorje to the north, the city of Samobor to the south, and Zagreb to the east. The area of the city is 52.6 square kilometers.

Demography: Total population, according to the 2011 census: 25,223; annual growth: -0.9; in-country ranking: 23; vital index: 96.4; density: 479.5 inhabitants per square kilometer.

Economy: Gross income per capita (2015): €10,364; activity rate (2015): 63.2; unemployment rate (percent active population): 5.9; national development index: 100–125 percent; exchange rate: €1 = HRK 7,583; inflation index: 3.4 (2012), 2.2 (2013), -0.2 (2014), -0.5 (2015), -1.1 (2016). Source: CSO and Ministry of Finance.

Utilities management: City utility (communal) companies: (1) Zaprešić Ltd.: waste disposal; park maintenance; cleaning of public areas, parking lots, and main squares; management of the market, cemetery maintenance and organization of burial and other funeral services; (2) Water Supply and Drainage Ltd.: collection and distribution of drinking water and drinking water supply, wastewater treatment, construction engineering, installation infrastructure for water, drainage and purification; (3) Information Center Zaprešić Ltd.: FM radio broadcasting.

Decentralized functions: Primary and secondary education, welfare, and fire protection.

Municipal staff: General administration: 52; technical service unit: 8; representatives: 2; part-time officers: 2. Number of employees in budgetary users: 225.

Existing project investment plan: The primary capital projects and three-year capital investment plan includes upgrading the building and sports facility of the Kuplje primary school for €276,000; road Zaprešić–Jablanovec for €76,000; city square for €147,000; and remediation of landfills for €128,000.

Urban issues and challenges: Promote tourism, raise the quality of life, foster a knowledge society, and develop urban infrastructure.



FINANCIAL SITUATION

In EURO.

	Items	2012	2013	2014	2015	Average annual growth	Average
		actual	actual	actual	actual		
1	Total current revenue	13.806.375	14.570.824	15.216.712	18.870.667	8.1%	15.616.145
2	Operating expenditure	13.227.110	13.807.545	13.852.781	16.358.048	5.5%	14.311.371
3	Gross operating balance	579.265	763.279	1.363.931	2.512.619	44.3%	1.304.773
4	Debt service and borrowing costs	1.031.711	991.934	1.008.827	943.433	-2.2%	993.976
5	NET CURRENT BALANCE	-452.446	-228.655	355.104	1.569.185		310.797
6	Capital revenue	75.762	83.685	150.298	197.637	27.1%	126.846
7	- Own capital revenues	75.762	83.685	150.298	197.637	27.1%	126.846
8	- Investment grants	0	0	0	0	0.0%	0
9	Capital expenditures	2.684.170	2.766.233	2.527.992	3.315.187	5.4%	2.823.395
10	BALANCE AFTER INVESTMENT	-2.608.407	-2.682.548	-2.377.694	-3.117.560	-4.6%	-2.696.550
11	Cash reserves from previous years	0	0	0	0	0.0%	0
12	Loan proceeds	0	0	0	0	0.0%	0
13	OVERALL CLOSING BALANCE	-2.029.142	-1.919.269	-1.013.782	-604.931	-26.1%	-1.391.776

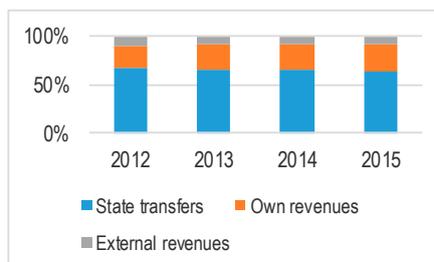
Over the observed period, the city regularly settled its financial obligations and was a low credit risk with a high level of budget liquidity. Current revenues were higher than current expenditures so the city realized current surpluses on average. Over the last two years, current surpluses remained even after the city met its debt obligations.

The city achieved a primary surplus, which indicates that there is no problem with its repaying its obligations. On average, debt repayments were reduced over the observed period. Capital expenditures grew by 4.6 percent annually; they were the main reason behind the city's total budget deficit and negative closing balance.

The overall closing balance was negative but was reduced by about 26 percent over the observed period. The total final closing balance trend was on the decrease.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	Items	2012	2013	2014	2015	p 2016	structure (av) %
	TOTAL CURRENT REVENUE	15.271.446	16.017.356	16.144.965	15.968.154	17.121.277	88.6%
1	State Transfers	10.612.456	10.810.002	11.170.722	10.504.915	10.991.670	60.2%
	- Shared taxes	9.550.347	9.963.469	10.281.301	9.374.821	9.814.447	54.6%
	- Conditional operating transfers	1.062.109	946.533	889.421	1.130.294	1.177.223	5.6%
2	Own revenue	3.069.682	3.716.825	3.834.267	4.062.340	4.538.072	20.2%
	- Local taxes & levies	148.057	184.245	170.375	167.615	199.139	0.9%
	- Local fees	2.912.130	3.509.369	3.408.336	3.851.572	4.248.616	19.1%
	- Local asset revenues	9.495	23.011	55.557	43.154	92.316	0.2%
3	Other revenue	1.589.309	1.490.729	1.339.976	1.400.899	1.591.536	8.1%
	- Other revenue of budgetary users	1.589.309	1.490.729	1.339.976	1.400.899	1.591.536	8.1%
	TOTAL NON-CURRENT REVENUE	1.939.310	1.875.290	2.096.294	2.477.982	5.588.812	11.4%
1	State Transfers and grants	972.195	783.476	866.316	1.117.840	991.213	5.2%
	- Conditional operating transfers	972.195	783.476	866.316	1.117.840	991.213	5.2%
2	Own revenue	888.916	838.737	1.086.220	1.294.665	1.834.940	5.7%
	- Asset sales	75.512	83.665	150.236	197.555	690.845	0.7%
	- Long term leases	521.485	528.416	438.177	485.856	597.445	2.7%
	- Reimbursement of overhead costs	0	0	61.569	82.311	79.128	0.2%
	- Other own revenue	291.919	226.636	436.236	538.944	467.722	2.1%
3	External revenue	78.198	53.076	143.758	75.476	2.780.658	0.5%
	- Loans proceeds					2.637.609	
	- Donation	78.198	53.076	143.758	75.476	123.050	0.5%
	TOTAL REVENUE	17.210.756	17.892.646	18.241.259	18.446.136	22.708.089	100.0%
1	State transfers	11.584.651	11.593.478	12.037.038	11.622.755	11.982.883	65.4%
2	Own revenues	3.958.598	4.565.363	4.720.487	5.347.005	6.373.011	28.0%
3	External revenues	1.667.507	1.543.805	1.483.734	1.476.375	4.352.194	8.6%

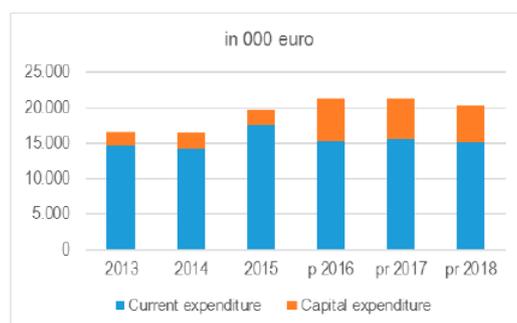


The main revenue sources were government transfers, primarily personal income tax, representing a 63 percent share of total revenues; followed by own-source revenues at 29 percent; and external revenues, primarily own-source revenues of budgetary users at 8 percent.

State transfers consisted of shared revenues, which accounted for 80 percent of total transfers, and transfers from the state and the county budget, which account for the remaining 20 percent. Current revenue dominated in the revenue structure.

Total current revenue represented around 89 percent and noncurrent revenue, 11 percent of total revenue. The city did not borrowed money during the observed period. Own-source revenue of budgetary users represented 8.1 percent of the city's revenues. The fiscal autonomy of Zaprešić was limited by the fact that the dominant budget revenue source is shared income taxes.

items	2013	2014	2015	p 2016	pr 2017	pr 2018
A TOTAL OPERATING EXPENDITURE	14.775.419	14.247.831	17.563.627	15.418.140	15.619.931	15.104.498
Payroll (including employees benefits & misc.)²	5.174.512	5.303.331	5.244.110	5.304.844	5.321.347	5.315.957
- Administrative staff	5.061.445	5.153.967	5.106.709	5.204.704	5.221.208	5.215.919
- technical department staff	0	0	0	0	0	0
- Other staff (contractual workers)	113.068	149.363	137.401	100.140	100.140	100.038
Operating costs	7.010.922	6.627.677	9.800.214	7.430.856	7.540.792	7.069.406
- Office supplies	154.171	169.476	155.550	161.484	160.538	160.375
- Electricity	451.602	425.325	474.237	494.855	494.855	494.354
- Communication (telephone, etc.)	179.057	159.988	163.253	197.110	197.110	196.910
- Fuel & gas	203.053	169.156	192.212	202.124	202.124	201.919
- Other costs	6.023.040	5.703.731	8.814.962	6.375.282	6.486.165	6.015.847
- Maintenance costs	2.589.984	2.316.823	2.519.303	2.682.441	2.757.792	2.719.135
B CAPITAL EXPENDITURE	1.831.097	2.215.560	2.110.144	5.929.116	5.663.743	5.269.546
TOTAL (A+B)	16.606.516	16.463.391	19.673.771	21.347.256	21.283.674	20.374.044



Capital investments constituted 18 percent of total revenues in 2015, representing growth over 2014. The city planned to significantly increase capital expenditures in 2016, mostly financed by loans.

Current expenditures represented an average of 75 percent of total expenditures, with dominance of operating (material) costs, followed by very high level of payroll. High level of payroll are confirmed by the data from ratio analysis (salaries and wages/operating actual expense). (see: table with ratio analysis)

RATIO ANALYSIS

Indicator:	Benchmark	2012	2013	2014	2015	average
Gross Operating savings/ Current revenue	30%	4%	5%	9%	13%	8%
Debt outstanding /Budget total	> 80 %	18%	16%	11%	8%	13%
Borrowing /Current revenues	< 15 %	0%	0%	0%	0%	0%
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	22%	26%	24%	22%	23%
Capital investment expenditure / Total Current revenue	> 40 %	19%	19%	17%	18%	18%
Maintenance works expenditure / Operating expenditures	> 15 %	17%	19%	17%	15%	17%
Salaries & wages / Operating actual expense	< 40 %	38%	37%	38%	32%	36%
Actual revenue / Planned revenue	95<A/P<1.05	93%	97%	95%	95%	95%

The financial indicators of the city are solid. Debt comprised only 13 percent of the budget over the observed period—much less than the reference value. Indebtedness indicators were positive. The city did not borrow money on the financial market During the observed period. Own-source revenues made up an average of about 23 percent of total current revenues.

Zaprešić depended on income tax revenues that are shared with the central government. Communal fees and contributions offered greater financial autonomy. Capital investment expenditures were about 18 percent of current revenues on average. The city incurred great costs for maintenance, representing 17 percent of operating expenditures—above the reference value. Close to the reference value were relatively high wage expenditures, which make up an average of 36 percent of total current expenditures. Planned and realized revenues did not deviate significantly and were within the reference values.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

The overall closing balance during the entire observed period period was negative. The city finances the lion share of its capital expenditures with its own-source revenue. Borrowing proceedings in all period are zero. More loan receipts are expected because the city in their financial projection stated borrowing around €350,000 in 2016 and €1.9 million in 2017. As a result, the overall closing balance in 2017 is expected to be positive at around €676,000. From 2016 to 2018. The city plans to invest in capital projects, such as upgrading schools and sports facilities, as well as in roads and the city square. However, the closing balance is expected to be zero in 2018 according to the city's

MUNICIPAL FINANCE IMPROVEMENT PLAN

The city of Zaprešić has been focused on technical improvements of its financial management, such as improving the cost analysis of the dominant expenditures and forecasts. It is also focused on better collection of local revenue and has great expectations regarding the introduction of a property tax, although this directly depends on the decision of the central government. Local government initiatives are primarily focused on supporting entrepreneurship and improving infrastructure with the aim of creating a business-friendly environment for potential investors. Most capital investments in 2017 will be financed through loans. And most of the proposed actions are intended for the long-term and do not include a start date for their implementation.

MUNICIPALITY OF SHTIME

CITY PROFILE

Territorial organization: Municipality of Shtime is organized according to the Law, No.03 / L-040, 2008 for Local Self-Government and the Law, No.03 / L-041- on Administrative Borders of Kosovo Municipalities. Shtime is located in southern Kosovo, (district of Ferizaj) covering an area of 134 km², (52 Sq. mile); with one urban center Shtime and 22 villages

Demography: 27,324 inhabitants of which: 26,447 Albanians; 49 Serbs; 750 Ashkali and 59 of other nationalities. Density: 204/Km² of population of Kosovo: 1.51% (1,810,000)

Economy: Shtime' economy is mainly based on agriculture although the municipality is well known for its vast reserves of high quality limestone. There are about 860 registered private businesses operating in the Municipality, employing about 1902 employees. The public sector employs about 939 employees. A new industrial park is expected to be operational within 2018, and some 300 new jobs are expected to be created.

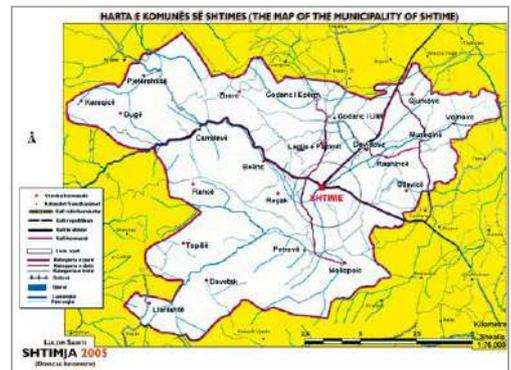
Decentralized Functions at the City level: Child care (kindergartens), primary education, secondary education); Primary health care; Infrastructure - urban area, local roads, public lighting, maintenance and regulations of parks etc.; Management of forest exploitation; Fire brigade; Business registration; Buildings registration for property tax purposes; Cadaster and geodesy; Economic Development; Culture, Youth and Sport. radio broadcasting.

Utilities management: Public Company - Division on Public Company Managed by Ministry of Economy Development

Municipal staff: 658 employees of which 94 civil servants of the Municipal Administration; 462 in education functions, 102 in primary health care and 94 in other functions

Urban issues & challenges: Improve quality of life and promote economic growth and job-creation through capital investments. Key areas: communal infrastructure, urban planning and environment, road infrastructure, construction of primary schools, kindergartens, sports and cultural facilities.

Existing Project Investment Plan: 3 years rolling plan financed by the Municipal budget + Grants from the state budget, Line Ministries and Donations.



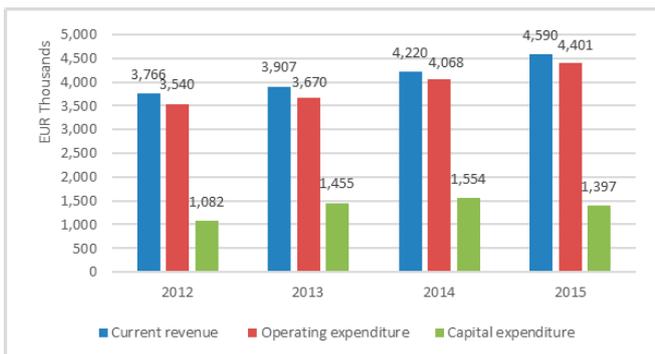
FINANCIAL SITUATION

Items	2012	2013	2014	2015	Growth index
Current revenue	3,765,555	3,906,736	4,219,643	4,589,777	6.80%
Operating expenditure	3,539,592	3,670,485	4,067,949	4,400,692	7.50%
Gross operating margin	225,963	236,251	151,694	189,085	-5.80%
Debt repayment	0	0	0	0	n.a.
Net margin	225,963	236,251	151,694	189,085	-5.80%
Capital expenditure	1,081,706	1,454,627	1,553,698	1,397,260	8.90%
Capital Revenues	893,014	1,312,796	1,529,074	1,325,864	14.10%
- Own capital investment	42,238	73,338	95,701	101,632	34.00%
- Investment grants	845,023	1,033,992	1,380,818	1,175,251	11.60%
Donations investment	5,753	205,466	52,555	48,981	104.20%
Investment balance	37,271	94,420	127,070	117,689	46.70%
Cash reserves from p	46,093	44,811	42,938	49,657	2.50%
Loans	0	0	0	0	n.a.
Overall closing balance	83,364	139,231	170,008	167,346	26.20%

Current revenues of the municipality of Shtime have been constantly improving over the 4-year period 2012-2015 with an annual rate of 6.8%. However, operating expenditures have been increasing faster pace, on average 7.8% annually. As a result, the gross margin is shrinking by 5.8% annually. Operating revenues are constantly higher than operating costs, although at a minor margin which is then dedicated for capital expenditures.

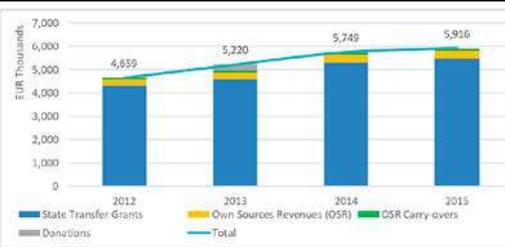
Capital revenues show robust increase 14% annually. The own capital revenues grew even faster (34% per year), but investments are largely (90%) financed through grants from the state and line ministries. The city has not incurred debt, and the low 6% gross margin does not generate funds for debt service.

The budget is managed with good discipline and shows stable positive overall closing balance that grew by 26% annually.



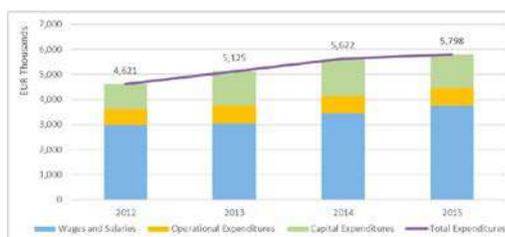
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

REVENUES	2012	2013	2014	2015	Growth index
State Transfers/Grants	4,333,589	4,596,567	5,302,517	5,477,274	8.1%
Own Sources Revenues	268,969	297,106	350,707	334,729	7.6%
OSR Carry-overs	46,093	44,811	42,938	49,657	2.5%
Donations	9,918	281,048	52,555	53,981	75.9%
Total	4,658,569	5,219,532	5,748,717	5,915,641	8.3%



Revenues: The total revenues grew dynamically by 8.3% per year, high above inflation. Revenues from central government's grants constitute 93% of Shtime's revenues, Own Source Revenues constitute only 6% and the share of OSR is slightly shrinking because the state transfers grew faster (8.1% vs. 7.6%). The donations grew very fast, but still represent a minor share of total revenues.

EXPENDITURES	2012	2013	2014	2015	Growth
Wage and salaries	2,994,601	3,037,800	3,447,800	3,754,847	7.8%
Operational expenditures	622,159	727,268	689,857	705,292	4.3%
Capital expenditures	1,004,538	1,360,044	1,483,990	1,337,812	10.0%
Total expenditures	4,621,298	5,125,112	5,621,647	5,797,952	7.9%



Expenditures: Wage and salaries constitute 65% of total expenditures and about 83% of operating expenditures. In 2015 they've increased by 8.9% when compared to 2014. Most of the costs for wages and salaries relate to the staff in education functions and are offset by an earmarked grant. Capital investment expenditures accounted for around 23% of total expenditures, focusing mainly on civil works (road maintenance and water supply and sewage, schools maintenance and construction). Unfortunately spending for investment has decreased by 9.9% when compared to 2014. Operating expenditures constitute 12% of total expenditures and have registered a minor increase of 2.2%.

RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	City Index			
		2012	2013	2014	2015
Credit worthiness					
Operating Savings before interests / Current actual revenue	>30%	6%	6%	4%	4%
Net Operating Surplus (after debt service including capital repayment) / Current actual revenue	>20%	6%	6%	4%	4%
Fiscal autonomy					
Own tax receipts + unconditional grants / Current revenue	>80%	45.23	46.74	51.18	47.68
Tax pressure (Tax receipts/Tax potential)	<70%	83.88	79.48	89.93	75.98
Capital investment effort					
Capital investment expenditure / Current actual revenue	>40%	27.01	29.90	33.34	29.38
Capital investment expenditure delegated by State / Total investment expenditure	>50%	78.12	71.08	88.87	84.11
Others					
Total number of municipal employees / population (employees for 1000 inhabitants)	>25	24.08	24.08	24.08	24.08
Salaries & wages / Operating actual expense	>40%	85.42	85.26	88.42	87.86

Creditworthiness: Shtime has very low creditworthiness, since the gross saving ratios were low and declining from 6% to 4%.

Fiscal autonomy: is very low, just above half of the benchmark, because the city not only relies on state transfers, but half of them are earmarked development grants.

Capital investment efforts are reasonably good, yet below benchmark; however, state grants finance the bulk of investments.

Labor efficiency: The municipality employs adequate number of staff just at benchmark, but salaries and wages still absorb over 80% of current budget with alarming growing trend.

MUNICIPAL FINANCE IMPROVEMENT PLAN

1. Actions to increase creditworthiness: (i) Increasing local property tax collection, (ii) Increasing financial accountability
2. Actions to increase service sustainability: Re-adoption the urban plans of the municipality with the new General urban plan
3. Actions to improve budget reality: Improve forecast reliability
4. Actions to generate savings from operating expenditures which can be used for increasing capital expenditures.

MUNICIPALITY OF GAZI BABA (OGB)

CITY PROFILE

Territorial organization: Gazi Baba is one of the 10 municipalities of the city of Skopje. It is local government unit but shares a tax system with Skopje.

Demography: Population: 76,458, 9 percent of Skopje's population of 668,000; annual growth rate: 0.1 percent; density: 8.3 inhabitants per hectare (low because of the large city area)

Economy: First industrial center of Macedonia, including Makstil Steel Plant; Skopsko Brewery; Skopski Saem, a business park along the Belgrade-Thessaloniki highway and the airport. Agricultural land: 65 percent; labor force: 29,127; unemployment rate: 9.501; average inflation (2011–15): 1.9 percent; MKD 1 = €0.0163 (August 2017).

Decentralized functions at the city and municipal level: Kindergartens and primary education are responsibility of the municipality of Gazi Baba. Secondary education is a responsibility of the city of Skopje, local roads is shared responsibility between the city of Skopje and the municipality of Gazi Baba. Rural solid waste collection is responsibility of Gazi Baba and the land field is a city of Skopje responsibility. Water supply and waste water is responsibility of the city of Skopje.

Utilities management: Water supply and waste water: PE Water Supply and Sewage (shareholder: city of Skopje); electricity: EVN (private company by agreement with the government); urban heating: Skopje Sever and Energy Sector ESM for the industrial zone.

Municipal staff: Total: 913; primary education: 604; kindergarten and senior citizen homes: 178; and communal services: 131.

Urban issues & challenges: Improve the quality of life through capital investments. Key areas include roads, water supply, sewage, and school facilities (new construction and rehabilitation). Main issues include GIS and land management implementation.

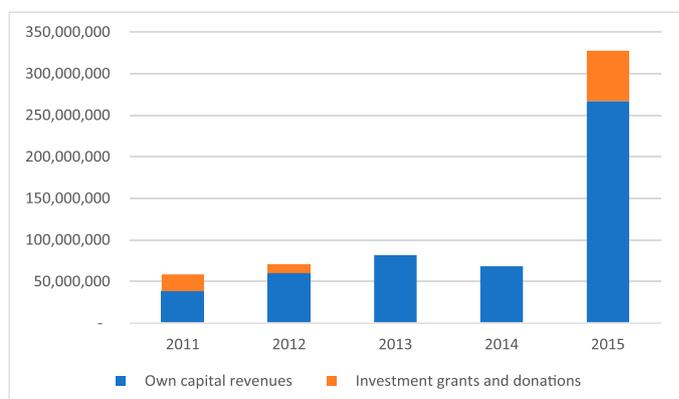
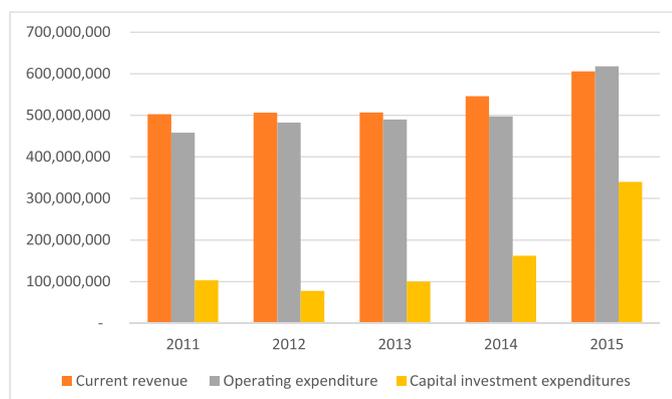
Existing Project Investment Plan: Three-year rolling plan financed by the city budget and state grants includes MKD 110 million for a waste water system (100 percent city budget) and MKD 18 million for a new kindergarten— Jurumleri (88 percent state grant and 12 percent city budget).



FINANCIAL SITUATION (IN CURRENT TERMS)

FINANCIAL POSITION						
Gazi Baba						
Items	2011	2012	2013	2014	2015	Growth Index
Current revenue	502,499,198	506,379,800	506,832,420	546,138,641	605,488,000	4.8%
Operating expenditure	457,961,500	482,385,375	489,854,276	497,191,227	618,088,000	7.8%
Gross Operating balance	44,537,698	23,994,425	16,978,144	48,947,414	(12,600,000)	3.2%
Debt service and borrowing costs	-	-	-	47,417	500,000	n.a.
NET CURRENT BALANCE	44,537,698	23,994,425	16,978,144	48,899,997	(13,100,000)	3.2%
Capital Revenues	58,610,242	70,999,228	81,988,787	68,344,546	327,780,000	53.8%
Own capital revenues	38,661,663	61,088,020	81,988,787	68,344,546	267,280,000	62.2%
Investment grants and donations	19,948,579	9,911,208	-	-	60,500,000	32.0%
Capital investment expenditures	103,097,006	77,434,350	99,622,998	161,983,092	339,680,000	34.7%
BALANCE AFTER INVESTMENTS	50,934	17,559,303	(656,067)	(44,738,549)	(25,000,000)	n.a.
Cash reserves from previous years	5,078,997	4,441,905	2,138,526	4,967,601	-	-0.7%
Loan proceeds	-	-	7,244,496	50,065,908	25,000,000	85.8%
OVERALL CLOSING BALANCE	5,129,931	22,001,208	8,726,955	10,294,960	-	n.a.

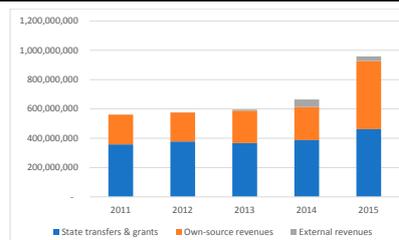
The growth indexes for the observed period were driven by somewhat optimistic projections for 2015. Loan generation in 2014 boosted debt service and borrowing costs in 2015. Own-source capital revenues projected for 2015 drove planned capital expenditures. Revenues from land sales were projected to double in 2015 over 2014 and land development fees were expected to be 30 percent higher.



The operating balance was positive over the considered period. The plan for 2015 was too ambitious, including the expansion of expenditures, which demonstrate the potential space for better budget planning in Gazi Baba. There is indication that Gazi Baba management was planning too ambitious revenues collection first that explains the expansion of expenditures. Specifically, in 2015, capital revenue was expected to be almost four times higher than in 2014; additional revenue from donations was also expected. According to treasury data from the ministry of finance, in 2015, Gazi Baba had around MKD 650 million in revenues compared with the plan for MKD 950 million—a discrepancy of 32 percent. The largest discrepancies involved Communal taxes, land sales, and capital transfers from the central government.

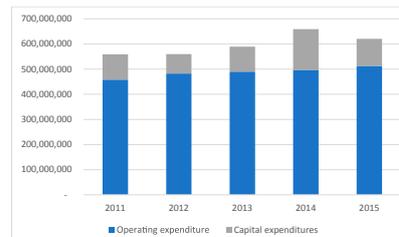
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Main revenues in MKD							
	2011	2012	2013	2014	2015	Growth	
1 State transfers & grants	358,675,232	378,313,273	367,580,718	387,214,716	462,880,000	6.6%	
2 Own-source revenues	202,297,372	197,401,888	220,802,085	226,486,265	464,800,000	23.1%	
3 External revenues	136,836	1,663,867	7,682,900	50,848,114	30,588,000	286.7%	



Revenues: Revenues from the central government plus grants almost equaled own-source revenues in Gazi Baba, reflecting decrease in its fiscal dependency from the central government transfers over the observed period (2015 is a plan). The personal income tax was shared with the state (3 percent) and the municipality of Skopje (20 percent of the 3 percent). Own-source revenues were shared with the municipality of Skopje: 50 percent for the property tax and 40 percent for the land development fee. Annual growth rates were high, with an average of up to +14 percent increase] for the observed period; own-source revenue collections grew faster than state transfers.

	2011	2012	2013	2014	2015	2015 in Euros	Structure
Operating expenditure	458,244,256	482,459,327	489,941,743	497,191,227	513,095,256	8,343,012	83
Wages and salaries	295,676,223	300,018,741	314,283,218	322,048,942	288,324,585	4,688,205	46
Capital expenditures	100,734,224	77,434,350	99,622,998	161,983,092	107,575,544	1,749,196	17
							100



Expenditures: Payroll accounted for 46 percent of total expenditures and around 56 percent of operating expenditures. Most of this was generated by school staff and was offset by an earmarked grant. Capital investment expenditures accounted for around 17 percent of total expenditures, primarily civil works such as road maintenance, water supply and sewage, and school construction and maintenance.

RATIO ANALYSIS

MAIN FINANCIAL RATIOS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross Operating savings/ Current revenue	> 0.3	8.9%	4.7%	3.3%	9.0%	-2.1%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	0.0	0.0	0.4	1.2	-6.5
Debt service / Total current revenue	< 10 %	0.0	0.0	0.0	0.0	0.0
Debt outstanding /Budget total	< 60%	0.0%	0.0%	1.2%	8.6%	8.5%
Borrowing /Current revenues	< 15%	0.0%	0.0%	1.4%	9.2%	4.1%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	36.5%	31.4%	33.0%	34.3%	38.6%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %	20.5%	15.3%	19.7%	29.7%	56.1%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	19.3%	12.8%	0.0%	0.0%	17.8%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	28.7%	22.3%	34.5%	41.7%	44.2%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %					
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	64.5%	62.2%	64.1%	64.8%	56.2%
Number of municipal employees/1000 citizens	< 25	1.5				
Actual revenue / Planned revenue	95<A/P<1.05					

FINANCIAL MANAGEMENT

The administration and the finance sector prepares the budget; it is adopted by the municipal council. The state audit office conducts the audit.

MUNICIPAL FINANCE IMPROVEMENT PLAN

To increase creditworthiness, increase local tax collection and revenues through alternative and innovative sources; to increase service sustainability, readopt the municipality's urban plans of with the new general urban plan; and to improve budget planning, enhance forecasting and lower current expenditures.

MUNICIPALITY OF KISELA VODA

CITY PROFILE

Territorial organization: Kisela Voda is one of the 10 municipalities of the city of Skopje. It is local self-government unit but shares a tax system with Skopje.

Demography: Population: 58,216, 9 percent of Skopje’s population of 668,000; annual growth rate: 0.1 percent; density: 12 inhabitants per hectare

Economy: Kisela Voda is among the largest industrial zones in Skopje. Economic entities: 6,810; Labor force: 38,772; Unemployed: 7,674; average inflation (2011–15): 1.9 percent; MKD 1 = €0.0163 (August 2017).

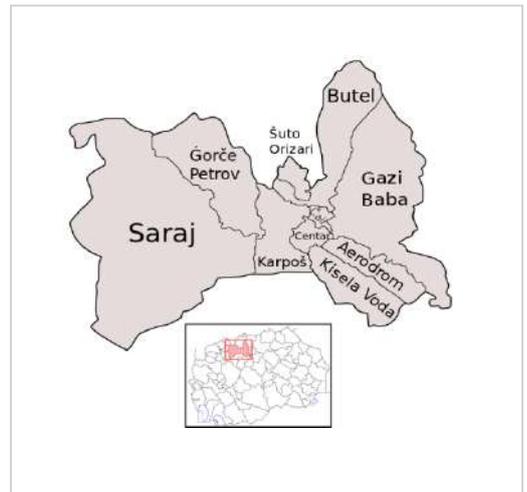
Decentralized functions at the city and municipal level: Kindergartens and primary education are responsibility of the municipality of Gazi Baba. Secondary education is a responsibility of the city of Skopje, local roads is shared responsibility between the city of Skopje and the municipality of Gazi Baba. Rural solid waste collection is responsibility of Gazi Baba and the land field is a city of Skopje responsibility. Water supply and waste water is responsibility of the city of Skopje.

Utilities management: Water supply and wastewater: PE Water Supply and Sewage (shareholder: city of Skopje); electricity: EVN (private company through agreement with government); urban heating: Skopje heating company “Sever” and Energy Sector ESM for the industrial zone.

Municipal staff: Total: 929; primary education: 479, kindergarten and senior citizen homes: 221; communal services: 99; general administration: 130.

Urban issues & challenges: Improve quality of life through capital investments. Key areas are the promotion of communal infrastructure; urban planning and the environment; road infrastructure; and the construction of primary schools, kindergartens, and sports and cultural facilities.

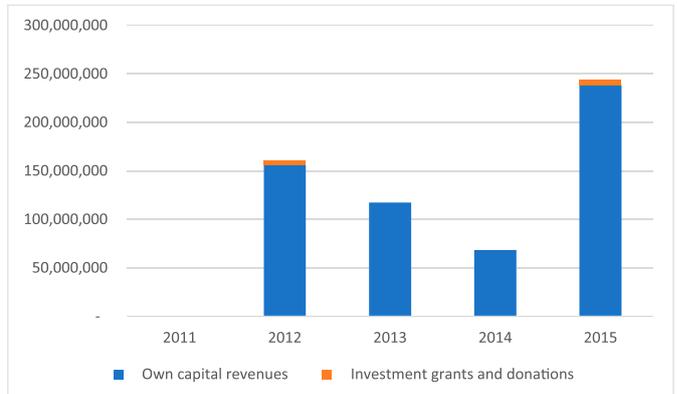
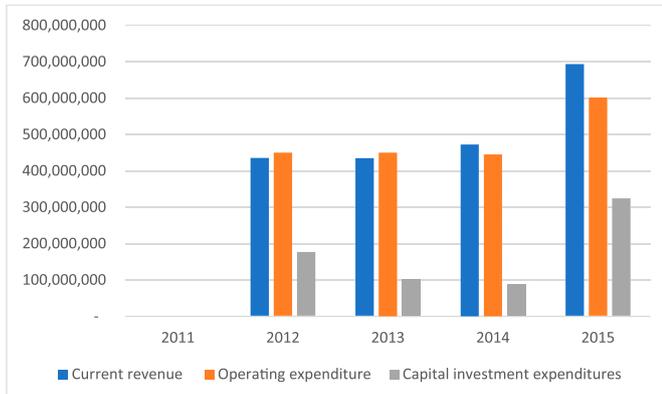
Existing Project Investment Plan: The three-year rolling plan, financed by the city budget and state grants includes MKD 32 million for a cultural center in Drachevo (50 percent city budget and 50 percent central government funds); MKD 25 million for sports hall in the primary school Rajko Zinzifov (47 percent grant from China, 23 percent city budget, and 30 percent central government funds); MKD 9.8 million for street reconstruction (finance source: 75 percent World Bank grant and 25 percent city budget); and MKD 110 million for storm water drains in Przhino (World Bank on-lending borrowing storm water drains in Przhino (World Bank on-lending borrowing



FINANCIAL SITUATION (IN CURRENT TERMS)

FINANCIAL POSITION						
Kisela Voda						
Items	2011	2012	2013	2014	2015	Growth Index
Current revenue		435,698,070	435,044,422	472,740,962	489,967,804	4.0%
Operating expenditure		450,366,842	449,989,532	445,567,570	480,405,042	2.2%
Gross Operating balance		(14,668,772)	(14,945,110)	27,173,392	9,562,762	-186.7%
Debt service and borrowing costs		7,351,778	11,090,567	10,466,434	12,819,433	20.4%
NET CURRENT BALANCE		(22,020,550)	(26,035,677)	16,706,958	(3,256,671)	-47.1%
Capital Revenues		160,303,097	117,291,601	68,492,872	170,119,336	2.0%
Own capital revenues		155,950,990	117,291,601	68,492,872	170,119,336	2.9%
Investment grants and donations		4,352,107	-	-	-	n.a.
Capital investment expenditures		177,223,450	102,322,225	87,355,072	140,784,670	-7.4%
BALANCE AFTER INVESTMENTS		(38,940,903)	(11,066,301)	(2,155,242)	26,077,995	-187.5%
Cash reserves from previous years		-	2,852,400	16,858,390	18,160,382	n.a.
Loan proceeds		38,940,903	11,066,301	2,155,242	26,077,995	-12.5%
OVERALL CLOSING BALANCE		-	2,852,400	16,858,390	70,316,372	n.a.

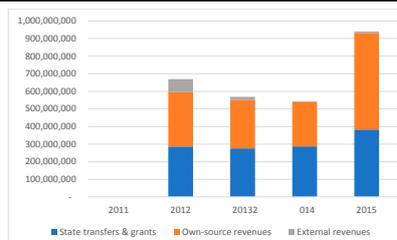
The growth indexes for the observed period were driven by somewhat optimistic projections for 2015. Own-source capital revenues projected for 2015 drove the capital expenditure planning for 2015. Revenues from land sales were projected to double in 2015 compared with 2014 and land development fees were expected to be much higher in 2015 than in 2014.



During the last two years of the observed period, Kisela Voda improved its financial position. It faced challenges in terms of being in arrears to creditors but has recently improved its situation. Kisela Voda had a positive operating balance in 2014 and had an ambitious budget planned for 2015 totaling around MKD 950 million, but the actual budget was 30 less. There were major discrepancies between projections for personal income taxes, property taxes, communal taxes, land sales, and donations of capital and actual figures.

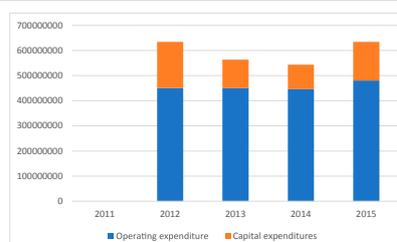
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Main revenues		2011	2012	2013	2014	2015	Growth
1	State transfers & grants		286,589,526	276,292,835	286,884,975	301,827,345	1.3%
2	Own-source revenues		309,411,641	276,043,188	254,348,859	358,259,795	3.7%
3	External revenues		73,060,870	16,212,092	2,253,573	-	-100.0%



Revenues: Revenues from the central government in addition to grants were almost even with Kisela Voda's own-source revenues, resulting in a lowering of the city's fiscal dependency over the observed period. In 2015, Kisela Voda made ambitious forecasts regarding its own-source revenues. The personal income tax was shared with the state (3 percent) and the municipality of Skopje (20 percent of the 3 percent). Own-source revenues were shared with the municipality of Skopje—50 percent of property taxes and 40 percent of land development fees.

	2011	2012	2013	2014	2015	2015 in Euros	Structure
Operating expenditure		451,618,620	450,484,040	445,899,065	480,646,715	7,815,394	76
Wages and salaries		247,235,240	254,746,030	261,888,573	275,665,884	4,482,372	43
Capital expenditures		183,323,450	112,918,284	97,490,011	153,362,430	2,493,698	24
TOTAL EXPENDITURES		634,942,070	563,402,324	543,389,076	634,009,145	10,309,092	100



Expenditures: Payroll accounted for 43 percent of total expenditures and around 57 percent of operating expenditures. It was mostly generated by school staff and was offset by an earmarked grant. Capital investment expenditures accounted for around 24 percent of total expenditures, mainly civil works such as road maintenance, water supply and sewage, and school construction and maintenance.

RATIO ANALYSIS

MAIN FINANCIAL RATIOS							
Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015	
1 Credit worthiness							
Gross Operating savings/ Current revenue	> 0.3		-3.4%	-3.4%	5.7%	2.0%	
2 Indebtedness							
Debt outstanding /Gross operating savings	< 10 years		-2.2	-2.1	0.9	3.8	
Debt service / Total current revenue	< 10 %		0.0	0.0	0.0	0.0	
Debt outstanding /Budget total	< 60%		4.7%	5.6%	4.3%	5.5%	
Borrowing /Current revenues	< 15%		8.9%	2.5%	0.5%	5.3%	
3 Fiscal autonomy							
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %		39.6%	40.7%	40.6%	52.5%	
4 Capital investment effort							
Capital investment expenditure / Total Current revenue	> 40 %		40.7%	23.5%	18.5%	28.7%	
Capital investments from earmarked grants / Total investment expenditure	< 50 %		2.5%	0.0%	0.0%	0.0%	
5 Level of service sustainability							
Maintenance works expenditure / Operating expenditures	> 15 %		41.1%	25.6%	21.5%	46.6%	
Fees collected/ Fees billed	> 90 %						
Taxes collected/Taxes levied	> 90 %						
6 Other ratios							
Salaries & wages / Operating actual expense	< 40 %		58.9%	60.7%	63.0%	52.4%	
Number of municipal employees/1000 citizens	< 25		2.2				
Actual revenue / Planned revenue	95<A/P<1.05						

FINANCIAL MANAGEMENT

The administration and the finance sector prepare the budget; it is adopted by the municipal council. The state audit office conducts the audit.

MUNICIPAL FINANCE IMPROVEMENT PLAN

To increase creditworthiness, expand local tax collection and improve financial accountability; to increase service sustainability, readopt the municipality's urban plans with the new general urban plan; and to improve budget planning, enhance the reliability of forecasting.

MUNICIPALITY OF KOČANI

CITY PROFILE

Territorial organization: The municipality of Kočani is situated in the heart of eastern Macedonia, 120 kilometers from Skopje, in the middle of the river Bregalnica, between the Plackovica Mountains to the south and the slopes of Osogovo to the north. The total area of the municipality is 382 square kilometers.

Demography: Population of municipality, according the 2002 census: 38,092 inhabitants, among the largest in the eastern planning region.

Economy: Trade and textile manufacturing are the most important sectors in Kočani. Two foreign investments were made over the last few years: a greenfield investment with the Dutch company Antura, which has 150 employees; and a brownfield investment with the American consortium Amphenol, which has 200 employees. Average inflation 2011–15): 1.9 percent; MKD 1 = €0.0163 (August 2017).

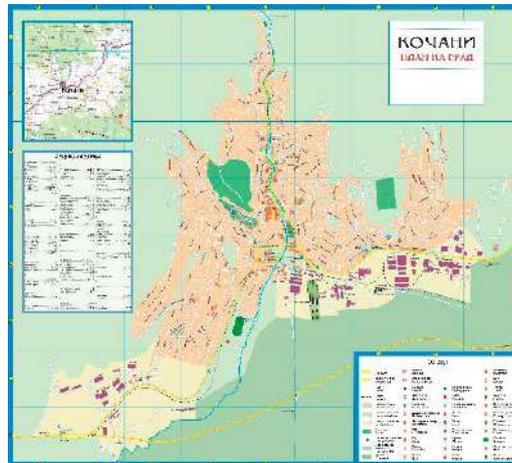
Decentralized functions: Kindergarden and preschool, primary and secondary education, local roads, solid waste collection and transportation, water supply, and waste water.

Utilities management: Water supply and wastewater: Vodovod Kočani (public utility company); electricity: EVN (private company); urban heating: RE: Geoterma (public utility company).

Municipal staff: Total: 919; primary education: 331, secondary education: 174; kindergarden and senior citizen homes: 74; communal services: 230; contractual workers 19; general administration and firefighters: 92.

Urban issues & challenges: Improve quality of life through capital investments. Key areas include roads, water supply, sewerage, and school facilities (new construction and rehabilitation). The main issue is geographic information systems (GIS) and land management implementation.

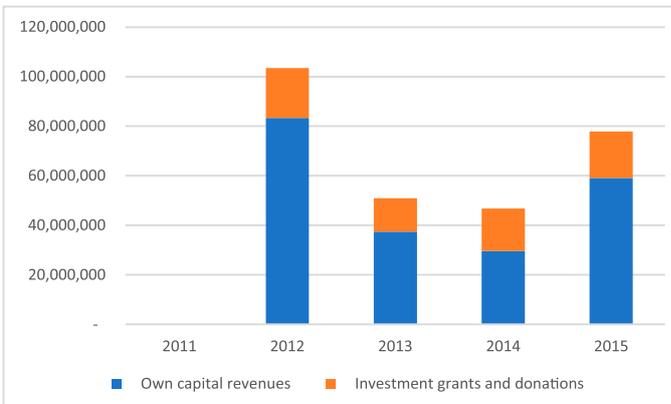
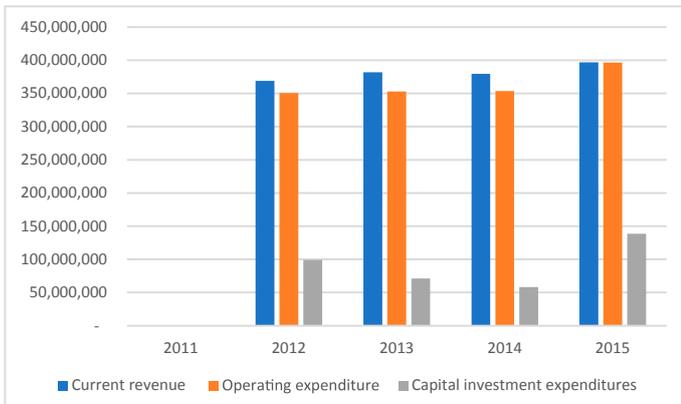
Existing Project Investment Plan: The three-year rolling plan, financed by the city budget and state grants includes €605,318 for the construction of local infrastructure in several villages; €258,679 for the construction of a local road—Goce Delcev—in v.Orizari - eur 17,400,000: Construction of wastewater treatment plant in v Mojanci



FINANCIAL SITUATION (IN CURRENT TERMS)

FINANCIAL POSITION		Kocani					
Items	2011	2012	2013	2014	2015	Growth Index	
Current revenue		368,651,819	381,740,402	379,156,790	396,708,000	2.5%	
Operating expenditure		350,562,347	352,649,860	353,303,112	396,170,200	4.2%	
Gross Operating balance	-	18,089,472	29,090,542	25,853,678	537,800	-69.0%	
Debt service and borrowing costs		-	-	4,166,745	4,330,000	n.a.	
NET CURRENT BALANCE	-	18,089,472	29,090,542	21,686,933	(3,792,200)	-159.4%	
Capital Revenues	-	103,364,462	50,934,771	46,794,182	77,815,130	-9.0%	
Own capital revenues		83,297,745	37,464,757	29,681,250	59,066,000	-10.8%	
Investment grants and donations		20,066,717	13,470,014	17,112,932	18,749,130	-2.2%	
Capital investment expenditures		99,443,368	71,499,583	58,396,743	138,812,930	11.8%	
BALANCE AFTER INVESTMENTS	-	22,010,566	8,525,730	10,084,372	(64,790,000)	-243.3%	
Cash reserves from previous years		3,792,067	15,561,217	7,324,941	-	-100.0%	
Loan proceeds		-	-	-	61,480,000	n.a.	
OVERALL CLOSING BALANCE	-	25,802,633	24,086,947	17,409,313	(3,310,000)	-150.4%	

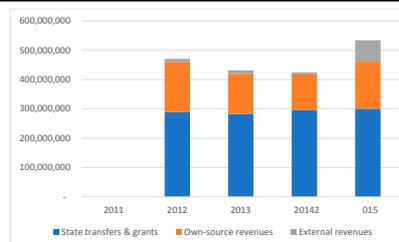
The growth indexes for the observed period illustrate that current expenditures grew faster than current revenues and that decreasing the gross operating balance marginally contributed to the negative balance after investments in 2015.



Kočani's gross operating balance was positive during the considered period. Following the stylized fact of weak budget planning Kočani's budget planning for 2015 was ambitious. Actual total revenues were 10 percent less than projected, but were much better than the plan of municipalities. Projected revenues from land sales were overly ambitious.

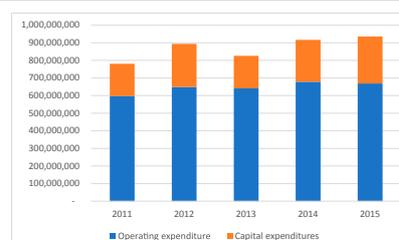
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Main revenues in MKD						
	2011	2012	2013	2014	2015	Growth
1 State transfers & grants		289,527,951	283,507,464	295,816,539	300,747,000	1.0%
2 Own-source revenues		170,172,529	136,490,499	122,141,225	160,827,000	-1.4%
3 External revenues		11,103,609	11,591,002	6,439,949	72,229,130	59.7%



Revenues: Revenues from the central government in addition to grants were almost double Kočani's own-source revenues, resulting in a somewhat high level of fiscal dependency during the observed period. The annual growth rate for total revenues was relatively low, averaging up to +3 (2011–15); own-source revenue collection was in decline compared with state transfers and grants.

	2011	2012	2013	2014	2015	2015 in Euros	Structure
Operating expenditure	-	350,635,814	353,630,679	353,117,357	369,500,330	6,008,135.4	77
Wages and salaries	-	244,332,236	255,152,307	251,634,393	248,674,860	4,043,493.7	52
Capital expenditures	-	106,926,689	71,499,680	64,865,124	107,704,216	1,751,288.1	23
TOTAL EXPENDITURES	-	457,562,503	425,130,359	417,982,481	477,204,546	7,759,423.5	100



Expenditures: Payroll accounted for 43 percent of total expenditures and around 57 percent of operating expenditures. It was mostly generated by school staff and was offset by an earmarked grant. Capital investment expenditures accounted for around 24 percent of total expenditures, mainly civil works such as road maintenance, water supply and sewage, and school construction and maintenance.

RATIO ANALYSIS

MAIN FINANCIAL RATIOS						
Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross Operating savings/ Current revenue	> 0.3		4.9%	7.6%	6.8%	0.1%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years		0.0	0.0	0.0	106.3
Debt service / Total current revenue	< 10 %		0.0	0.0	0.0	0.0
Debt outstanding /Budget total	< 60%		0.0%	0.0%	0.0%	10.7%
Borrowing /Current revenues	< 15%		0.0%	0.0%	0.0%	15.5%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %		29.8%	29.9%	31.7%	34.5%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %		27.0%	18.7%	15.4%	35.0%
Capital investments from earmarked grants / Total investment expenditure	< 50 %		20.2%	18.8%	29.3%	13.5%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %		48.3%	32.4%	38.3%	25.5%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %					
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %		69.7%	72.2%	71.3%	67.3%
Number of municipal employees/1000 citizens	< 25		3.3			
Actual revenue / Planned revenue	95<A/P<1.05					

FINANCIAL MANAGEMENT

The administration and the finance sector prepare the budget; it is adopted by the municipal council. The state audit office conducts the audit.

MUNICIPAL FINANCE IMPROVEMENT PLAN

To increase creditworthiness, expand fiscal space and the collection of local taxes; to increase service sustainability, foster energy efficiency; and to improve budget reality, and enhance the reliability of forecasting.

MUNICIPALITY OF KRIVA PALANKA

CITY PROFILE

Territorial organization: With 33 settlements, the municipality of Kriva Palanka is located in the northeastern region of the former Yugoslav Republic of Macedonia. In accordance with the DUP the city is fragmented into urban parts.

Demography: Population, according to the most recent census of 2002: 20,257; urban population: 14,558; annual growth rate: -0.3 percent; total area: 480.81 square kilometers; density: 43.30 inhabitants per square kilometer.

Economy: The low cost of doing business in Kriva Palanka attracts investors from Italy, Turkey, and Bulgaria. There are conditions for agricultural production and meat production. The mining industry is also developed. Unemployment rate: 28 percent. Average inflation (2011–15): 1.9 percent; MKD 1 = €0.0163 (August 2017).

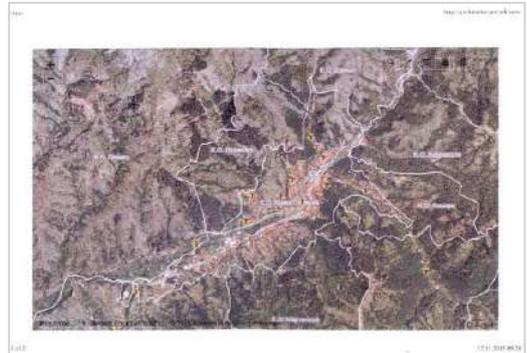
Decentralized functions: Preschool, childcare, primary and secondary education, local roads, solid waste management, water supply, and drainage of urban waters.

Utilities management: Water supply and wastewater: Vodovod Kočani (public utility company); electricity: EVN (private company); urban heating: RE: Geoterma (public utility company).

Municipal staff: Total: 387; education: 272; kindergarten: 35; firefighting: 13; administration: 61.

Urban issues and challenges: Improve quality of life through capital investments. Key areas are roads, wastewater treatment plants, and water supply. The main challenge is the Kjmanovo-Gjueshevo road, a cross-border connection.

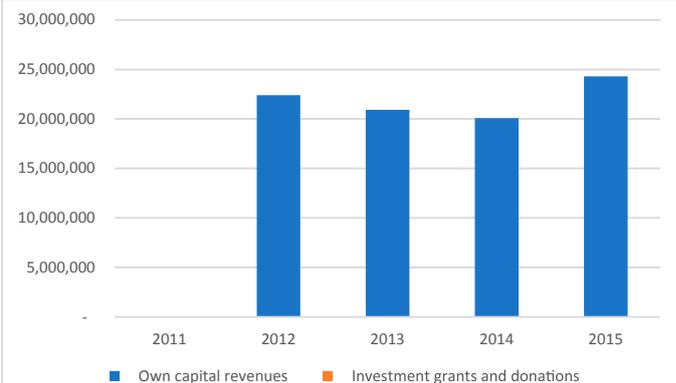
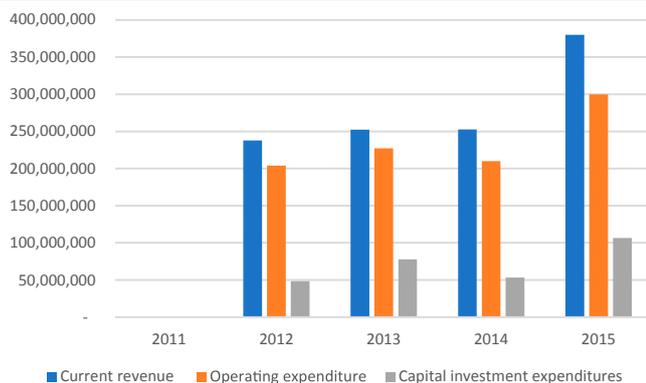
Existing project investment plan: The three-year financial plan includes MKD 6.8 million for drainage of Bojanov Dol (ministry of transportation); MKD 23 million for water supply (ministry of transportation); and MKD 7 million for water supply from Stanechka River with a filter station.



FINANCIAL SITUATION (IN CURRENT TERMS)

FINANCIAL POSITION		Kriva Palanka					
Items	2011	2012	2013	2014	2015	Growth Index	
Current revenue		237,763,579	252,328,139	252,483,139	379,812,260	16.9%	
Operating expenditure		203,991,585	227,209,044	210,024,114	299,604,050	13.7%	
Gross Operating balance	-	33,771,994	25,119,095	42,459,025	80,208,210	33.4%	
Debt service and borrowing costs		2,500,000	2,500,000	2,500,000	2,500,000	0.0%	
NET CURRENT BALANCE	-	31,271,994	22,619,095	39,959,025	77,708,210	35.4%	
Capital Revenues	-	22,381,203	20,912,021	20,065,486	24,300,000	2.8%	
Own capital revenues		22,381,203	20,912,021	20,065,486	24,300,000	2.8%	
Investment grants and donations		-	-	-	-	n.a.	
Capital investment expenditures		48,576,125	77,905,187	53,652,733	106,569,910	29.9%	
BALANCE AFTER INVESTMENTS	-	5,077,072	(34,374,071)	6,371,778	(4,561,700)	-196.5%	
Cash reserves from previous years		8,117,753	7,577,082	5,065,040	23,483,206	42.5%	
Loan proceeds		-	-	-	-	n.a.	
OVERALL CLOSING BALANCE	-	13,194,825	(26,796,989)	11,436,818	18,921,506	n.a.	

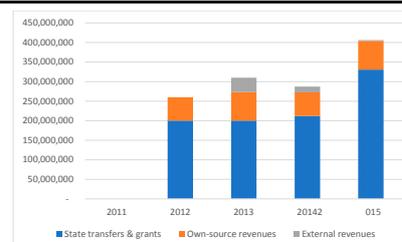
The growth indexes for the observed period were driven by somewhat optimistic projections of current revenues for 2015, which did increase in 2015 through property taxes and communal fees, providing fiscal space for an increase of capital expenditures in 2015 compared with 2014.



Kriva Palanka's gross operating balance was positive during the considered period. Following the weak budget planning in Macedonia, Kriva Palanka budget planning for 2015 was ambitious. Actual total revenues in 2015 were about 35 percent less than projections. Projected revenues from land sales were also too ambitious. Poor planning was in the property tax, communal tax and mostly failed expectations for transfers from the central government.

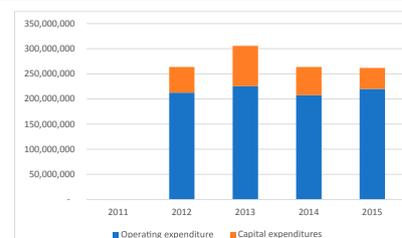
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Main revenues							
	2011	2012	2013	2014	2015	Growth	
1 State transfers & grants		200,126,181	200,181,131	212,286,990	330,877,471	13.4%	
2 Own-source revenues		60,018,601	73,059,029	60,261,635	73,234,789	5.1%	
3 External revenues		-	36,939,111	14,611,428	2,061,700	#DIV/0!	



Revenues: Revenues from the central government in addition to grants were almost five times more than Kriva Palanka's own-source revenues, resulting in a high level of fiscal dependency over the observed period. The annual growth of total revenues was relatively high, averaging up to +12 percent (2011–15); own-source revenue collection grew more slowly than state transfers and grants.

	2011	2012	2013	2014	2015	2015 in Euros	Structure
Operating expenditure	-	212,560,205	225,355,549	207,524,114	220,034,397	3,577,795.1	84
Wages and salaries	-	146,756,245	135,670,115	135,045,279	114,789,351	1,866,493.5	44
Capital expenditures	-	51,164,125	80,405,187	56,152,733	41,811,312	679,858.7	16
TOTAL EXPENDITURES	-	263,724,330	305,760,736	263,676,847	261,845,709	4,257,653.8	100



Expenditures: Payroll accounted for 44 percent of total expenditures and around 52 percent of operating expenditures, mostly generated by school staff and offset by an earmarked grant. In 2015, capital investment expenditures accounted for around 16 percent of total expenditures, mainly civil works such as road maintenance, water supply and sewage, and school construction and maintenance.

RATIO ANALYSIS

MAIN FINANCIAL RATIOS						
Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross Operating savings/ Current revenue	> 0.3		14.2%	10.0%	16.8%	21.1%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years		0.0	0.0	0.0	0.0
Debt service / Total current revenue	< 10 %		0.0	0.0	0.0	0.0
Debt outstanding /Budget total	< 60%		0.0%	0.0%	0.0%	0.0%
Borrowing /Current revenues	< 15%		0.0%	0.0%	0.0%	0.0%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %		35.0%	38.5%	38.2%	58.0%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %		20.4%	30.9%	21.3%	28.1%
Capital investments from earmarked grants / Total investment expenditure	< 50 %		0.0%	0.0%	0.0%	0.0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %		29.1%	44.3%	37.8%	46.6%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %					
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %		69.0%	60.2%	65.1%	52.2%
Number of municipal employees/1000 citizens	< 25		6.2			
Actual revenue / Planned revenue	95<A/P<1.05					

FINANCIAL MANAGEMENT

The administration and the finance sector prepare the budget; it is adopted by the municipal council. The state audit office conducts the audit.

MUNICIPAL FINANCE IMPROVEMENT PLAN

To increase creditworthiness, expand local taxes collection; to enhance service sustainability, improve local economic development (LED); and to improve budget reality, enhance the reliability of forecasting.

MUNICIPALITY OF STRUMICA

CITY PROFILE

Territorial organization: The municipality of Strumica is located in the southeastern part of the former Yugoslav Republic of Macedonia. It comprises the city proper and 24 settlements. The city's master plan is divided into nine urban districts, of which the residential zone is composed of eight communes or residential communities.

Demography: Population, according to the most recent census of 2002: 54,676, including 35,311 living in the center of municipality; annual growth rate: 0.1 percent; total area: 32,189 hectares; density: 1.7 inhabitants per hectare.

Economy: The city has a robust business infrastructure as well as a Moody's bond credit rating of B1. The low cost of doing business is attracting many new residents and investments from Croatia, Greece, Turkey, and Germany. Strumica is part of an extensive agricultural area, offering opportunities to invest in the food production industry and in the export of quality agricultural products. Labor force: 29,127; unemployed: 9,501; average inflation for the observed period of 2011–15 was 1.9 percent; MKD 1 = €0.0163 (August 2017).

Decentralized functions: Childcare (kindergarten), primary and secondary education, local roads, solid waste collection, transportation, water supply, and wastewater.

Utilities management: Water supply and wastewater: PE Komunalec; electricity: EVN (private company); urban heating: PE Strumica GAS.

Municipal staff: Total: 1,426; primary education: 523; secondary education: 235; kindergarten and senior citizen homes: 156; communal services: 337; civil works: 19; and general administration: 156.

Urban issues and challenges: Improve the quality of life through capital investments. Key areas are roads, water supply, sewage, school facilities (new construction and rehabilitation). The main issue is geographic information systems (GIS) and land management implementation.

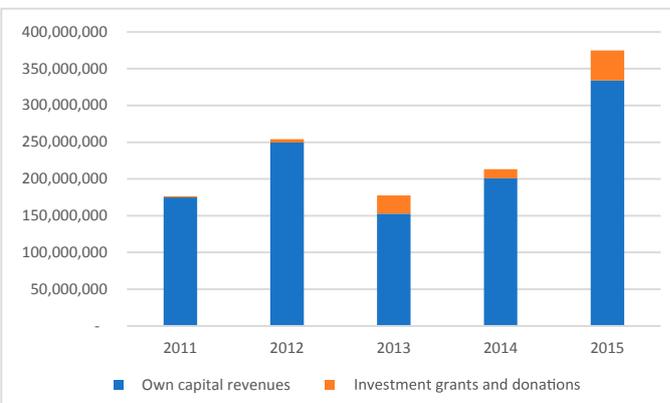
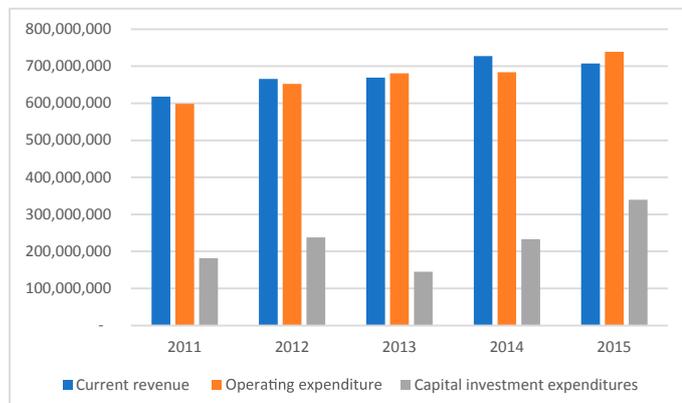
Existing project investment plan: The three-year rolling plan, financed by the city budget and state grants, includes MKD 220 million for a gas network (basic budget and municipal bonds); MKD 37 million for the local road—Popcevo (World Bank grant); and MKD 590.4 million for s water treatment plant (IPA-Fund grant)



FINANCIAL SITUATION (IN CURRENT TERMS)

FINANCIAL POSITION		Strumica					
Items	2011	2012	2013	2014	2015	Growth Index	
Current revenue	617,791,590	665,452,998	668,790,083	726,641,976	706,678,424	3.4%	
Operating expenditure	598,479,525	651,865,560	680,212,071	683,348,466	738,429,334	5.4%	
Gross Operating balance	19,312,065	13,587,438	(11,421,988)	43,293,510	(31,750,910)	n.a.	
Debt service and borrowing costs	-	-	-	-	-	-	
NET CURRENT BALANCE	19,312,065	13,587,438	(11,421,988)	43,293,510	(31,750,910)	n.a.	
Capital Revenues	176,404,309	254,130,776	177,711,928	213,225,274	374,643,576	20.7%	
Own capital revenues	174,974,703	249,570,251	152,910,835	201,005,108	333,750,000	17.5%	
Investment grants and donations	1,429,606	4,560,525	24,801,093	12,220,166	40,893,576	131.3%	
Capital investment expenditures	181,968,729	237,909,645	145,962,566	233,326,652	339,392,666	16.9%	
BALANCE AFTER INVESTMENTS	13,747,645	29,808,569	20,327,374	23,192,132	3,500,000	-29.0%	
Cash reserves from previous years	9,739,675	9,982,924	15,652,973	9,887,428	-	-100.0%	
Loan proceeds	-	-	-	-	-	-	
OVERALL CLOSING BALANCE	23,487,320	39,791,493	35,980,347	33,079,560	3,500,000	n.a.	

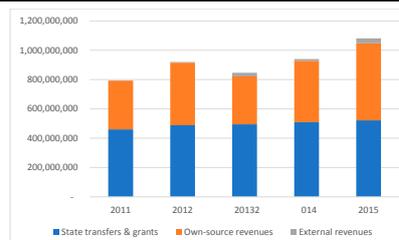
The growth indexes for the period were driven by investment grants and donations in 2015 and higher revenues from land sales land development fees in 2015 compared with 2014.



Strumica's 2015 budget plan was 14 percent higher than actual numbers. Land sales were expected to rise by around 170 percent in 2015 compared with 2014, but they only rose around 40 percent. Overall capital revenues were lower than the expected in 2015 than 2014.

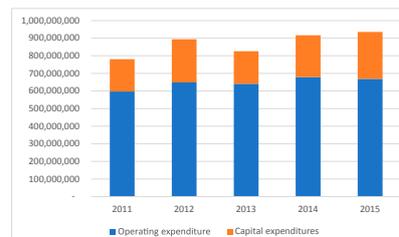
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Main revenues in MKD							
	2011	2012	2013	2014	2015	Growth	
1 State transfers & grants	460,547,638	488,390,745	494,243,793	508,891,727	521,584,683	3.2%	
2 Own-source revenues	332,218,655	426,632,504	327,457,125	418,755,357	525,843,741	12.2%	
3 External revenues	1,429,606	4,560,525	24,801,093	12,220,166	33,893,576	120.7%	



Revenues: Revenues from the central government in addition to grants almost equal Strumica's own-source revenues. As a result, fiscal dependency lessened somewhat during the observed period. The annual growth rate was high, averaging up to +8 percent [[meaning?]] (2011–15); own-source revenue collection grew at a faster pace than state transfers.

	2011	2012	2013	2014	2015	2015 in Euros	Structure
Operating expenditure	597,403,396	648,272,437	640,709,706	678,545,593	669,064,477	10,879,097	72
Wages and salaries	403,361,211	410,369,048	383,672,261	415,890,848	414,055,776	6,732,614	44
Capital expenditures	183,068,337	246,006,173	185,464,931	238,129,525	266,140,255	4,327,484	28
TOTAL expenditures	780,471,733	894,278,609	826,174,637	916,675,118	935,204,732	15,206,581	100



Expenditures: Payroll accounted for 44 percent of total expenditures and around 68 percent of operating expenditures. It was mostly generated by school staff and was offset by an earmarked grant. In 2015, capital investment expenditures accounted for around 28 percent of total expenditures, primarily civil works such as road maintenance, water supply and sewage, and school construction and maintenance.

RATIO ANALYSIS

MAIN FINANCIAL RATIOS							
Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015	
1 Credit worthiness							
Gross Operating savings/ Current revenue	> 0.3	3.1%	2.0%	-1.7%	6.0%	-4.5%	
2 Indebtedness							
Debt outstanding /Gross operating savings	< 10 years	0.0	0.0	0.0	0.0	0.0	
Debt service / Total current revenue	< 10 %	0.0	0.0	0.0	0.0	0.0	
Debt outstanding /Budget total	< 60%	0.0%	0.0%	0.0%	0.0%	0.0%	
Borrowing /Current revenues	< 15%	0.0%	0.0%	0.0%	0.0%	0.0%	
3 Fiscal autonomy							
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	28.8%	30.3%	29.7%	35.0%	33.7%	
4 Capital investment effort							
Capital investment expenditure / Total Current revenue	> 40 %	29.5%	35.8%	21.8%	32.1%	48.0%	
Capital investments from earmarked grants / Total investment expenditure	< 50 %	0.8%	1.9%	17.0%	5.2%	12.0%	
5 Level of service sustainability							
Maintenance works expenditure / Operating expenditures	> 15 %	9.4%	9.9%	9.1%	10.1%	11.7%	
Fees collected/ Fees billed	> 90 %						
Taxes collected/Taxes levied	> 90 %						
6 Other ratios							
Salaries & wages / Operating actual expense	< 40 %	67.5%	63.3%	59.9%	61.3%	61.9%	
Number of municipal employees/1000 citizens	< 25	3.8					
Actual revenue / Planned revenue	95<A/P<1.05						

FINANCIAL MANAGEMENT

The administration and the finance sector prepare the budget; it is adopted by the municipal council. The state audit office conducts the audit.

MUNICIPAL FINANCE IMPROVEMENT PLAN

To increase creditworthiness, develop more flexible borrowing procedures and improve the assessment of property taxes; to increase service sustainability, readopt the municipality's detailed urban plans; and to improve budget reality, improve the reliability of forecasting.

MUNICIPALITY OF BIJELO POLJE

CITY PROFILE

Territorial organization: The municipality of Bijelo Polje is located in the northeast region of Montenegro and comprises 137 settlements and 39 local communities. Its total area is 924 square kilometers, which is 6.7 percent of the total territory of the country—the fourth largest by area. located in the northern part of Montenegro on the bank of Lim River, surrounded by high mountains with forests - Bjelasica, Lisa, and Pesterska.

Demography: Total population, according to 2011 census: 46,051, representing 7.43 percent of the country's total population. Growth rate in period 2003-2011 is negative -6.6 percent; country ranking (in population): 3 out of 23; vital index: 125; population density: 49.8 inhabitants per square kilometer; average age: 36.1; rate of natural increase (2011): 4.2.

Economy: Total income per capita (2013): €436-1,854; active population (2011): 14,733; activity rate (2011): 32 percent; unemployment rate (2013): 27 percent; national development index (2010–12): 38.06 percent (19th out of 21 municipalities in 2012 relative to local development); inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013, -0.3 percent in 2014, and 1.4 percent in 2015.

Decentralized functions: Montenegro is highly centralized, and the municipalities have limited functional competencies. The Law on Local Self Government stipulates that the municipality's responsibilities include local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for providing education and health services.

Utilities management: Waste disposal and maintenance of public spaces and parks, city market, cemeteries, of local roads, and city's steam heating system: city utility company d.o.o Komunalno "Lim" Water supply, drainage, and wastewater treatment: d.o.o. Vodovod Bistrica; parking services: d.o.o Parking servis (parking services).

Municipal staff: Local administration: 307; public institutions: 92; public enterprises: 228.

Urban issues and challenges: Improve waste management system and wastewater treatment; lower the high unemployment rate; attract private investors, develop small businesses, tourism, and agriculture; concession was granted to build small hydropower facility

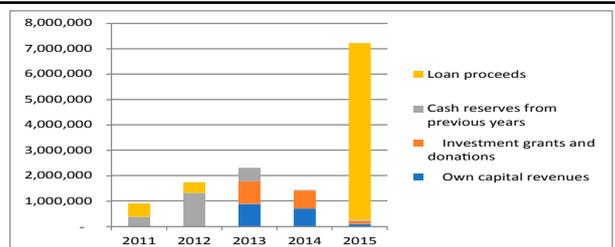
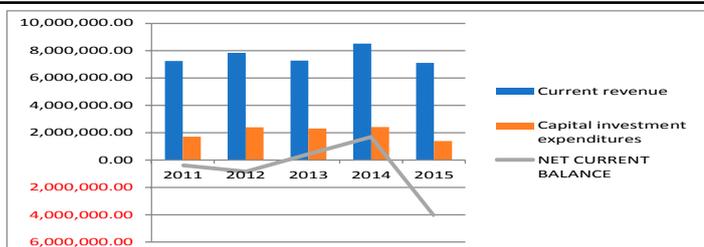
Existing project investment plan: Ongoing capital projects and a major five-year large-value capital investment plan (2011–17) co-financed through the state budget and through public-private partnerships include the construction of wastewater treatment plant and sewage network (27 kilometers long for €10 million); reconstruction of a sports facility for €400,000; construction of swimming pools for €3 million; construction of sports terrain for €300,000; solidarity housing construction for €3.4 million; construction of a city parking lot with garages for €700,000; reconstruction of the city square for €6 million; reconstruction and modernization of the city market for €1.7 million; construction of livestock markets in Tomaševo, Pavin Polje, Lozno, Kanji, and Bistrica for €500,000; construction and reconstruction of the road network (86 projects) for €15 million; construction and reconstruction of the water supply network (44 projects) for €6.6 million.



FINANCIAL SITUATION (IN CURRENT TERMS)

Items	2011	2012	2013	2014	2015	Growth Index
Current revenue	7,228,457.88	7,826,210.34	7,257,090.34	8,502,445.70	7,090,379.00	-0.5%
Operating expenditure	5,273,587.45	6,379,921.09	3,679,830.40	3,448,944.47	6,245,700.00	4.3%
Gross Operating balance	1,954,870	1,446,289	3,577,260	5,053,501	844,679	-18.9%
Debt service and borrowing costs	2,314,990	2,265,415.82	3,094,504.60	3,281,576.12	4,924,790.94	20.8%
NET CURRENT BALANCE	(360,120)	(819,127)	482,755	1,771,925	(4,080,112)	83.5%
Capital Revenues	1,473,603	484,267	2,127,835	1,134,636	289,950	-33.4%
Own capital revenues	1,473,603	484,267	1,237,453	425,777	179,950	-40.9%
Investment grants and donations	-	-	890,382	708,859	110,000	-
Capital investment expenditures	1,710,727	2,393,845	2,308,249	2,420,373	1,399,000	-4.9%
BALANCE AFTER INVESTMENTS	(597,244)	(2,728,705)	302,341	486,188	(5,189,162)	n.a.
Cash reserves from previous years	392,901	1,328,030	533,584	24,600	46,821	-41.2%
Loan proceeds	522,599	417,000	0	0	6,945,000	90.9%
OVERALL CLOSING BALANCE	318,256	(983,675)	835,925	510,788	1,802,659	54.3%

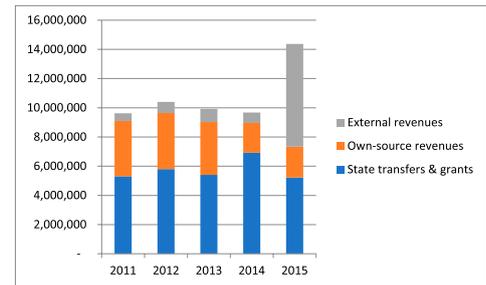
The positive operating margin during the observed period and high operating surplus beyond operating expenditures in 2014 indicate financial strength and sustainability of the municipality's operations. In 2015 due to high operating expenditures there was a significant reduction of the gross operating balance, signaling financial issues and jeopardizing creditworthiness. The operating expenditures grew an average of 4.3 percent while current revenues decreased slightly with an average index of 0.5 percent. Due to high debt service and borrowing costs (growth index of 20.8%), and high operating expenditures the net current balance was negative in 2012, 2013 and alarmingly so in 2015, worsening the municipality's financial situation. The operating margin decreased an average of 18.9 percent but remained positive. However, this was accompanied by a positive overall balance (except in 2012) Investments showed strong negative balances in 2011, 2012, and especially 2015 where capital investments had to be financed mainly from debt (in 2015) and debt and cash reserves (2011 and 2012). The City shows reduction of cash reserves shrunk by 41.2 percent, and although there were no loan proceeds from 2013 to 2014 the high level of borrowing in 2015 (debt reprogramming arrangement) brought the growth index of 90.9 percent. Capital investments revealed a declining trend at -4.9 percent. The highest debt repayment of €3.8 million excluding interest is indicated in 2015. Twenty-two percent went to repaying a bank debt (7 percent of total expenditures in 2015) and 78 percent for repayment of arrears (23 percent).



Current revenues amounted to 71 percent of total revenues over the 2011–15 period. Own-source capital revenues, including the sale of property, declined by an average of 40.9 percent. The city finances capital expenditures with investment grants from the state budget and with donations (31 percent of total capital revenues). The city maintains capital expenditures at a high level even though revenues are insufficient, and considering the high levels of borrowing in 2015, the city should revise its investment plans going forward.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

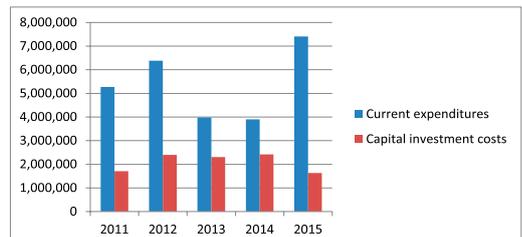
	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	5,307,836	5,797,560	5,400,432	6,916,035	5,218,968	-0.4%
Own-source revenues	3,787,406	3,840,947	3,627,696	2,048,517	2,117,150	-13.5%
External revenues	522,599	758,411	890,382	708,859	7,034,500	91.5%



Own-source revenues constituted 29 percent of total budget revenues, including property sales, which accounted for 14 percent of total own-source revenues and 4 percent of total revenues (2011–15) and which revealed an average declining trend of 13.5 percent. State transfers (shared revenues) and grants (equalization) accounted for 53 percent of total revenues for the 2011–15 period and showed a slight declining trend of 0.4 percent.

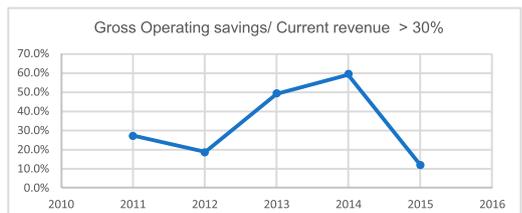
The city demonstrated a strong reliance on state transfers and grants, 18 percent of which are shared revenues and 82 percent equalization (unconditional) grants. Own-source revenues declined more quickly than state transfers and grants, suggesting that the city should make more of an effort in this regard. External revenues, with a growth index of 91.5 percent, accounted for 18 percent of total revenues in 2011–15, peaking in 2015 due to reprogramming debts and entering into loan agreements with government approval to deal with city's accumulated debt and arrears.

Capital investments declined by an average of 1 percent during the observed period, with the highest level in 2014, then declining by 33 percent in 2015; they represent an average of 21 percent of total expenditures for 2011–15. The largest share of capital investments (85 percent) during the observed period was in expenditures for local infrastructure, including city construction land improvements, with a 3 percent growth index. Current expenditures trended upward with an average annual growth of 9 percent, constituting 54 percent of total expenditures for 2011–15, reaching the highest level in 2015, mainly due to an increase in payroll-related costs, interest, fees, and transfers. Current expenditures represented 57 percent of total expenditures in 2015.

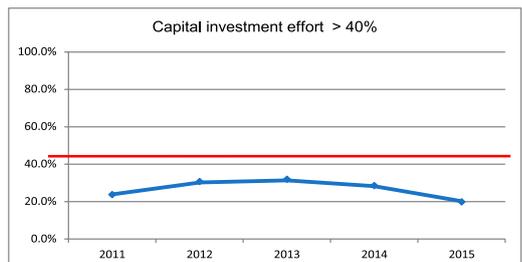


RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross Operating savings/ Current revenue	> 30%	27.0%	18.5%	49.3%	59.4%	11.9%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	3.5	6.1	2.3	1.5	17.7
Debt service / Total current revenue	< 10 %	32%	29%	38%	37%	53%
Debt outstanding /Budget total	< 60%	70.2%	87.8%	81.5%	78.7%	102.7%
Borrowing /Current revenues	< 15%	7.2%	5.3%	0.0%	0.0%	97.9%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	89.4%	87.0%	85.1%	86.5%	82.4%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %	23.7%	30.6%	31.8%	28.5%	19.7%
Capital investments from earmarked grants / Total investment expenditure	< 50 %			38.6%	29.3%	7.9%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	8.9%	11.7%	16.0%	15.3%	15.1%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %	26.8%	33.3%	37.2%	39.8%	46.9%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	24.4%	25.7%	38.4%	35.5%	44.1%
Number of municipal employees/1000 citizens	< 25	9.7	9.7	10.2	9.3	9.0
Actual revenue / Planned revenue	95<A/P<1.05	82.91%	94.28%	94.01%	91.65%	95.52%



The city achieved positive operating savings over the observed time period—a sign of creditworthiness. The ratio was met in 2013 and 2014, but dropped below the 30 percent benchmark in 2015, which suggests that the city's creditworthiness is weak and it can no longer borrow.



Capital investments below the 40 percent benchmark signal the need to revise investment policies. The city shows negligible reliance on earmarked investment grants whereby investments have mainly been financed from loans. The city does not generate revenues sufficient to fund the benchmark. Budget planning—planned and actual figures—were within range, pointing to fairly realistic budget planning. The city shows strong fiscal autonomy and spending sovereignty, with an ability to increase its own-source revenue.

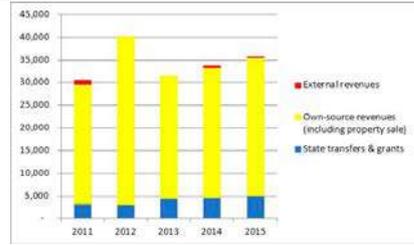
Debt repayment capacity was strong for 2011–14, but the high level of indebtedness in 2015 indicates that the city could not repay all of its outstanding debt from the five-year operating surplus (against 10-year benchmark). Debt service increased, reaching 69 percent of current revenues in 2015 and failing to meet the benchmark over the entire observed period, constraining the city's borrowing capacity. Indebtedness ratio (debt outstanding/budget total) consistently exceeds the 60 percent benchmark, demonstrating zero room for further debt financing and a need to further stabilize its indebtedness. The city was within the benchmark for maintenance expenditures. It spent more revenue on labor than the benchmark (40 percent) in 2015, possibly due to the repayment of outstanding payroll-related obligations rather than from additional hiring. The city performs well on the ratio for municipal employees relative to inhabitants. It should measure revenue performance in fees to better focus on service sustainability.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial condition of local government by enhancing the regulatory framework (new revenue sources through adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed). Establish a new ministry for public administration (completed). Increase creditworthiness (enhance capacity for preparation and implementation of European Union projects and developing project documentation (by 2019). Improve exchange of data between the state and local governments for an improved database on shared revenues and more reliable forecasting (by end of 2018). Enhance service sustainability and improved operations of local administration. Improve the information technology system for the assessment and collection of real estate tax (by 2018). Implement new tax accounting software to ensure an improved database on all local taxes (by 2018). Introduce inter-municipal cooperation—the pooling of municipalities to propose joint projects, to be allocated from European Structural Investment Funds (by 2018). Advance budget reliability and enhanced budget planning by improving reporting for equalization (by 2018). Fully implement functional classification (by 2018). Improve municipal treasury operations by implementing budget expenditure controls and measures (end of 2017).

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues in 000 EURO	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	3,125	3,060	4,458	4,590	4,997	12.5%
Own-source revenues (including property sale)	26,409	37,146	26,981	28,535	30,458	3.6%
External revenues	1,100	-	-	584	250	-31.0%

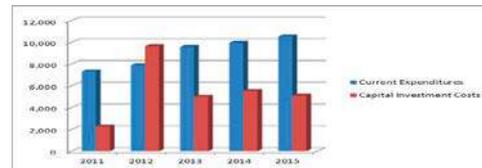


The municipality strongly relied on own-source revenues. In 2015, own-source revenues accounted for 85 percent of total budget revenues, including property sales of less than 2 percent; shared taxes accounted for 14 percent. External revenues (loan proceeds) made up 1 percent of the 2015 budget.

Own-source revenues had a growth index of 4 percent, mainly by increasing the collection of local property taxes. Total own-source revenues, however, have grown slower than state transfers (12.5 percent growth index). External revenues (Budva received no donations or state transfers during the period of 2011–15) showed a declining trend since 2011, with no loan proceeds in 2012 and 2013. Overall, shared taxes accounted for 12 percent of the municipality's total revenues over the observed period, while own-source revenues accounted for a high of 87 percent.

MAIN OPERATING EXPENDITURES in 000 EURO						
	2011	2012	2013	2014	2015	Average annual growth
CURRENT EXPENDITURES (total)	7,324	7,903	9,579	9,961	10,538	10%
Payroll (including employees benefits & misc.)	3,538	3,116	4,845	4,244	4,756	7.68%
Operating costs	1,286	2,484	2,198	2,328	2,662	19.95%
- Material	71	116	97	102	59	-4.52%
- Travel expenses	25	41	70	84	45	15.83%
- Representation costs	21	38	69	96	32	11.10%
- Energy	107	442	424	537	520	48.48%
- Telephone services	43	70	67	57	49	3.32%
- Postal services		9				
- Banking services	12		46	42	50	42.87%
- Transportation services						
- Contract services	1,007	1,768	1,426	1,410	1,907	17.31%
Current repairs and maintenance	57	35	174	390	328	54.88%
Rents	58	88	57	90	55	-1.32%
Interest costs and fees	215	71	178	102	519	24.85%
Current subsidies						
Grants and transfers	1,646	1,812	1,827	2,332	1,379	-4.33%
Social security and welfare	280	49	72	68	146	-13.43%
Other expenditures	264	248	228	407	343	6.76%

CAPITAL INVESTMENT FINANCING in 000 EURO						
Items	2011	2012	2013	2014	2015	Average annual growth
Total capital investment costs	2,263	9,646	5,007	5,532	5,102	22.5%
- Expenditures for local infrastructure	1,938	9,334	3,888	2,142	3,584	16.6%
- Expenditures for constructions	300	261	1,085	3,195	1,363	46.0%
- Expenditures for improvement of city construction land				24		
- Expenditures for equipment	25	51	23	48	102	42.1%
- Expenditures for capital maintenance			11	123	53	
- Other capital expenditures						



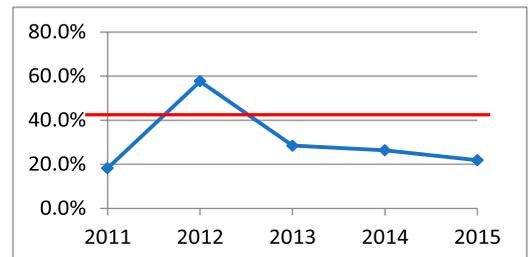
Current expenditures showed an upward trend, with an average annual growth rate of 10 percent. Capital investments were at their highest level in 2012; they declined by half in 2013, and remained at the same level in 2014 and 2015, with an average annual growth rate of 22.5 percent over the observed period. The largest share of capital investments was for local infrastructure, with growth index of 17 percent.

RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross Operating savings/ Current revenue	> 30%	41%	53%	46%	53%	55%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	2.3	1.1	8.7	6.4	5.2
Debt service / Total current revenue	< 10%	169%	135%	95%	80%	83%
Debt outstanding /Budget total	< 60%	42.5%	24.0%	229.1%	219.8%	194.9%
Borrowing /Current revenues	< 15%	8.8%	0.0%	0.0%	2.8%	1.1%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80%	182.3%	209.6%	148.4%	129.9%	123.3%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40%	18.1%	57.7%	28.3%	26.2%	21.7%
Capital investments from earmarked grants / Total investment expenditure	< 50%	0.0%	0.0%	0.0%	0.0%	0.0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15%	0.8%	0.4%	1.9%	4.0%	3.3%
Fees collected/ Fees billed	> 90%					
Taxes collected/Taxes levied	> 90%	77.1%	73.8%	72.6%	69.8%	91.3%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40%	49.8%	39.8%	51.5%	43.0%	50.9%
Number of municipal employees/1000 citizens	< 25	23.4	22.8	22.0	21.5	23.9
Actual revenue / Planned revenue	95<A/P<1.05	83.2%	100.2%	68.5%	65.8%	102.0%



The creditworthiness ratio—the operating margin over current revenues—was high and met the benchmark of >30 percent, showing an upward trend and suggesting the municipality's strong creditworthiness during the observed period as well as its capacity to borrow and invest.



As of 2013, the indebtedness ratio (debt outstanding/budget total) was below the set benchmark, indicating serious emerging financial issues with expiring grace periods for loans. Debt repayment capacity met the benchmark—the city was able to repay all outstanding debt from five years of operating surplus against a 10-year benchmark. However, debt service was well below the benchmark, causing serious concern, including accumulated bank debt as well as arrears—ballooning debt payments—and absorbing up to 60 percent of overall budget expenditures during the observed period.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial condition of the local government by enhancing the regulatory framework (new revenue sources through the adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed); establish the new ministry for public administration to monitor and control local government operations and protect their interests (completed); increase creditworthiness by improving the exchange of data between the state and local government for a better database on shared revenues and forecast reliability by the end of 2018; promote service sustainability and improved operations of local administration by improving the information technology system for the assessment and collection of real estate taxes by 2018; implement a new tax accounting software to ensure improved database on all local taxes by 2018; implement savings measures for current expenditures, such as updates to the Act on Organization and Systematization of Jobs, by end 2017; enhance budget reliability and planning by implementing an accrual accounting base by 2019; improve municipal treasury operations by implementing budget expenditure controls and measures by the end of 2017; implement a "hands-on" application for planning of revenues and expenditures for credit analysis by 2020; and implement a debt management system and improve investment programming by 2020.

MUNICIPALITY OF MOJKOVAC

CITY PROFILE

Territorial organization: The municipality of Mojkovac is located in the northern region of Montenegro and comprises 14 settlements. The total area of the municipality is 367 square kilometers, which represents 2.6 percent of the country's total territory; it is among the smaller municipalities of Montenegro. Mojkovac is located on the west bank of the Tara River between the mountains of Bjelasica and Sinjajevina. It sits at the intersection of the main road connecting Montenegro's coast and capital city of Podgorica with northern Montenegro and Serbia.

Demography: Total resident population (2011 census): 8623 comprising 1.4% of the total population in Montenegro. Annual population growth is negative: -13.4%. Rank in the country (in population): 16 out of 23. Human development index is below the Montenegro average and amounts 0.78. Population density: 23 inhabitants / km². Average age of population is 38.4. Rate of natural increase in 2011 is negative: -3.1.

Economy: Total income per capita (2013): €436–1,855 (within the range of the northern region, the lowest of the three regions); activity rate (2011): 33 percent (below the 45 percent benchmark; unemployment rate (2011): 16.3 percent; employment rate (2011): 21.4 percent; national development index (2010–12): 63.4 percent; inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013, -0.3 percent in 2014, and 1.4 percent in 2015.

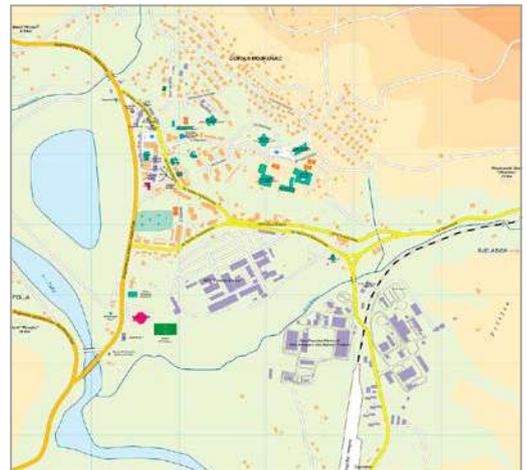
Decentralized functions: Montenegro is highly centralized, and the municipalities have limited functional competencies. The Law on Local Self Government stipulates that municipal tasks include local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for delivering education and health services.

Utilities management: Water supply, drainage and wastewater treatment, waste disposal, public lighting, city market, maintenance of public spaces, and cemeteries: Javno komunalno preduzece Gradac (city utility company).

Municipal staff (2015): Local administration: 78; public institutions: 15, public enterprises: 55.

Urban issues: Waste management system; landfill dumps from lead and zinc mines; depopulation and high unemployment rate; wastewater treatment; use of renewable energy sources.

Investment Projects: Main capital projects (2011–17): Crossroad reconstruction ul. Janka Vukotića for €240,000; landslide stabilization in Stevanovac for €150,000; construction of cycling and running trail on Jalovište for €540,000; construction of the sludge treatment pool construction for €180,000; construction of Njegoseva street and local road—Mojkovac-Ravni—for €400,000; protection and regulation of the wellhead for the city water supply in Gojakovići for €100,000; construction of water supply system in Gostilovina and Slatina for €150,000; construction of the municipal administration building for €500,000; and construction of the building for socially vulnerable persons for €300,000.

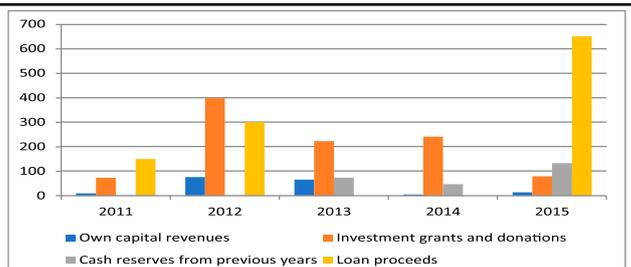
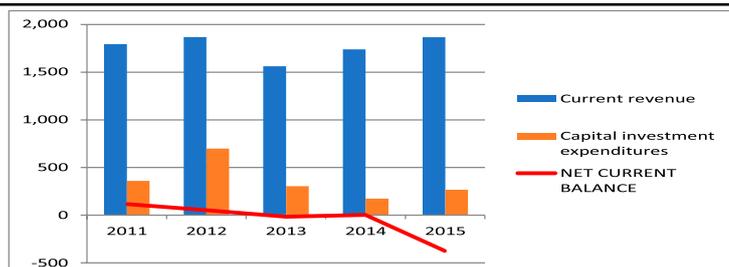


FINANCIAL SITUATION

Items in 000 EURO	2011	2012	2013	2014	2015	Growth Index
Current revenue	1,790	1,864	1,560	1,736	1,863	1.0%
Operating expenditure	1,445	1,584	1,266	1,205	1,408	-0.6%
Gross Operating balance	345	280	294	531	455	7.2%
Debt service and borrowing costs	215	218	302	520	836	40.4%
NET CURRENT BALANCE	130	62	(8)	11	(381)	
Capital Revenues	83	474	289	246	93	2.9%
Own capital revenues	10	76	66	5	14	8.8%
Investment grants and donations	73	398	223	241	79	2.0%
Capital investment expenditures	362	699	306	176	269	-7.2%
BALANCE AFTER INVESTMENTS	(149)	(163)	(25)	81	(557)	39.0%
Cash reserves from previous years	2	2	74	47	133	185.6%
Loan proceeds	150	300	0	0	650	44.3%
OVERALL CLOSING BALANCE	2,867	(3,812)	(2,741)	(2,337)	(4,452)	n.a.

The positive operating margin indicates sustainability of the operations of the Municipality with operating expenditures showing slight downward trend (0.6%). Operating margin grew by 7.2 percent. However, debt service made up substantial part of expenses resulting in negative net current balances in 2013 and 2015, with a worrisome growth index of 40 percent, creating a concerning burden for the municipal budget and constraining its investment and borrowing capacity. Debt service reached the highest level in 2015 (33 percent of the total budget expenditures) out of which 55 percent went on repayment of bank debt (18 percent of the total expenditures in 2015) and 45 percent for repayment of arrears (15 percent of the total 2015 expenditures). Investment balance was only positive in 2014, which indicates investments were financed partly from debts.

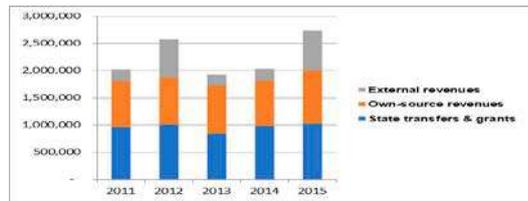
The overall closing balance also shows a growing trend with debt financing. The municipality is running well in terms of financing operations, but it has overinvested in the past and with no cash reserves and low own capital revenues the capital expenditures were mostly financed through borrowing or from grants. Cash reserves have been negligible throughout the period but recovered to some extent in 2015 showing growth index of 186 percent. The current revenue growth index from 2011 to 2015 was 1 percent. Negative net current balance in 2013 and 2015 is caused by high debt service costs exceeding current revenue potential.



Capital investment financing shows declining trend (-7.2%) since 2012 when municipality received grant and transfers of (15% of the total budget revenues in 2012) and used loan proceeds to finance large capital investment (28% of the total budget). Own capital revenues (only 7% of the total capital revenues or 2% of the total revenues 2011-2015) are insufficient to finance capital investments, which are mainly financed from grants and borrowing. Over the observed period 44% of capital revenues came from grants and donations.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	963,896	1,000,482	845,274	985,562	1,028,230	1.6%
Own-source revenues	836,957	876,268	875,178	827,489	978,200	4.0%
External revenues	223,430	697,437	200,734	216,443	723,698	34.2%

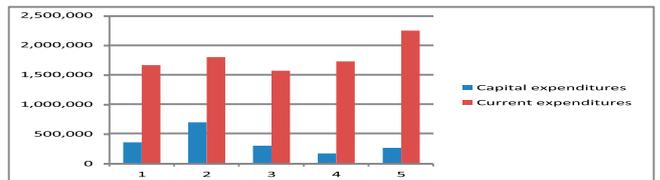


Municipality receives steady shared revenues and unconditional (equalization) grants. During the observed five year period state transfers and grants accounted for 43% of the total revenues, while own revenues (including property sale) accounted for 49% of the total 2011-2015 revenues.

Own revenues show growth index of 4%, mainly by increase in collection of local property tax (growth index of 4.2%). Total own source revenues have grown faster than state transfers (1.6% growth index) which indicates municipal efforts to improve collection rates. External revenues (53% loan proceeds, and 47% donations during 2011-2015) show strong growing trend with average growth index of 34%, under which loan proceeds indicate growth index of 44% while donations have grown by 0.09%.

MAIN OPERATING EXPENDITURES						
	2011	2012	2013	2014	2015	Average annual growth
CURRENT EXPENDITURES (total)	1,661,927	1,797,585	1,567,741	1,725,080	2,243,935	7.80%
Payroll (including employees benefits & misc.)	893,090	891,274	653,053	668,314	695,779	-6.05%
Operating costs	179,479	151,031	128,439	104,280	139,939	-6.03%
- Material	36,112	35,896	11,842	10,789	7,147	-33.30%
- Travel expenses	9,151	10,106	7,270	6,464	9,020	-0.36%
- Representation costs	13,353	12,538	11,577	7,571	6,959	-15.03%
- Energy	97,914	72,023	54,403	45,812	67,754	-8.79%
- Telephone services	5,511	4,802	1,844	4,106	3,306	-11.99%
- Postal services	788	813	0	0	0	
- Banking services	3,584	3,757	3,280	3,838	4,344	4.93%
- Transportation services	0	0	0	0	0	
- Contract services	13,066	11,096	38,223	25,700	41,469	33.43%
Current repairs and maintenance	56,931	57,414	43,837	32,819	42,986	-6.78%
Rents	0	1,296	540	1,080	8,022	
Interest costs and fees	19,408	50,604	104,930	99,740	461,995	120.88%
Current subsidies	0	17,179	14,807	18,572	18,027	
Grants and transfers	178,521	318,159	313,277	294,375	408,228	23.05%
Social security and welfare	1,709	59,391	7,332	1,396	3,200	16.98%
Other expenditures	332,789	251,237	301,526	504,504	464,759	8.71%

CAPITAL INVESTMENT FINANCING						
Items	2011	2012	2013	2014	2015	Average annual growth
Total capital investment costs	360	699	306	176	269	-0.07
- Expenditures for local infrastructure	94	118	55	60	40	-19.23%
- Expenditures for constructions	85	226	172	15	115	7.85%
- Expenditures for improvement of city construction land						
- Expenditures for equipment	12	11	2	2		-100.00%
- Expenditures for capital maintenance						
- Other capital expenditures	169	344	77	99	114	-9.37%

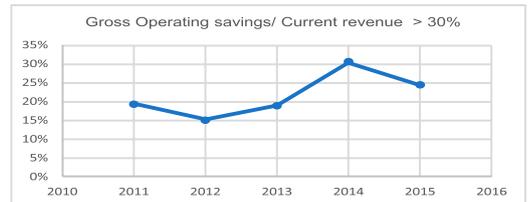


Current expenditures trended upward, with an average annual growth rate of 7.8 percent (83 percent of total 2011-15 expenditures), reaching their highest level in 2015, mainly due to an increase in interest and fees (average growth index: 120 percent) and grants and transfers (growth index: 23 percent) Capital investments were at their highest level in 2012, declining by half in 2013, with further reductions in capital spending in 2014, reflecting an average annual decrease over the observed period of 0.07 percent. The largest share of capital investments during the considered period was for land development (44 percent), which decreased by an average of 9 percent. Capital investment costs constitute 17 percent of the total expenditures for 2011-17.

RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 30%	19%	15%	19%	31%	24%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	0.5	1.6	1.6	0.5	1.4
Debt service / Total current revenue	< 10 %	12.0%	11.7%	19.4%	30.0%	44.9%
Debt outstanding /Budget total	< 60%	8.7%	16.9%	24.0%	14.0%	23.8%
Borrowing /Current revenues	< 15%	8.4%	16.1%	0.0%	0.0%	34.9%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	78.5%	89.0%	81.6%	81.8%	83.6%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %	20.2%	37.5%	19.6%	10.1%	14.4%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	20.2%	56.9%	72.9%	136.9%	29.4%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	3.5%	3.3%	3.0%	2.0%	2.4%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %	50.1%	46.3%	49.7%	52.7%	59.1%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	54.4%	51.0%	44.6%	41.1%	39.0%
Number of municipal employees/1000 citizens	< 25	11.28	11.53	9.88	11.33	11.3
Actual revenue / Planned revenue	95<A/P<1.05	73.9%	81.5%	73.5%	83.3%	119.8%

The indebtedness ratio (debt outstanding/budget total) met the benchmark. Debt repayment capacity also met the benchmark: the city could repay all outstanding debt with a five-year operating surplus against a 10-year benchmark. However, debt service relative to current revenue is well below the benchmark (<10 percent), causing serious concern, including accumulated bank debt as well as arrears ballooning debt payments—reaching their highest ratio in 2015 (45 percent of current revenues). Annual borrowing far exceeded the current revenues benchmark of 15 percent in 2015 at 35 percent, indicating that municipality must be cautious regarding future debt. The city demonstrated strong spending sovereignty—over 80 percent, except for 2011. It was below the benchmark for maintenance expenditures, indicating a need for the prioritization of noncurrent asset maintenance. Indicators suggest there is room for improvement in local tax collection. The city exceeded the benchmark for payroll costs relative to operating expenses, but managed to meet the benchmark with a staff rationalization plan in 2015, reflecting improved city spending on labor. The city performed well on the ratio for municipal employees relative to inhabitants. It should measure revenue performance in fees to better focus on service sustainability.



The city achieved positive operating savings over the observed time period—a positive sign for creditworthiness. However, the creditworthiness ratio—operating margin over current revenues—only met the benchmark (>30 percent) only in 2014. The ratios below the 30 percent benchmark reflect the municipality's lack of capacity to further borrow and invest.



The capital investment effort below the benchmark suggests that the city should reconsider its investment policies. The city investment performance took a downturn and relied on earmarked investment grants and loans. This trend may have been caused by the city budget being burdened with the repayment of accumulated capital investment arrears due to the city overinvesting in previous years (2012) and possibly the high cost of borrowing. Capital investment efforts were well above the benchmark, reflecting low development expenses and a high level of dependence on external financing. Planned and actual budget figures were not within the range, pointing to the need for more realistic budget planning.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve LG financial condition through enhancing regulatory framework (new revenue sources through adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed); Establishment of the new Ministry for Public Administration for monitoring and control of operations of the LGs, and protection of their interests (completed). Increase creditworthiness (enhance capacity for preparation and implementation of EU projects and developing project documentation -by 2019, Improve exchange of data: State vs. LGs for better data base on shared revenues and forecast reliability end 2018); Service sustainability and improved operations of local administration (Improve the IT system for assessment and collection of real estate tax by 2018; Implement new tax accounting software to ensure improved database on all local taxes – by 2018; Implement saving measures for current expenditures -updates to the Act on Organization and Systematization of Jobs, by end 2017; introduce inter municipal cooperation: Pooling of Municipalities to propose joint projects - considering the size and the amount to be allocated from the European Structural Investment Funds by 2018); Budget reliability and enhanced budget planning (improve reporting for the purposes of equalization by 2018, Full implementation of functional classification as a standardized framework for regional comparability by 2018; implement accrual accounting base by 2019; improve municipal treasury operations – implement budgeted expenditure controls and measures –end 2017, improve investment programming – by 2020)

MUNICIPALITY OF PLJEVLJA

CITY PROFILE

Territorial organization: The municipality of Pljevlja is located in the northern region of Montenegro, comprising 153 settlements and 27 local communities. The total area of the municipality is 1,346 square kilometers—10 percent of the Montenegro’s total territory and the third largest municipality in the country. The highest point in Pljevlja is on the Ljubišnja mountain at an altitude of 2,238 meters; the lowest point is in the canyon of the Tara river at an altitude of 529 meters above sea level.

Demography: Total population, according to 2011 census: 30,786, representing 5 percent of the country’s total population; population growth rate from 2003 to 2011: -12 percent; country ranking in terms of population: 7 out of 23; vital index (2009): 73.5; population density (2010): 20.1 inhabitants per square kilometers; average age of population: 41.8; rate of natural increase (2011): -7.6. According to the 2011 census, Pljevlja has the highest negative natural increase in Montenegro at - 234.

Economy: Total income per capita (2013): €436–1,854; active population (2011): 11,569; activity rate (2011): 48.7 percent; unemployment rate (2011): 15.5 percent; national development index (2010–12): 70.74 percent, making Pljevlja the 13 of 21 municipalities in relation to local development in 2012; inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013, -0.3 percent in 2014, and 1.4 percent in 2015.

Decentralized functions: Montenegro is highly centralized; municipalities have limited functional competencies. The Law on Local Self Government stipulates that municipalities are responsible for local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for delivering education and health services.

Utility management: Waste disposal, maintenance of public spaces: d.o.o Cistoca (city utility company); treated water supply and sewage: d.o.o. Gradski vodovod; drainage, wastewater treatment, and cemeteries: Komunalne usluge (public company); central heating: Grijanje (public company); maintenance and protection of local roads (public company); center for sports and recreation.

Municipal staff (2015): Local administration: 280; public institutions: 44; public enterprises: 457.

Urban issues: High levels of air, water, and soil pollution; improvements needed to waste management system; inadequate management of solid municipal waste; illegal landfills in rural and urban areas; lack of wastewater management systems (industrial and nonindustrial); improvements needed to water supply network; lack of railroad traffic; undeveloped network of regional and local roads; high unemployment rate; and depopulation.

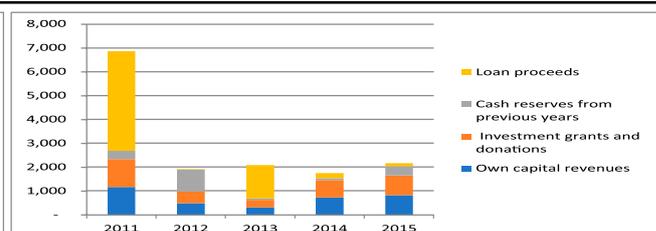
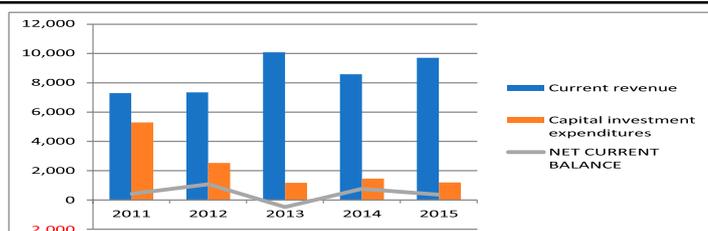
Investment Projects: Ongoing and planned capital projects (2011–18) include construction of a wastewater treatment plant for €5.6 million; construction of a main collector for the sewage network for €2.5 million; regulation of river beds in Čehotina for €3.5 million; modernization of city parking infrastructure for €800,000; reconstruction and adaptation of the cultural center for €1.6 million; construction of the home for elderly persons for €2.1 million; improvements to the city market space (strategic plan) for €4 million; and construction of the city swimming pool (strategic plan) for €3.5 million.



FINANCIAL SITUATION

Items (in 000 EURO)	2011	2012	2013	2014	2015	Growth Index
Current revenue	7,289	7,344	10,067	8,575	9,691	7.4%
Operating expenditure	5,956	5,463	4,555	4,009	5,645	-1.3%
Gross Operating balance	1,333	1,881	5,512	4,566	4,046	32.0%
Debt service and borrowing costs	884	710	6,051	3,745	3,658	42.6%
NET CURRENT BALANCE	449	1,171	(539)	821	388	-3.6%
Capital Revenues	1,242	490	339	748	863	-8.7%
Own capital revenues	73	-	24	18	37	-15.6%
Investment grants and donations	1,169	490	315	730	826	-8.3%
Capital investment expenditures	5,294	2,537	1,182	1,472	1,214	-30.8%
BALANCE AFTER INVESTMENTS	(3,603)	(876)	(1,382)	97	37	
Cash reserves from previous years	348	915	62	76	391	3.0%
Loan proceeds	4,170	23	1,396	218	125	-58.4%
OVERALL CLOSING BALANCE	915	62	(1,320)	173	553	-11.8%

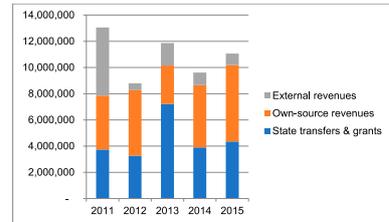
Pljevlja had a positive operating margin during the observed period (2011–15) and a large operating surplus above operating expenditures, pointing to the municipality’s financial strength, the sustainability of its operations, and its strong creditworthiness. Operating expenditures decreased an average of 1.3 percent, while current revenues grew by 7.4 percent, reflecting a level of recovery for the local economy and finances. Due to the high level of debt service and cost of borrowing (growth index of 42.6 percent), the net current balance turned negative in 2013, negatively affecting the municipality’s financial condition. However, the city got back on track in 2014 and reduced the cost of its debt service by 40 percent in 2015 compared with 2013. The operating margin increased by an average of 32 percent, accompanied by a positive overall balance, except in 2013 due to extremely high debt service and borrowing costs. Investment balances were negative in 2011 to 2013 when capital investments had to be primarily financed with debt and partly with investment grants. The city demonstrated volatility with regard to cash reserves, with a growth index of 3 percent; city borrowing decreased by 58 percent over the observed period. Capital investments declined by 31 percent. The highest debt repayment was in 2013 (51 percent of total budget expenditures), 21 percent of which went to the repayment of bank debt (11 percent of total 2013 expenditures) and 79 percent for repayment of arrears (40 percent of total 2013 expenditures).



Current revenues were 79 percent of total revenues for 2011–15. Own-source capital revenues were negligible and declined an average of 15.6 percent. The city financed its capital expenditures primarily with external revenues—donations, which constitute 29 percent of total capital revenues, and loans. Capital revenues represented 21 percent of the total revenues over the observed period. Capital investments were 27 percent of total expenditures due to the long-time effects of the extremely large investments in 2011, suggesting that the city should revise its investment plans and consider entering into public-private partnership arrangements to secure additional money for capital projects.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	3,737,113	3,262,713	7,219,273	3,899,166	4,355,361	3.9%
Own-source revenues	4,121,015	5,012,372	2,939,070	4,757,789	5,836,857	9.1%
External revenues	5,191,046	512,941	1,711,528	960,084	873,338	-36.0%

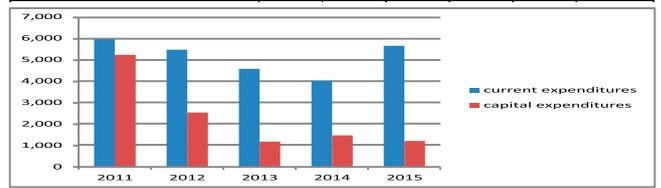


Own-source revenues, including property sales (negligible), constituted 42 percent of the total 2011–15 budget revenues, demonstrating a growing trend of 9.1 percent. State transfers (shared revenues) and grants (equalization) accounted for 41 percent of total revenues and had a growth index of 3.9 percent. External revenues represented 17 percent of total revenues over the observed period and declined by 36 percent.

The city is reliant on own-source revenues, indicating that it prioritizes own-source tax collection efforts. Unconditional grants (equalization) by the state represented 41 percent of total state transfers and grants; shared revenues were 59 percent. Own-source revenues grew faster than state transfers and grants—a significant accomplishment considering the economic downturn and declining local economy. External revenues reached a high in 2011 due to high €4 million loan and a €1 million donation, but rates of borrowing declined after that, demonstrating the city's commitment to controlling local debt.

MAIN OPERATING EXPENDITURES						
Items in 000 EURO	2011	2012	2013	2014	2015	Average annual growth
CURRENT EXPENDITURES (total)	5,956	5,468	4,574	4,009	5,646	-1.33%
Payroll (including employees benefits & misc.)	1,795	1,875	1,930	1,701	2,957	13.29%
Operating costs	1,046	1,008	727	518	489	-17.31%
- Material	57	53	44	33	37	-10.24%
- Travel expenses	67	40	47	30	30	-18.20%
- Representation costs	60	10	6	6	10	-36.11%
- Energy	296	276	213	237	236	-5.51%
- Telephone services	55	47	41	42	30	-14.06%
- Postal services	25	11	7	7	3	-41.14%
- Banking services	25	12	19	9	11	-18.56%
- Transportation services						
- Contract services	461	559	350	154	132	-26.85%
Current repairs and maintenance	398	938	67	29	340	-3.86%
Rents	81	70	50	43	54	-9.64%
Interest costs and fees	277	440	531	484	353	6.25%
Current subsidies	682	261	135	130	315	-17.56%
Grants and transfers	973	627	952	902	958	-0.39%
Social security and welfare	274	14	36	5	6	-61.53%
Other expenditures	430	235	146	197	174	-20.24%

CAPITAL INVESTMENT FINANCING						
Items	2011	2012	2013	2014	2015	Average annual growth
Total capital investment costs	5,227,803	2,536,448	1,182,447	1,472,168	1,213,419	-30.59%
- Expenditures for local infrastructure	2,393,746	786,985	674,261	1,208,632	938,254	-20.88%
- Expenditures for constructions	2,045,328	1,262,072	288,069	203,353	104,841	-52.42%
- Expenditures for improvement of city construction land	558,583	382,791	123,739	27,194	50,588	-45.14%
- Expenditures for equipment	230,146	104,599	96,379	32,397	21,445	-44.75%
- Expenditures for capital maintenance				591		
- Other capital expenditures					98291.21	

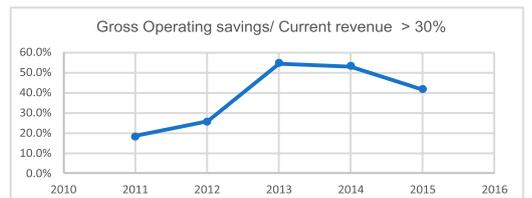


Capital investments, which declined by an average of 30 percent during the observed period, were at their highest level in 2011, mainly financed by loans. The largest share of capital investments (52 percent) during the observed period was expenditures for local infrastructure, which declined by 21 percent. Current expenditures showed a downward trend of 1.3 percent, 49 percent of total expenditures for 2011–15, rising again in 2015 primarily due to an increase in payroll-related costs, grants, and transfers. In 2015, current expenditures constituted 54 percent of total expenditures.

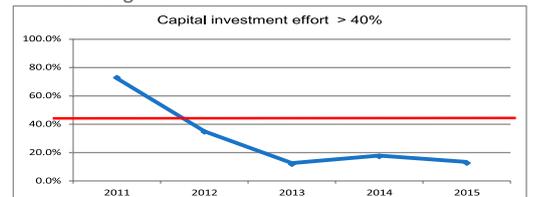
RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross Operating savings/ Current revenue	> 30%	18.3%	25.6%	54.8%	53.2%	41.8%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	6.2	4.1	1.6	1.6	1.4
Debt service / Total current revenue	< 10 %	12%	10%	60%	44%	38%
Debt outstanding /Budget total	< 60%	68.8%	88.7%	74.8%	79.1%	53.4%
Borrowing /Current revenues	< 15%	57.2%	0.3%	13.9%	2.5%	1.3%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	76.7%	74.2%	50.0%	74.7%	68.9%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %	72.6%	34.5%	11.7%	17.2%	12.5%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	22.1%	19.3%	26.6%	49.6%	68.0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	6.7%	17.2%	1.5%	0.7%	6.0%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %	61.7%	59.5%	59.9%	61.3%	73.4%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	30.1%	34.3%	42.4%	42.4%	52.4%
Number of municipal employees/1000 citizens	< 25	22.1	22.9	24.8	26.8	26.7
Actual revenue / Planned revenue	95<A/P<1.05	61.42%	65.28%	70.62%	53.91%	57.63%

The indebtedness ratio exceeded the benchmark of 60 percent but improved in 2015 (not including the tax debt reprogram arrangement, or arrears). Debt repayment capacity met the benchmark: the city could repay all outstanding bank debt from the five-year operating surplus (against the 10-year benchmark). However, debt service relative to current revenue was well below the benchmark of <10 percent since 2013, causing serious concerns, including accumulated bank debt as well as arrears, which are ballooning debt payments, reaching the highest ratio in 2013 (60 percent of current revenues). This constrains the city's borrowing capacity. Annual borrowing far exceeded the 15 percent benchmark in 2011 (57 percent), but the city has since demonstrated good policy decisions around borrowing. Since 2013, the city was significantly below the benchmark in terms of maintenance expenditures, indicating the need for the prioritization of noncurrent asset maintenance. The city spent more of revenues on labor costs than the benchmark (40 percent) in 2015, which may have involved the repayment of outstanding payroll-related obligations rather than from additional hiring. The city did not perform well on the ratio for municipal employees relative to inhabitants over the last two years.



The city achieved positive operating savings over the observed time period—a good sign of creditworthiness. The ratio was met in 2013–15, which demonstrates an improving debt financing scenario.



Capital investments were below the benchmark of 40 percent since 2011, when the city overinvested and was over-indebted, which triggered the need to revise its investment policies. The city was strongly reliant on earmarked investment grants in 2015 (68 percent), indicating that the city did not generate sufficient revenues to fund the benchmark (40 percent) level of capital investments. The budget planning, i.e., planned and actual figures show discrepancies from the set indicator points to the serious need for more realistic budget planning. The city did not demonstrate strong fiscal autonomy or spending sovereignty. There is room to increase its own revenue. The city should measure the revenue performance in fees in order to have better focus on service sustainability.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial condition of the local government by enhancing the regulatory framework (new revenue sources through adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed); establish the new ministry for public administration (completed); increase creditworthiness by enhancing the capacity for preparation and implementation of European Union projects and developing project documentation by 2019; improve the exchange of data between the state and local governments for an improved database on shared revenues and forecast reliability (end of 2018); enhance service sustainability and improved operations of local administration by bettering the information technology system for the assessment and collection of real estate taxes by 2018; implement new tax accounting software to ensure improved database on all local taxes, by 2018; Implement saving—updated Act on Organization and Systematization of Jobs, by end 2017; introduce inter-municipal cooperation—the pooling of municipalities to propose joint projects, to be allocated from the European Structural Investment Funds, by 2018; and promote budget reliability and enhanced budget planning (improve reporting for the purposes of equalization) by 2018.

CITY OF PODGORICA

CITY PROFILE

Territorial organization: Podgorica is the capital and administrative center of Montenegro as well as its largest city. The capital city includes two sub-municipalities: Tuzi and Zeta; it comprises 139 settlements and 66 local community units. The total area of the city is 1,500 square kilometers or 10.7 percent of the territory of Montenegro. Podgorica is favorably located at the confluence of the Ribnica and Morača rivers and is the meeting point of the fertile Zeta Plain and the Bjelopavlići Valley.

Demography: Total resident population, according to the 2011 census: 185,937, representing 30 percent of the total population of Montenegro. Country population ranking: 1 out of 23; vital index (2009): 205.8. Population density: 129 inhabitants per square kilometer; population growth, according to the 2011 census relative to 2003 census: 10.6 percent; average age: 35.7; rate of natural increase (2011): 6.2.

Economy: Total income per capita (2013): €1,315–2,570 (central region); activity rate (2011): 50.9 percent; unemployment rate (2013): 11.3 percent; employment rate (2011): 48.6 percent; average national development index (2010–12): above 125 percent (141 percent); inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013; -0.3 percent in 2014; and 1.4 percent in 2015.

Decentralized functions: Montenegro is highly centralized, and municipalities have limited functional competencies. The Law on Local Self Government stipulates that the municipality is responsible for local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for delivering education and health services.

Utility management: Water supply, drainage, and wastewater treatment: Vodovod i kanalizacija d.o.o Podgorica (water and sewage company); collection and disposal of waste, maintenance, and cleaning of public areas: Cistoca d.o.o. Podgorica; public lighting and traffic lights: Komunalne usluge, d.o.o. Podgorica; landfill management, recycling, and trade of raw materials: Deponija, d.o.o. Podgorica; city parks and green areas: Zelenilo d.o.o Podgorica; funeral services and arranging and maintaining cemeteries: Pogrebne usluge d.o.o. Podgorica; management of public parking: Parking servis d.o.o. Podgorica; management of green markets: Trznice i pijace, d.o.o. Podgorica; sports: Sportski objekti d.o.o. Podgorica; local roads: Putevi d.o.o. Podgorica.

Municipal staff (2015): Local administration: 643; public institutions: 203; public enterprises: 2,035.

Urban issues: Managing medical and industrial waste and chemicals; construction of the new wastewater treatment plant; construction of sewage networks; industrial pollution; land usurpation and illegal construction; illegal waste dumps; depopulation of rural areas. Strategic plan goal: reduce CO2 emissions by more than 20 percent, and increase the share of renewable energy production by 20 percent by 2020.

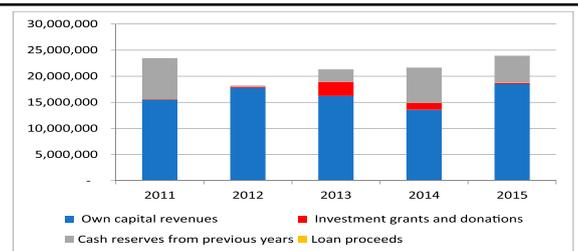
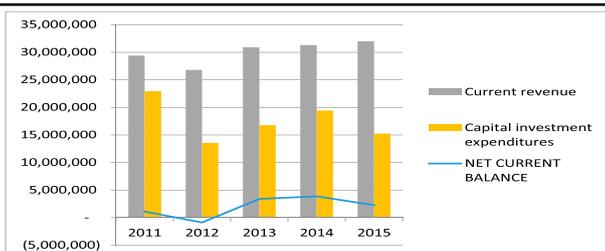
Investment Projects: Completed: construction of the bypass around Golubovci phase I and IV for a total of €5.9 million; construction of the city parliament building for €4.1 million; construction of a social housing building for €5.7 million; construction of hydrotechnical installations for €8.4 million. Ongoing capital projects: Golubovci bypass next phase (plan: €3.5 million; executed to date: €1.7 million); construction of the city theater (plan: €3.9 million; executed to date: €1.2 million); covering a city water pool (plan: €1.9 million; executed to date: €1.3 million).



FINANCIAL SITUATION

Items	2011	2012	2013	2014	2015	Growth Index
Current revenue	29,387,651	26,798,704	30,902,070	31,296,173	31,964,321	2.1%
Operating expenditure	25,830,448	26,059,793	24,544,521	24,623,707	25,926,995	0.1%
Gross Operating balance	3,557,203	738,911	6,357,550	6,672,466	6,037,326	14.1%
Debt service and borrowing costs	2,455,812	1,619,384	2,961,380	2,807,943	3,780,084	11.4%
NET CURRENT BALANCE	1,101,391	(880,473)	3,396,170	3,864,523	2,257,242	19.6%
Capital Revenues	15,626,357	17,935,145	18,940,506	14,920,253	18,728,791	4.6%
Own capital revenues	15,524,650	17,761,889	16,230,270	13,578,279	18,507,468	4.5%
Investment grants and donations	101,707	173,256	2,710,236	1,341,974	221,322	21.5%
Capital investment expenditures	22,936,548	13,557,104	16,768,321	19,432,608	15,237,242	-9.7%
BALANCE AFTER INVESTMENTS	(6,208,800)	3,497,568	5,568,356	(647,833)	5,748,790	
Cash reserves from previous years	7,855,101	287,592	2,370,873	6,732,149	5,209,303	-9.8%
Loan proceeds	-	-	-	-	-	-
OVERALL CLOSING BALANCE	287,592	2,370,873	6,732,149	5,209,303	9,971,681	142.7%

The positive operating margin reflects the city's financial strength and the sustainability of its city with the exception of 2012 when net current balance was negative due to the high cost of serving debt, lower current revenues, and extremely low cash reserves. The city was able to generate an operating surplus above operating expenditures. The operating margin grew by an average of 14 percent and was accompanied by a positive overall balance. The investment balance was negative in 2011 when capital investments had to be partly financed with cash reserves. The city had strong cash reserves over the observed period (except in 2012), and there were no loan proceeds during that time. Capital investments declined by -9.7 percentage points. Debt service increased over the observed period, with a growth index of 11.4 percent. High levels of debt repayment (€3.8 million) was noted in 2015, 56 percent of which went to repay bank debt (5 percent of total expenditures for 2015), and 44 percent to repay arrears (4 percent of total 2015 expenditures).

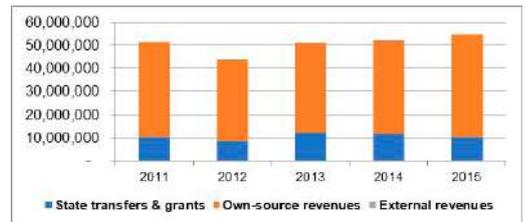


The current revenue growth index from 2011 to 2015 was 2.1, representing 66 percent of the total revenues over the observed period. Operating expenditures were stable and had a negligible increasing trend; they grew more slowly than current revenues, at 0.1 percent. Own-source capital revenues, including property sales, grew by 4.6 percent. The city received some investment grants from the state budget with a growth index of 21.5 percent. It reduced capital expenditures from 2012 onward and had no direct borrowing during the observed period, while operating expenditures were kept at the same level. The overall closing balance showed a positive trend, with a high growth rate of 142.7 percent, a tremendous improvement since 2011, showing robust surpluses due to the increased revenues and the very conservative capital investment plans. This suggests that the city can revise its investment plans and use cash reserves directly or borrow against cash reserves and substantially increase capital investments.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	9,984,567	8,384,113	12,136,772	11,750,443	10,288,531	0.8%
Own-source revenues	41,525,834	35,223,042	38,869,597	40,323,118	44,627,471	1.8%
External revenues						

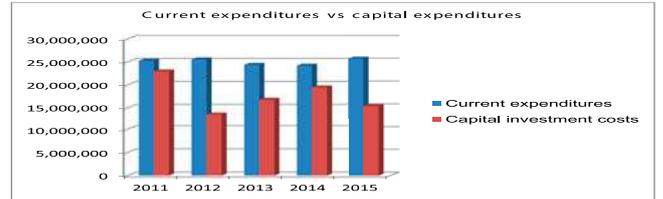
Own-source revenues constituted 79 percent of the total budget revenues, including property sales, which accounted for 8 percent of total own-source revenues and 6 percent of total revenues during the observed period. Shared taxes and state transfers accounted for 21 percent of total revenues for 2011–15.



The city strongly relied on own-source revenues, which had a growth index of 1.8 percent, mainly due to an increase in the collection of local property taxes (growth index: 7 percent) and land development fees (growth index: 13 percent). Own-source revenues grew faster than shared taxes, indicating a dependency on own-source collection and tax efforts. There was no borrowing during the observed period. The city received state investment grants: 9 percent of total state shared revenues, or 2 percent of total revenues for 2011–15.

MAIN OPERATING EXPENDITURES						
Items (Line items by category)	2011	2012	2013	2014	2015	Average annual growth
CURRENT EXPENDITURES (total)	25,248,180	25,536,713	24,359,848	24,204,111	25,663,999	0.41%
Payroll (including employees benefits & misc.)	9,849,999.39	9,715,082.65	9,074,188.08	8,813,726.41	9,358,015.42	-1.27%
Operating costs	4,667,896.05	4,230,317.47	4,047,999.52	4,239,698.96	4,659,330.03	-0.05%
- Material	321,582.20	275,462.49	175,048.37	151,632.06	192,919.75	-11.98%
- Energy	1,780,529.17	1,577,314.45	1,427,775.18	1,542,557.18	1,612,010.99	-2.46%
- Travel expenses	53,509.01	30,565.36	32,312.70	28,221.43	47,593.21	-2.89%
- Representation costs	14,212.50	6,696.92	9,586.00	2,256.48	5,641.10	-20.83%
- Telephone services	162,440.33	98,420.19	200,798.01	197,732.17	232,861.25	9.42%
- Postal services	65,002.25	61,825.00				-100.00%
- Banking services	50,228.75	40,567.93	33,274.85	37,372.45	36,425.12	-7.72%
- Contract services	2,220,395.84	2,139,465.13	1,803,506.42	1,913,032.30	2,121,812.21	-1.13%
Current repairs and maintenance	324,855.74	379,585.94	323,167.63	355,471.87	353,976.52	2.17%
Rents			17,433.29	21,382.72	25,910.99	21.91%
Interest costs and fees	681,220.75	954,832.45	1,165,158.46	1,171,844.84	1,040,095.68	11.16%
Current subsidies						
Grants and transfers	9,667,292.44	10,160,708.56	9,595,321.77	9,455,575.02	10,016,923.05	0.89%
Social security and welfare						
Other expenditures	56,913.84	98,185.79	136,578.81	146,411.37	209,747.47	38.55%

CAPITAL INVESTMENT FINANCING						
Items	2011	2012	2013	2014	2015	Average annual growth
Total capital investment costs	22,936,548.22	13,557,104.37	16,768,320.75	19,432,608.01	15,237,242.47	-9.72%
- Expenditures for local infrastructure	17,841,423.00	9,996,684.95	14,029,732.63	14,703,366.07	11,468,233.98	-10.46%
- Expenditures for constructions	3,632,362.55	2,918,825.46	1,851,626.36	3,636,338.02	1,614,836.40	-18.34%
- Expenditures for improvement of city construction land						
- Expenditures for equipment	1,173,652.72	356,824.05	533,088.35	630,362.68	1,491,878.10	6.18%
- Expenditures for capital maintenance	289,109.95	284,769.91	553,873.41	462,541.24	662,293.99	23.03%



The city achieved positive operating savings over the observed time period—a good sign of creditworthiness. The ratio was met in 2013–15, which demonstrates an improving debt financing scenario.

Current expenditures trended upward, with an average annual growth rate of 0.41 percent, constituting 55 percent of total expenditures for 2011–15, reaching their highest level in 2015, mainly due to significant transfers and payroll-related costs. In 2015, capital investment costs constituted 34 percent of total expenditures. Due to a stagnating economy and lack of investment, there was a significant drop in investment activities in 2012, with an average annual decrease of 9.7 percent over the observed period.

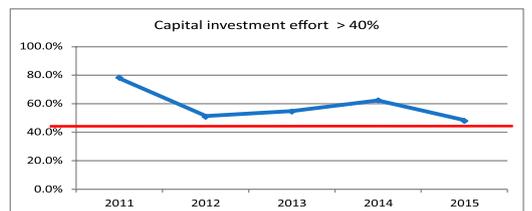
RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross Operating savings / Current revenue	> 30%	12.1%	2.8%	20.6%	21.3%	18.9%
2 Indebtedness						
Debt outstanding / Gross operating savings	< 10 years	1.2	1.3	1.1	1.2	1.1
Debt service / Total current revenue	< 10 %	8.36%	6.04%	9.58%	8.97%	11.83%
Debt outstanding / Budget total	< 60%	69.2%	82.5%	66.3%	69.7%	61.3%
Borrowing / Current revenues	< 15%	0.0%	0.0%	0.0%	0.0%	0.0%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	96.3%	102.6%	98.5%	100.2%	117.2%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %	78.0%	50.6%	54.3%	62.1%	47.7%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	0.4%	1.3%	16.2%	6.9%	1.5%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	1.3%	1.5%	1.3%	1.4%	1.4%
Fees collected / Fees billed	> 90 %					
Taxes collected / Taxes levied	> 90 %					
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	38.1%	37.3%	37.0%	35.8%	36.1%
Number of municipal employees / 1000 citizens	< 25	4.6	4.8	4.3	4.6	4.4
Actual revenue / Planned revenue	95<A/P<1.05	96.2%	101.0%	107.0%	110.0%	107.3%

Debt repayment capacity is strong; the city could repay all outstanding debt with five years of operating surpluses against a 10-year benchmark. Debt service increased, reaching 7 percent of current revenues, failing to meet the benchmark in 2015, thereby constraining the city's borrowing capacity. The indebtedness ratio (debt outstanding/budget total) constantly exceeded the 60 percent benchmark, likely due to issued loan guarantees for the local public companies. Planned and actual budget figures were not within the range over the last three years, pointing to the need for more realistic budget planning. The city demonstrated strong fiscal autonomy and spending sovereignty, with the ability to increase its own-source revenue. It was below the benchmark for maintenance expenditures, indicating the need for the prioritization of noncurrent asset maintenance. The city spent less revenue on labor than the benchmark (40 percent) and performed well on the ratio for municipal employees relative to inhabitants, indicating that the city could spend proportionately more on services and development. The city should measure the revenue performance in fees to better focus on service sustainability.



The city achieved positive operating savings over the observed period—a sign of creditworthiness. The trend toward creditworthiness was affected by a drop in revenues in 2012, which resulted in a small operating margin. Ratios were below the 30 percent benchmark, suggesting that the city is on a good track but has weak creditworthiness that needs improvement to help it borrow in the private debt market.



Capital investments above the benchmark of 40 percent signal the city's financial health and smart investment policies. The city demonstrated a strong investment performance, significantly over 40 percent in some years, as well as a negligible reliance on earmarked investment grants. The city favored development expenses and generated revenues sufficient to fund the 40 percent benchmark for capital investments. The city should, however, consider entering into public-private partnerships to reduce the burden on local budget evident in 2015.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial condition of the local government by enhancing the regulatory framework (new revenue sources through adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed); establish the new ministry for public administration to monitor and control local governments and protect their interests (completed); increase creditworthiness by enhancing the database on shared revenues and improving the reliability of forecasting by the end 2018; enhance service sustainability and improved operations of local administration by upgrading information technology system for real estate tax assessment by 2018; implement new tax accounting software to improve the database on all local taxes by 2018; foster budget reliability and enhanced budget planning by implementing an accrual accounting system by 2019; implement a "hands-on" application for the planning of revenues and expenditures for credit analysis by 2020; and implement a debt management system and improve investment programming by 2020.

MUNICIPALITY OF TIVAT

CITY PROFILE

Territorial organization: The municipality comprises 42 settlements and 6 local community units. Total area is 46 square kilometers, with 5 square miles facing the open sea. Tivat is a coastal town in southwest Montenegro, located in the central part of the Bay of Kotor, on the southwestern slopes of Vrmac Hill (765 meters). Tivat Bay is the largest of the four bays in Boka Kotorska.

Demography: Total resident population, according to 2011 census: 14,031, constituting 2 percent of the total population of Montenegro; country ranking population): 14 out of 23 municipalities; vital index (2011): 1.1; population density: 296.3 inhabitants per square kilometer; population growth, according to the 2011 census compared with the 2003 census: 4.5 percent; average age: 38; natural increase (2011): 14; rate of natural increase: 3.7 in 2009 and 1.1 in 2011.

Economy: Total income per capita, in 2013 was within the range of the southern region: EUR 1,053–3,538, the most developed region of Montenegro; activity rate: 49 percent in 2011 and 53.7 percent in 2015; unemployment rate: 13.2 percent in 2011 and 17.6 in 2015; national development index (2010–12): above 125 percent (173 percent), ranked second in Montenegro. Inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013, -0.3 percent in 2014; and 1.4 percent in 2015.

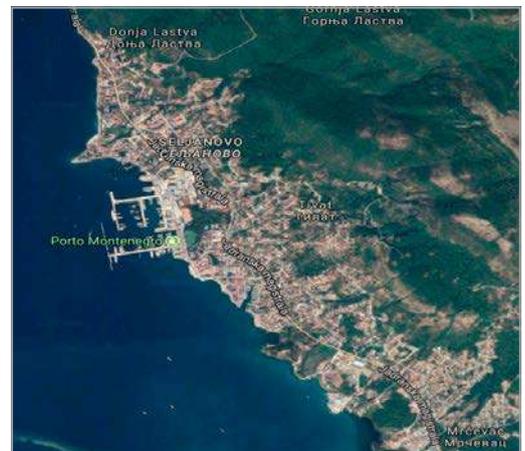
Decentralized functions: Montenegro is highly centralized; municipalities have limited functional competencies. The Law on Local Self Government stipulates that municipalities are responsible for local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for delivering education and health services.

Utility management: Water and sewage: Vodovod i kanalizacija d.o.o (city utility); water supply, drainage, and wastewater treatment: Tivat; d.o.o Komunalno; collection and disposal of waste, managing landfills. city market, city park, maintenance of public areas, green and recreational areas, cemeteries, marina services, public lighting Tivat (utility company); sports: JU Sportska dvorana Tivat.

Municipal staff (2015): Local administration: 93; public institutions: 22; public enterprises: 139.

Urban issues: Insufficient parking spaces; incomplete sewage system; wastewater treatment; solid waste management and disposal; implementation of risk management system for forest fires and floods; advanced use of renewable energy sources and improvement of energy efficiency; illegal construction.

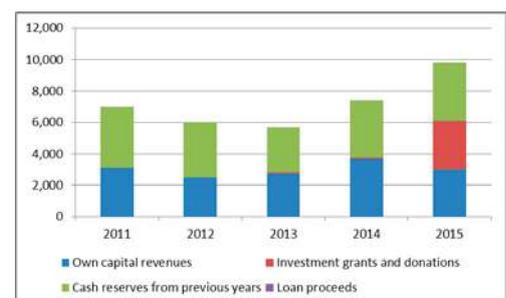
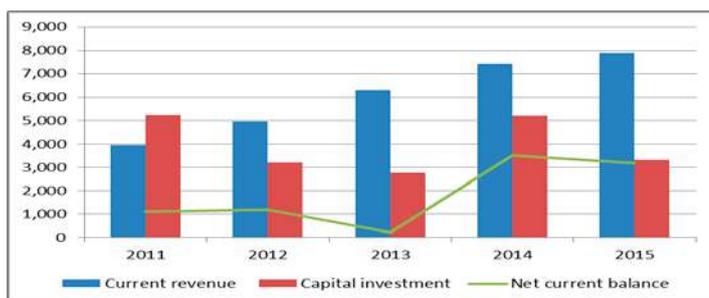
Investment Projects: Main capital projects for 2011–17 include road construction—MR1, Phase I for €3 million; construction of walking path in Belani for €1.1 million; day care facility for children with disabilities for €800,000; Solila water supply pipeline for €700,000; public hall in Gosici for €150,000; sewage system in Donja Lastva for €350,000; and construction of civil protection facilities for €400,000.



FINANCIAL SITUATION

Items in 000 EURO	2011	2012	2013	2014	2015	Growth Index
Current revenue	3,954	4,955	6,302	7,421	7,900	18.9%
Operating expenditure	2,393	3,140	3,314	3,345	3,263	8.1%
Gross Operating balance	1,561	1,815	2,988	4,076	4,637	31.3%
Debt service and borrowing costs	453	642	2,763	558	1,468	34.2%
NET CURRENT BALANCE	1,108	1,173	225	3,518	3,169	30.0%
Capital Revenues	3,114	2,500	2,799	3,759	6,077	18.2%
Own capital revenues	3,104	2,500	2,734	3,694	3,003	-0.8%
Investment grants and donations	10	0	65	65	3,074	318.7%
Capital investment expenditures	5,234	3,213	2,764	5,200	3,320	-10.8%
BALANCE AFTER INVESTMENTS	(1,012)	460	260	2,077	5,926	n.a.
Cash reserves from previous years	3,888	3,506	2,886	3,663	3,719	-1.1%
Loan proceeds	0	0	0	0	0	
OVERALL CLOSING BALANCE	2,876	3,966	3,146	5,740	9,645	35.3%

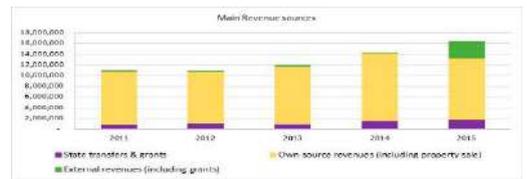
The substantial operating margin indicates the financial strength and sustainability of the municipality's operations, except for 2013, with a low net current balance due to the high cost of serving debt. The strong operating margin demonstrates strong creditworthiness, accompanied by a positive overall balance. The investment balance was negative only in 2011 when capital investments had to be partly financed with cash reserves from previous years. The municipality had strong cash reserves and there were no loan proceeds during the observed period. Capital investments in 2015 amounted to €3.3 million—a 36 percent decreased compared with 2011. Capital expenditures decreased an average of 11 percent. Debt service increased 34 percent.



Total revenues in 2015 were €16.3 million (current revenues: €7.9 million; capital revenues: €6 million, and high cash reserves: €3.7 million). Current revenue growth from 2011 to 2015 was 18.9 percent, pointing to a recovery of the local economy and finances. The city's current revenues were much higher than its operating expenditures. This positive operating balance demonstrates financial strength in terms of the city financing its regular operations. Operating expenditures trended upward, which means that the municipality was not committed to savings; the growth index demonstrates that they grew more slowly than current revenues (8.1 percent).

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Main revenues	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	906,448	1,102,920	1,044,637	1,560,423	1,781,111	18.4%
Own-source revenues (including property sale)	9,954,015	9,658,571	10,673,584	12,654,899	11,484,128	3.6%
External revenues (including grants)	12,407	1,647	70,655	76,140	3,088,250	297.2%

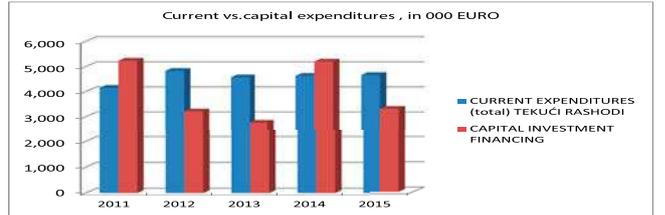


Own-source revenues account for 85 percent of total budget revenues, including property sales, which account for less than 2 percent, and shared taxes, which account for 10 percent. External revenues (grants/donations and no loan proceeds account for 5 percent of the overall budget for 2011–15.

The municipality strongly relied on own-source revenues. Own-source revenues grew 4 percent, mainly by increasing the collection of local property taxes. Total own-source revenues (excluding property sales) grew more slowly than state transfers. External revenues (there was no borrowing in the observed period, only donations and grants) increased significantly to 270 percent due to the large value of donations in 2015 (€3 million).

MAIN OPERATING EXPENDITURES						
Items (Line items by category)	2011	2012	2013	2014	2015	Average annual growth
CURRENT EXPENDITURES (total)	4,153,775	4,827,901	4,575,852	4,633,477	4,665,523	2.95%
1 Payroll (including employees benefits & misc.)	1,311,242	1,664,772	1,787,557	1,758,987	1,763,126	7.68%
2 Operating costs	606,140	884,526	823,626	773,696	765,758	6.02%
- Material	49,436	57,337	53,948	54,067	50,025	0.30%
- Travel expenses	10,204	9,905	7,816	7,885	14,844	9.82%
- Representation costs	28,740	26,454	26,638	14,787	12,114	-19.42%
- Energy	238,828	238,661	247,931	248,711	247,960	0.94%
- Telephone services	19,644	22,773	29,087	26,535	25,011	6.22%
- Postal services	12,834	15,151	14,724	12,340	13,832	1.89%
- Banking services	18,655	26,547	13,573	24,200	22,114	4.34%
- Transportation services	30,800	30,200	32,000	29,800	33,000	1.74%
- Contract services	196,999	457,498	397,909	355,371	346,858	15.19%
3 Current repairs and maintenance	72,032	105,636	58,765	55,657	56,194	-6.02%
4 Rents	34,934	34,238	35,798	37,826	56,080	12.56%
5 Interest costs and fees	452,587	641,976	70,000	47,973	40,576	-45.28%
6 Current subsidies						
7 Grants and transfers	1,323,855	1,059,493	1,289,080	1,314,083	1,430,239	1.95%
8 Social security and welfare	28,585	21,435	31,865	30,324	28,400	-0.16%
9 Other expenditures	396,432	521,461	537,906	670,588	581,944	10.04%

CAPITAL INVESTMENT FINANCING (in 000 EURO)						
Items	2011	2012	2013	2014	2015	Average annual growth
Total capital investment costs	5,234	3,213	2,764	5,200	3,320	-10.76%
- Expenditures for local infrastructure	432	121	694	2,617	898	20.07%
- Expenditures for constructions	458	279	311	1,054	463	0.27%
- Expenditures for improvement of city construction land	529	1,035	1,257	1,294	1,495	29.66%
- Expenditures for equipment	15	26	37	36	59	40.83%
- Expenditures for capital maintenance	396	488	63	66	23	-50.91%
- Other capital expenditures	3,404	1,264	402	133	382	-42.12%



Capital investments were at their highest level in 2011 and were volatile during the observed period, with the largest capital investments made in improvements to the city construction land, which grew 30 percent. Current expenditures trended upward with an average annual growth rate of 3 percent.

In 2015, capital investment costs constituted 35 percent of total expenditures. A significant drop in investment activities was noted in 2013, but returned to a path of growth over the following years; it still showed a negative average annual index within the observed period of -10.8 percent. Current expenditures (34 percent of total expenditures in 2015) reached their highest level in 2012, mainly due to significant transfers and increased interest. The remaining expenditure items that burdened the municipal budget in 2015 included repayment of debt (8 percent) and repayment of arrears (7 percent).

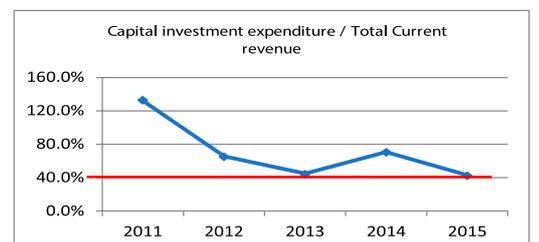
RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 30%	39.48%	36.63%	47.41%	54.93%	58.70%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	3.6	2.9	1.6	1.0	0.7
Debt service / Total current revenue	< 10%	11.46%	12.96%	43.84%	7.52%	18.58%
Debt outstanding /Budget total	< 60%	77.2%	67.3%	58.0%	39.3%	35.5%
Borrowing /Current revenues	< 15%	0.0%	0.0%	0.0%	0.0%	0.0%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80%	74.9%	73.7%	80.2%	71.4%	60.3%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40%	132.4%	64.8%	43.9%	70.1%	42.0%
Capital investments from earmarked grants / Total investment expenditure	< 50%	0.0%	0.0%	0.0%	0.0%	0.0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15%	3.0%	3.4%	1.8%	1.7%	1.7%
Fees collected/ Fees billed	> 90%					
Taxes collected/Taxes levied	> 90%	92.0%	90.6%	86.7%	79.3%	72.7%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40%	54.8%	53.0%	54.0%	52.6%	54.0%
Number of municipal employees/1000 citizens	< 25	15.7	19.3	17.4	19.0	17.8
Actual revenue / Planned revenue	95<A/P<1.05	107.6%	77.9%	87.0%	103.5%	110.4%

The low levels of capital investment could indicate that the city managed its financing operations but failed to generate revenues sufficient to fund the 40 percent benchmark level. Planned and actual budget figures were within the range, which points to the need for more realistic budget planning. Fiscal autonomy was moderate, indicating issues with the city's spending sovereignty. Capital investment efforts met the benchmark, demonstrating the city's financial health and smart investment policies. The city had a strong investment performance, significantly over 40 percent in some years, and negligibly relied on earmarked investment grants. The city was below the benchmark for maintenance expenditures, indicating a need for the prioritization of noncurrent asset maintenance. The city should measure revenue performance in fees to have better focus on service sustainability. It spent more of its revenues on labor than the benchmark but performed well on the ratio for municipal employees relative to inhabitants.



The creditworthiness ratio—operating margin over current revenues—was high and met the benchmark of >0.3, showing an upward trend. This suggests strong creditworthiness within the observed period and the municipality's capacity to borrow and invest.



The city demonstrated strong debt repayment capacity (except in 2013). It could repay all outstanding debt with a five-year operating surplus against a 10-year benchmark, but debt service relative to current revenues was volatile, often well outside the benchmark. The indebtedness ratio (debt outstanding/budget total) exceeded the 60 percent budget benchmark in 2011–12, but got back on track in 2013–15.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial condition of the local government by enhancing the regulatory framework such as new revenue sources through adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed); establish the new ministry for public administration to monitor and control local government operations and protect their interests (completed); increase creditworthiness by improving the exchange of data such as that of the state and local governments, allowing for a better database on shared revenues and forecast reliability by the end of 2018; enhance service sustainability and improve operations of local administration by improving the information technology system for the assessment and collection of real estate taxes by 2018; implement a new tax accounting software to ensure an improved database for all local taxes by 2018; encourage budget reliability and enhanced budget planning by implementing an accrual accounting base by 2019; implement "hands-on" application for the planning of revenues and expenditures for credit analysis by 2020; and implement a debt management system and improve investment programming by 2020.

CITY OF BELGRADE

CITY PROFILE

Territorial organization: Belgrade, the capital city of Serbia, sits at the center of the district of Belgrade, which has 17 sub-municipalities. Regulated by a special law (2007) with vertical and horizontal coordination mechanisms of 10 urban and 7 suburban municipalities. Total area of the city: 360 square kilometers; total area of the district: 3,227 square kilometers.

Demography: Population of district, according to the 2011 census: 1,659,440; annual growth: +5 percent; density of city: 35 per hectare; density of district: 5.5 per hectare.

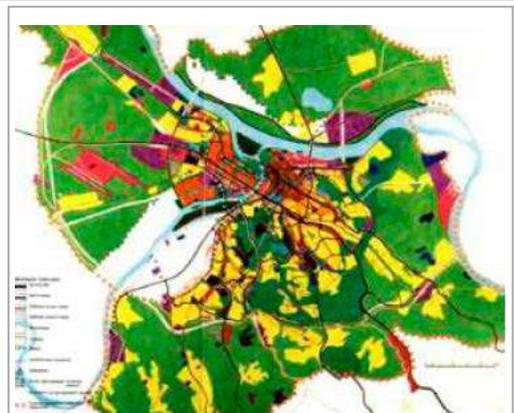
Economy: Gross domestic product per capita (2015 estimate): €8,380. Business entities (not including individual entrepreneurs): 59,017; labor force: 778,534—46 percent of the population; unemployment rate (2015): 13.9 percent. Located on the Danube and Corridors 7 and 10, it has the highest concentration of scientific, intellectual, cultural, and service capacities in Serbia, with a well-developed infrastructure and potential with information and communication technology. The city boasts of its highly cumulative and creative industries, services, and public services.

Utilities management: The city provides services through its 22 majority-owned public enterprises and public utility companies, covering water supply and sewerage, heating, funeral services, marketplaces, landscaping, sanitation, parking, public lighting, public transportation, road maintenance, public housing, and the collection of utility fees, and other services. Autonomous public utility companies operate in the seven suburban municipalities. The city has entrusted some operations to enterprises and institutions that it did not itself found.

Municipal staff: Total (2015): 12,422; city administration: 3,915; preschool education: 8,507.

Urban issues and challenges: The main goal of Belgrade’s development efforts through 2021 is to improve the quality of life for citizens and the city’s economic performance with continuous capital investments, enhancement of identity; and affirmation of the city’s public spaces, river banks, and coastal zones. The city’s chosen activities promote identity enhancement, rational resource management, efficient public property management, planned controlled development, and regulation of public space. (Source: Development Strategy 2021).

Existing Project Investment Plan: Since 2013, the city has adopted a three-year rolling capital investment plan based on its development strategy, regional spatial plan and master plan. It envisages numerous and extensive projects primarily focused on urban and transportation infrastructure, including the construction of new bridges and tunnels, the extension of the sewage system, and reconstruction of the water supply network. Planned investments: RSD 24.5 billion (2016); RSD 18.5 billion (2017), and RSD 14.5 billion (2018).



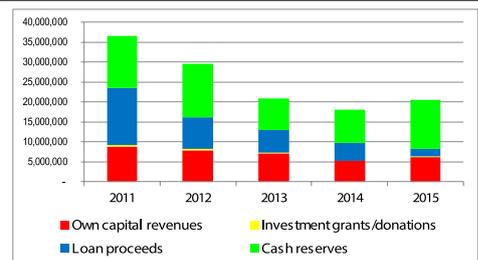
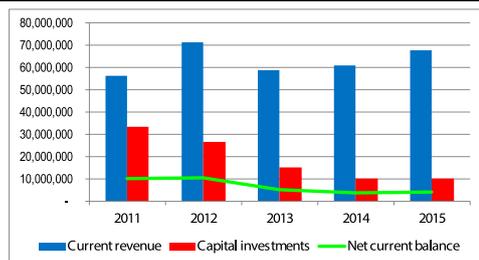
FINANCIAL SITUATION

Items in 000 RSD	2011	2012	2013	2014	2015	Growth	2015 (000 EUR)
Current revenue	56,269,730	71,198,587	58,887,312	60,959,535	67,625,600	4.7%	556,012
Operating expenditure	42,240,517	55,120,176	46,811,459	51,575,413	56,817,109	7.7%	467,146
Gross operating balance	14,029,213	16,078,411	12,075,853	9,384,122	10,808,491	-6.3%	88,867
Debt service and borrowing costs	3,809,651	5,574,947	6,891,577	5,491,625	6,583,907	14.7%	54,132
NET CURRENT BALANCE	10,219,562	10,503,464	5,184,276	3,892,497	4,224,584	-19.8%	34,734
Capital revenues	9,289,351	8,260,786	7,395,202	5,320,588	6,312,516	-9.2%	51,901
Own capital revenues	8,900,812	7,883,086	7,192,940	5,150,525	6,201,149	-8.6%	50,985
Investment grants and donations	388,539	377,700	202,262	170,063	111,367	-26.8%	916
Capital investment expenditures	33,394,762	26,684,581	15,164,423	10,243,046	10,262,442	-25.5%	84,377
BALANCE AFTER INVESTMENTS	(13,885,849)	(7,920,331)	(2,584,945)	(1,029,961)	274,658		2,258
Cash reserves from previous years	2,877,716	2,785,455	2,632,002	4,394,201	8,146,808	29.7%	66,982
Loan proceeds	14,217,282	7,955,829	5,586,653	4,478,140	1,852,802	-39.9%	15,234
OVERALL CLOSING BALANCE	3,209,149	2,820,953	5,633,710	7,842,380	10,274,268	33.8%	84,474

Exchange rate 1 EUR = 121.6261 RSD (end of 2015)

Inflation, end of period:

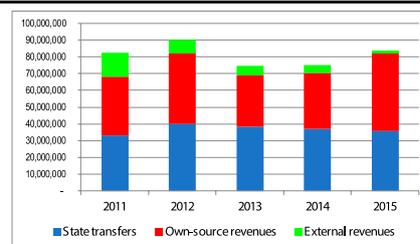
- 2011: 7.0 %
- 2012: 12.2 %
- 2013: 2.2 %
- 2014: 1.7 %
- 2015: 1.5 %



Sound operating margins combined with regular cash reserves and reduced capital investment resulted in sufficient self-financing capacity, which allowed the city to post consecutive overall closing balances of 8–14 percent of total revenues between 2013 and 2015. The improvement in Belgrade’s cash reserves largely reflect controls on operating expenditures and reductions in capital spending, which have reduced its borrowing requirement. The city did not hold uncommitted credit lines for the past few years, reflecting the accumulation of positive cash balances. Its solid financial performance has led to a comfortable liquidity position, which tripled over the past few years. The city’s available cash represents an extremely solid financial cushion against potential budgetary pressures and supports capital investment funding over the medium term.

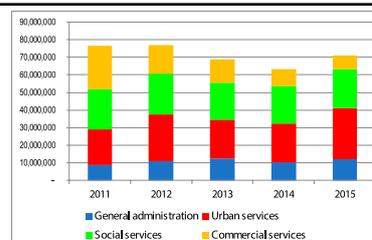
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
State transfers	33,368,210	40,216,450	38,240,051	37,081,184	35,567,173	1.6%	43%
Own-source revenues	34,849,081	42,017,533	30,674,465	33,454,828	46,452,013	7.4%	55%
External revenues	14,436,788	7,966,674	5,586,653	4,616,452	1,918,540	-39.6%	2%
Total revenue	82,654,079	90,200,657	74,501,169	75,152,464	83,937,726	0.4%	100%



Revenues: Belgrade had relatively limited control over its revenue base, which consisted of shared state taxes (43 percent) and own-source revenue (57 percent). The city's fiscal dependence on state resources exposed its finances to the central government budget performance and evolving intergovernmental relations. Changes to the government's fiscal policy for 2012–15 resulted in the city losing significant revenues through the elimination of state transfers, reduction of shared wage tax, and elimination of and limitations to the levels of certain local fees and levies.

Expenditure (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
General administration	8,615,289	11,131,843	12,321,686	10,368,636	12,130,334	8.9%	17%
Urban services	20,383,979	26,454,419	22,306,370	22,061,916	29,036,712	9.2%	41%
Social services	23,019,406	23,016,873	20,770,953	21,198,834	22,082,708	-1.0%	31%
Commercial services	24,717,246	16,345,551	13,447,989	9,690,406	7,789,541	-25.1%	11%
Total expenditures	76,737,931	76,950,699	68,849,012	63,321,807	71,041,311	-1.9%	100%



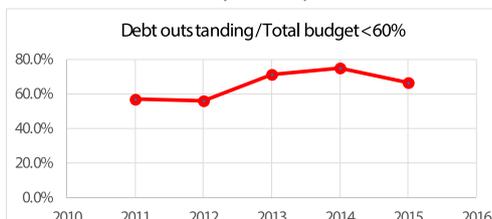
Expenditures: In 2015, the structure was dominated by urban services (41 percent) and social services (31 percent). The city allocated substantial resources to urban services, primarily road infrastructure, public transportation, water supply, sewage network, and solid waste management. The rest of the city's budgeted resources were allocated to general administrative services (17 percent) and commercial services (11 percent).

RATIO ANALYSIS

Indicator	Benchmark	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross operating savings/ Current revenue	> 30%	24.9%	22.6%	20.5%	15.4%	16.0%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	3.0	3.2	4.8	7.0	5.6
Debt service / Total current revenue	< 10 %	6.8%	7.8%	11.7%	9.0%	9.7%
Debt outstanding /Budget total	< 60%	56.9%	56.0%	71.3%	75.0%	66.5%
Borrowing /Current revenues	< 15%	25.3%	11.2%	9.5%	7.3%	2.7%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total current revenue	> 80 %	100%	100%	100%	100%	100%
4 Capital investment effort						
Capital investment expenditure / Total current revenue	> 40 %	59.3%	37.5%	25.8%	16.8%	15.2%
Capital investments from earmarked grants / Total investment exp.	< 50 %	0.5%	1.4%	1.3%	0.3%	0.4%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	8.0%	5.3%	6.1%	5.9%	5.7%
Fees collected/ Fees billed	> 90 %	120.3%	113.4%	103.8%	107.1%	93.2%
Taxes collected/Taxes levied	> 90 %	96.0%	101.8%	101.8%	90.8%	93.7%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	18.2%	16.2%	19.6%	22.7%	19.2%
Number of municipal employees/1000 citizens	< 25			7	7	7
Actual revenue / Planned revenue	95<A/P<1.05	108.7%	110.7%	125.0%	99.9%	95.8%



The deterioration of the operating performance was driven by the exposure of the operating margins to a low-revenue-growth environment along with the drop of the national economy in that period.



Belgrade's direct debt declined to 66.5% of budget in 2015 from historical high 75% at the end of 2014.



The capital investment remained a major leeway for Belgrade, although it was curbed by high infrastructure needs, common to all local governments in Serbia.

FINANCIAL PROJECTIONS

Medium-term financial projections for city's budget reflect the need to substantially increase sources of financing for infrastructure. It is expected that this will be achieved by continuing the effective collection of own-source revenues, through the implementation public-private partnership projects, and by creating new revenues based on improving the city's management of assets.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the budget planning process by improving budgetary principles by 2017, introducing planning software for indirect budget users by 2019, and initiating gender-responsive budgeting by 2018). Establish a uniform reporting methodology for the city administration by 2017 and develop an application reporting solution by 2018. Establish an asset management system (2014–18)

CITY OF NIŠ

CITY PROFILE

Territorial organization: Niš is the third largest city in Serbia and the administrative center of the Nišava District of southern Serbia. Its location is strategically important, situated at the intersection of European highway and railway networks connecting Europe with Asia. The city consists of five submunicipalities with a total area of 596 square kilometers.

Demography: Population, according to 2011 census: 260,237; according to 2015 estimate: 257,883; annual growth: -0.2 percent; density: 433 inhabitants per square kilometer.

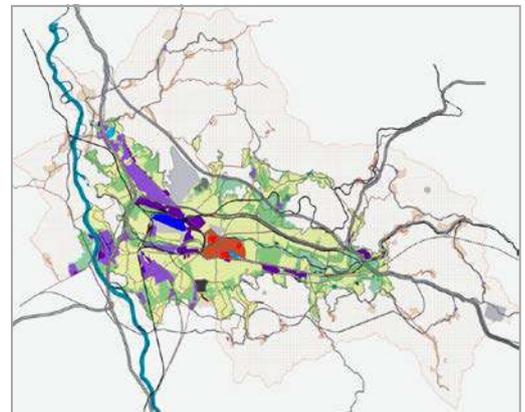
Economy: Business entities: 2,975 (excluding entrepreneurs); labor force: 101,403 (40 percent of the population); unemployment rate (2015): 31.7 percent. Niš is the industrial, commercial, and financial center of southeastern Serbia. As an industrial center, it is well known for tobacco, electronics, construction, mechanical engineering, textiles, nonferrous metal, food processing, and rubber goods.

Utilities management: The city provides services through its 15 majority-owned public enterprises, 8 of which are utility companies, covering water supply and sewerage, heating, funeral services, marketplaces, landscaping, sanitation, parking, public transportation, road maintenance, city housing, collection of utility fees, and other services.

Municipal staff: Total: 2,642; city administration: 1,703; preschool education: 668.

Urban issues and challenges: Improve the quality of Niš' local system, including job creation, business development, institutional capacity, and overall quality of life, in accordance with the principles of sustainability.

Existing Project Investment Plan: The city adopted a three-year capital expenditure rolling plan based on its 2009–20 development strategy, the master plan, the spatial plan, and the detailed regulation plan. The capital expenditure plan envisages extensive projects mainly focused on urban, transportation, and utility infrastructure, including land development (70 percent), reconstruction of streets with water and sewerage networks, construction of new utility infrastructure, and public housing. Planned investments: RSD 2.0 billion (2016); RSD 1.9 billion (2017); and RSD 2.1 billion (2018).



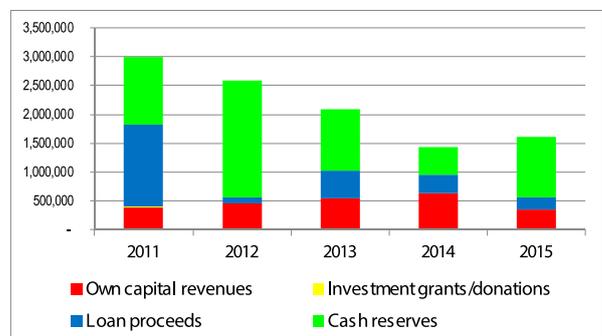
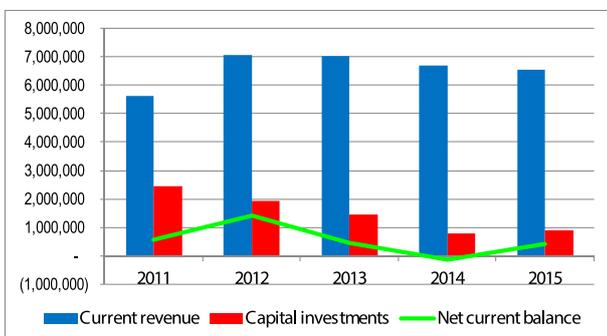
FINANCIAL SITUATION

Items in 000 RSD	2011	2012	2013	2014	2015	Growth	2015 (000 EUR)
Current revenue	5,625,533	7,051,338	7,017,532	6,705,139	6,526,681	3.8%	53,662
Operating expenditure	4,761,636	5,331,993	5,803,150	6,003,127	5,739,678	4.8%	47,191
Gross operating balance	863,897	1,719,345	1,214,382	702,012	787,003	-2.3%	6,471
Debt service and borrowing costs	313,061	307,374	773,241	838,716	360,475	3.6%	2,964
NET CURRENT BALANCE	550,836	1,411,971	441,141	(136,704)	426,528	-6.2%	3,507
Capital revenues	406,730	453,009	547,723	640,143	354,234	-3.4%	2,912
Own capital revenues	395,556	450,129	547,723	640,143	354,234	-2.7%	2,912
Investment grants and donations	11,174	2,880	-	-	-	-100.0%	-
Capital investment expenditures	2,436,646	1,912,298	1,444,342	787,939	908,176	-21.9%	7,467
BALANCE AFTER INVESTMENTS	(1,479,080)	(47,318)	(455,478)	(284,500)	(127,414)	-45.8%	(1,048)
Cash reserves from previous years	124,046	68,706	136,920	143,141	64,756	-15.0%	532
Loan proceeds	1,415,393	103,524	478,347	323,333	216,314	-37.5%	1,779
OVERALL CLOSING BALANCE	60,359	124,912	159,789	181,974	153,656	26.3%	1,263

Exchange rate 1 EUR = 121.6261 RSD (end of 2015)

Inflation, end of period:

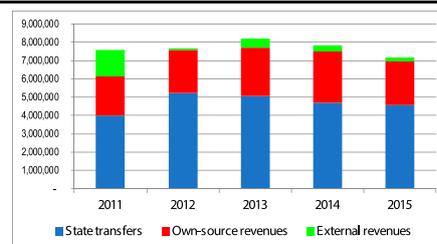
- 2011: 7.0 %
- 2012: 12.2 %
- 2013: 2.2 %
- 2014: 1.7 %
- 2015: 1.5 %



The city of Niš generated a total budget surplus over the observed period. However, a declining operating balance combined with a downward trend in cash reserves resulted in the city experiencing limited self-financing capacity toward the end of the period. Substantial changes and a reduction in the amount of current revenues generated from one year to another, together with increasing debt repayments, were the reasons for the generation of net-current deficit in 2014. A drop in cash reserves, including the net margin, absent significant growth in other financing sources resulted in a major reduction of investment activities—from RSD 2.4 billion in 2011 to only RSD 787 million and RSD 908 million over the last two years.

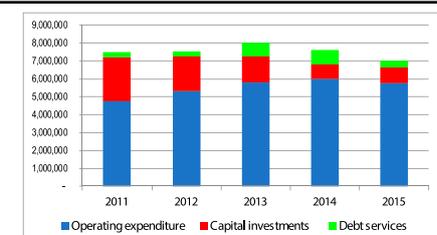
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
State transfers	3,991,215	5,246,865	5,076,237	4,697,523	4,572,148	3.5%	64%
Own-source revenues	2,164,920	2,326,188	2,625,938	2,790,900	2,373,333	2.3%	33%
External revenues	1,415,567	103,524	478,347	323,333	216,314	-37.5%	3%
Total revenue	7,571,702	7,676,577	8,180,522	7,811,756	7,161,795	-1.4%	100%



Revenue: The revenue structure confirms that city's finances were highly dependent on shared state taxes and transfers, constituting 64 percent of total revenues. This has implications for the stability and predictability of the city's finances. The primary current revenues were shared personal income tax (52 percent), local property tax (12 percent), unconditional transfers (11 percent), and local fees (12 percent), together constituting 87 percent of total revenues. The primary revenues earmarked for capital expenditure financing were proceeds from the sale of assets and land development fees, constituting 5 percent of total revenues.

Expenditure (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
Operating expend.	4,761,636	5,331,993	5,803,150	6,003,127	5,739,678	4.8%	82%
Salaries & wages	1,791,114	2,043,603	2,153,881	2,268,660	2,060,042	3.6%	29%
Capital investments	2,436,646	1,912,298	1,444,342	787,939	908,176	-21.9%	13%
Debt services	313,061	307,374	773,241	838,716	360,475	3.6%	5%
Total expenditures	7,511,343	7,551,665	8,020,733	7,629,782	7,008,329	-1.7%	100%

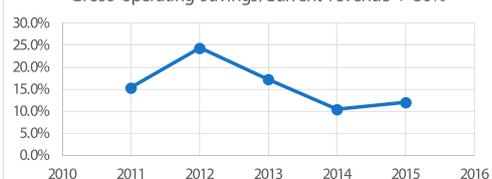


Expenditures: The expenditure structure was dominated by operating expenses that accounted for 82 percent of the total budget in 2015. The rest of the city budget resources were allocated to capital investments (13 percent) and debt services (5 percent). Payroll accounted for 29 percent of total expenditures and more than one-third of operating expenditures (36 percent), mostly generated by city administration staff.

RATIO ANALYSIS

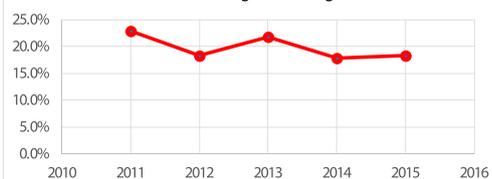
Indicator	Benchmark	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross operating savings/ Current revenue	> 30%	15.4%	24.4%	17.3%	10.5%	12.1%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	1.7	0.9	1.6	2.4	1.9
Debt service / Total current revenue	< 10 %	5.6%	4.4%	11.0%	12.5%	5.5%
Debt outstanding /Total budget	< 60%	22.9%	18.3%	21.8%	17.8%	18.3%
Borrowing /Current revenues	< 15%	25.2%	1.5%	6.8%	4.8%	3.3%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total current revenue	> 80 %	100%	100%	100%	100%	100%
4 Capital investment effort						
Capital investment / Total current revenue	> 40 %	43%	27%	21%	12%	14%
Capital investments from earmarked grants / Total investment exp.	< 50 %	0%	0%	0%	0%	0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	1%	1%	6%	7%	6%
Fees collected/ Fees billed	> 90 %	70%	62%	94%	100%	84%
Taxes collected/Taxes levied	> 90 %	85%	82%	102%	91%	95%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	37%	38%	36%	37%	35%
Number of municipal employees/1000 citizens	< 25			10	10	10
Actual revenue / Planned revenue	95<A/P<1.05	78%	76%	69%	71%	67%

Gross operating savings/Current revenue > 30%



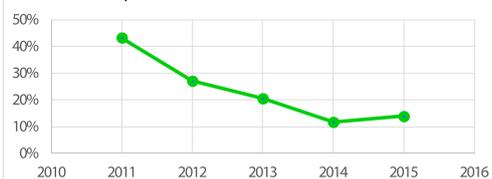
The deterioration of the operating performance was driven by the low revenue growth along with the drop of the local economy.

Debt outstanding/Total budget < 60%



The City's debt burden was below the benchmark, total debt ranged from 18% to 23% of the budget.

Capital investment/Current revenue > 40%



Despite the high infrastructure needs, the investments were reduced from 42% (2011) to the historically lowest 12% of current revenue (2014), due to the low self-financing capacity of the City.

FINANCIAL PROJECTIONS

Over the medium-term, the city needs to provide financing sources for capital investments, expected to be RSD 2 billion per year. To this end, the city should focus on improving its self-financing capacity by cutting operating expenditures and increasing its use of external sources of funding, such as loans and private capital.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Enhance creditworthiness by improving own-source revenue collection through the establishment of links between different databases within the tax administration (2017); foster budget realism by improving the operational capacity for policy-based budget planning and capital investments coordination (2017); and advance sustainability of service delivery by improving capital projects planning through the establishment of a single platform and methodology for public investment analysis and planning led by the Ministry of Finance (2018).

CITY OF ŠABAC

CITY PROFILE

Territorial organization: Šabac is located on the right bank of the Sava River, 103 kilometers upstream from Belgrade, near the borders with Croatia and Bosnia and Herzegovina. Total area of the city and the 51 surrounding settlements is 795 square kilometers.

Demography: Population, according to the 2011 census: 117,388; according to 2015 estimate: 113,113; annual growth rate: -0.9 percent; density: 142 inhabitants per square kilometer.

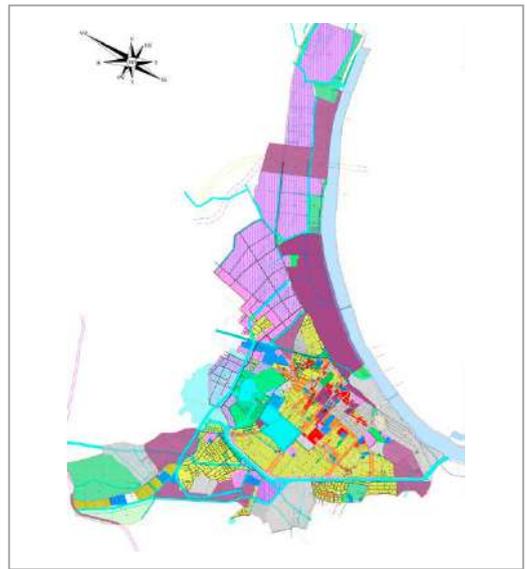
Economy: Business entities: 2,946, excluding entrepreneurs; labor force: 42,386 or 37 percent of the population; unemployment rate: 26.8 percent (registered). Fertile agricultural land and the waters of the rivers Sava and Drina support industrial activities, water processing, agriculture, river transport, and tourism. Šabac's economy is very vital and diverse. It has significant capacity in chemical, metalworking, woodworking, food industry, construction, medicine manufacturing, water management, leather processing, and textiles, among other enterprises.

Utilities management: The city provides services through its nine owned public enterprises, five of which are public utility companies, covering water supply, heating, waste management and sanitation, greenery, and parking services.

Municipal staff: Total: 797; city administration: 192; preschool education: 392.

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

Existing Project Investment Plan: The city adopted a three-year capital expenditure rolling plan based on its 2010–20 development strategy, master plan, spatial plan, and detailed regulation plan. It envisages extensive projects, primarily focused on urban, transportation, and utility infrastructure, including the construction of a new biomass heating plant, public utility networks (water, sewage, and heating), and a new international port on the Sava River. Planned investments (in millions of RSD): 615 (2016); 783 (2017); and 959 (2018).



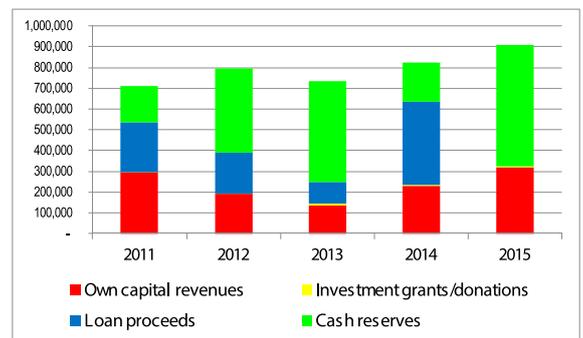
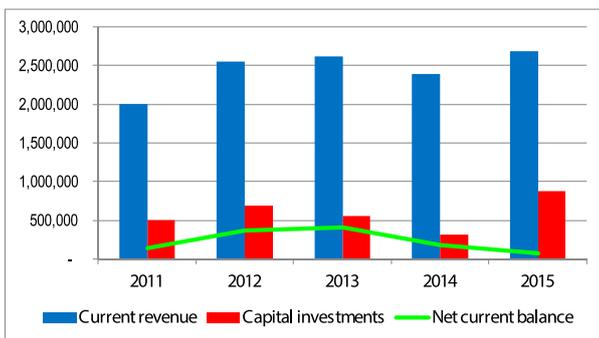
FINANCIAL SITUATION (IN CURRENT TERMS)

Items in 000 RSD	2011	2012	2013	2014	2015	Growth	2015 (000 EUR)
Current revenue	2,000,462	2,550,059	2,617,603	2,397,645	2,680,201	7.6%	22,036
Operating expenditure	1,560,822	1,807,666	1,916,103	1,960,560	2,417,816	11.6%	19,879
Gross operating balance	439,640	742,393	701,500	437,085	262,385	-12.1%	2,157
Debt service and borrowing costs	302,489	372,585	294,652	254,896	190,640	-10.9%	1,567
NET CURRENT BALANCE	137,151	369,808	406,848	182,189	71,745	-15.0%	590
Capital revenues	295,967	191,654	147,051	232,930	324,243	2.3%	2,666
Own capital revenues	295,966	190,654	133,533	230,321	319,501	1.9%	2,627
Investment grants and donations		1,000	13,518	2,609	4,742	729.8%	39
Capital investment expenditures	500,279	684,839	555,345	311,433	880,356	15.2%	7,238
BALANCE AFTER INVESTMENTS	(67,161)	(123,377)	(1,446)	103,686	(484,368)	63.9%	(3,982)
Cash reserves from previous years	37,034	31,073	78,619	6,465	510,151	92.7%	4,194
Loan proceeds	240,786	200,695	100,029	400,000	-	100.0%	-
OVERALL CLOSING BALANCE	210,659	108,391	177,202	510,151	25,783	-40.9%	212

Exchange rate: 1 EUR = 121.6261 RSD (end of 2015)

Inflation, end of period:

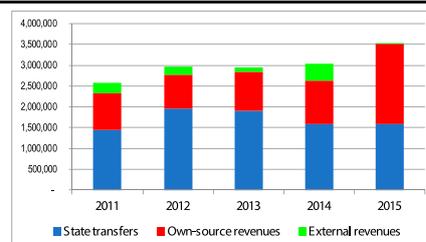
- 2011: 7.0 %
- 2012: 12.2 %
- 2013: 2.2 %
- 2014: 1.7 %
- 2015: 1.5 %



The city of Šabac realized a total budget surplus during observed five-year period. However, the slower generation of current revenues compared with the growth of operating expenditures resulted in a downward trend of operating balances. The generated operating surplus was used exclusively for debt repayment and capital expenditure funding. Apart from a modest net current surplus, capital expenditures were funded primarily with capital revenues, such as land development fees and asset sales, in addition to loans and municipal bonds. Accordingly, the city's capital investment expenditures recorded much faster growth compared with operating expenditures over the observed period.

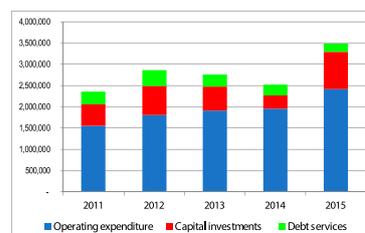
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
State transfers	1,449,244	1,960,352	1,901,724	1,583,239	1,584,069	2.2%	45%
Own-source revenues	884,218	812,434	941,549	1,051,192	1,925,784	21.5%	55%
External revenues	240,786	200,695	100,029	402,609	4,742	-62.5%	0%
Total revenue	2,574,248	2,973,481	2,943,302	3,037,040	3,514,595	8.1%	100%



Revenue: The revenue structure confirms that the city's finances were highly dependent on state taxes and transfers, representing 45 percent of total revenues, which influenced the stability and predictability of the city's financing. Main current revenues were shared personal income taxes, local property taxes, unconditional transfers, and local fees, constituting 74 percent of total revenues. Main revenues earmarked for financing of capital expenditures were proceeds from the sale of assets and land development fees, representing 9 percent of total revenue.

Expenditure (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
Operating expend.	1,560,822	1,807,666	1,916,103	1,960,560	2,417,816	11.6%	69%
Salaries & wages	474,319	605,292	691,794	656,461	601,583	6.1%	17%
Capital investments	500,279	684,839	555,345	311,433	880,356	15.2%	25%
Debt services	302,489	372,585	294,652	254,896	190,640	-10.9%	5%
Total expenditures	2,363,590	2,865,090	2,766,100	2,526,889	3,488,812	10.2%	100%



Expenditures: The expenditure structure was dominated by operating expenses, accounting for 69 percent of the total 2015 budget. The rest of the city budget resources were allocated to capital investments (25 percent) and debt services (5 percent). Payroll accounted for 17 percent of total expenditures and 25 percent of operating expenditures, mostly generated by preschool education staff and, to a lesser extent, by the city administration.

RATIO ANALYSIS

Indicator	Benchmark	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross operating savings/ Current revenue	> 30%	22.0%	29.1%	26.8%	18.2%	9.8%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	2.0	1.0	0.8	1.8	2.5
Debt service / Total current revenue	< 10 %	15.1%	14.6%	11.3%	10.6%	7.1%
Debt outstanding /Budget total	< 60%	30.8%	25.0%	19.3%	27.4%	15.9%
Borrowing /Current revenues	< 15%	12.0%	7.9%	3.8%	16.7%	0.0%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total current revenue	> 80 %	100%	100%	100%	100%	100%
4 Capital investment effort						
Capital investment / Total current revenue	> 40 %	25%	27%	21%	13%	33%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	0%	0%	2%	0%	0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	7%	6%	9%	10%	13%
Fees collected/ Fees billed	> 90 %	68%	73%	124%	96%	116%
Taxes collected/Taxes levied	> 90 %	76%	87%	88%	90%	100%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	29%	32%	35%	33%	24%
Number of municipal employees/1000 citizens	< 25		7.0	7.0	7.0	
Actual revenue / Planned revenue	95<A/P<1.05	102%	89%	86%	90%	98%

Gross operating savings/Current revenue >30%



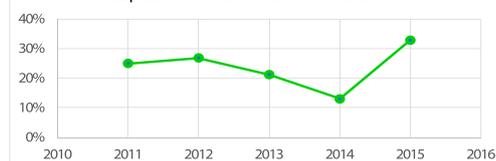
The decrease in operating performance was driven by the low level of revenue growth, mainly state transfers, along with the significant increase in operating expenditures over the last observed year.

Debt outstanding/Total budget <60%



The total direct debt declined from 31 percent of the budget (2011) to 16 percent in 2015 through the repayment of loans to commercial banks.

Capital investment / Current revenue >40%



Capital expenditures, ranging between 13 percent and 33 percent of current revenues, confirm the significant investment effort of the city despite of downstream trend of state transfers.

FINANCIAL PROJECTIONS

The medium-term financial projection for the city's budget includes upgrading the city's operating performance to enhance its self-financing capacity and investment efforts by continuing the effective collection of the own-source revenues, the rationalization of operating expenses, and the increased use of private capital through the implementation of public-private partnership projects.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Enhance budget realism by improving the operational capacity for policy-based budget planning and capital investments coordination (2017, fourth quarter); foster creditworthiness: expand own-source revenue collection by the establishment of the links between different databases within the tax administration (2018); promote service sustainability by improving capital projects planning through the establishment of a single platform and methodology for public investment analysis and planning, led by the ministry of finance (2018, fourth quarter).

CITY OF SUBOTICA

CITY PROFILE

Territorial organization: Subotica is the second most populous city in the province of Vojvodina. The city's metropolitan organization comprises an inner city and 19 suburban settlements. 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. The total area of the city is 1,007 square kilometers.

Demography: Population, according to 2011 census: 143,179; according to 2015 estimate: 139,011; annual growth rate: -0.7 percent; density: 138 inhabitants per square kilometer (1.4 per hectare).

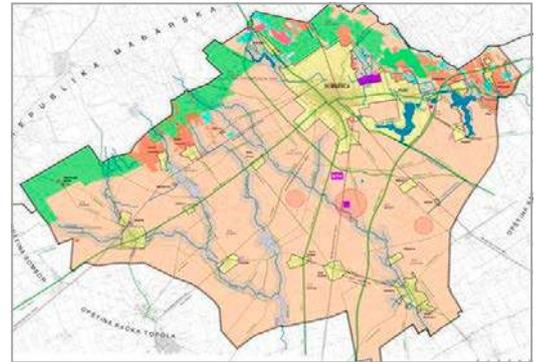
Economy: Business entities: 2,946, excluding entrepreneurs; labor force: 51,235 or 37 percent of the population; unemployment rate: 17.3 percent (registered); key economic sectors: agriculture, food production and processing, electronics, metal and chemical industry, and the service sector. There is an enormous development potential for tourism.

Utilities management: The city of Subotica has created 11 public utility companies in the field of waste management, heating, water supply and sewage, funeral services, marketplaces, sanitation, public transportation, and road maintenance.

Municipal staff: Total: 1,266; city administration: 686; preschool education: 505.

Urban issues and challenges: Develop an integrated system of public transportation, including for suburban settlements; upgrade environmental facilities; and develop tourism based on Palić Lake and the potential for the city to be a cultural heritage site.

Existing Project Investment Plan: The city adopted a three-year capital expenditure rolling plan based on the development strategy, master plan, spatial plan, and detailed regulation plan. Some capital projects are open to different forms of partnerships and investment, including industrial business parks, greenfield and brownfield investments, regional solid waste management facility, transportation and utility infrastructure, and reconstruction of the national theater building and schools. Planned investments (in millions of RSD): 1.541 (2016), 815 (2017), 863 (2018).



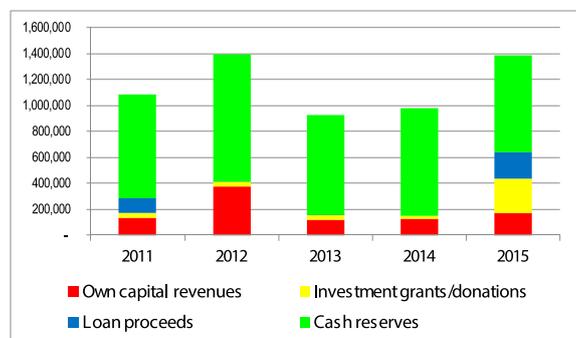
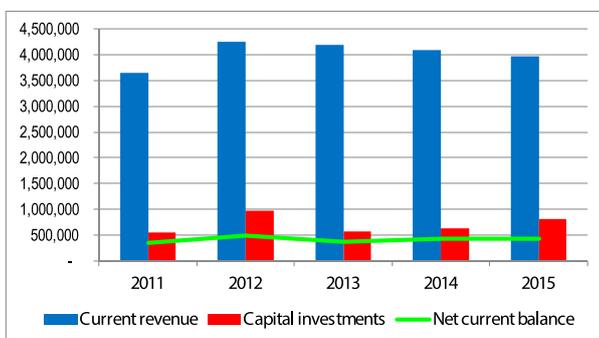
FINANCIAL SITUATION (IN CURRENT TERMS)

Items in 000 RSD	2011	2012	2013	2014	2015	Growth	2015 (000 EUR)
Current revenue	2,000,462	2,550,059	2,617,603	2,397,645	2,680,201	7.6%	22,036
Operating expenditure	1,560,822	1,807,666	1,916,103	1,960,560	2,417,816	11.6%	19,879
Gross operating balance	439,640	742,393	701,500	437,085	262,385	-12.1%	2,157
Debt service and borrowing costs	302,489	372,585	294,652	254,896	190,640	-10.9%	1,567
NET CURRENT BALANCE	137,151	369,808	406,848	182,189	71,745	-15.0%	590
Capital revenues	295,967	191,654	147,051	232,930	324,243	2.3%	2,666
Own capital revenues	295,966	190,654	133,533	230,321	319,501	1.9%	2,627
Investment grants and donations		1,000	13,518	2,609	4,742	729.8%	39
Capital investment expenditures	500,279	684,839	555,345	311,433	880,356	15.2%	7,238
BALANCE AFTER INVESTMENTS	(67,161)	(123,377)	(1,446)	103,686	(484,368)	63.9%	(3,982)
Cash reserves from previous years	37,034	31,073	78,619	6,465	510,151	92.7%	4,194
Loan proceeds	240,786	200,695	100,029	400,000	-	100.0%	-
OVERALL CLOSING BALANCE	210,659	108,391	177,202	510,151	25,783	-40.9%	212

Exchange rate: 1 EUR = 121.6261 RSD (end of 2015)

Inflation, end of period:

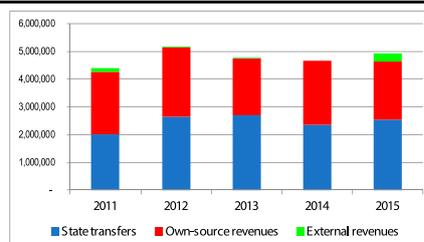
- 2011: 7.0 %
- 2012: 12.2 %
- 2013: 2.2 %
- 2014: 1.7 %
- 2015: 1.5 %



Sound and growing operating margins combined with regular cash reserves resulted in a solid level of self-financing capacity for the city of Subotica. Due to the trend of successfully aligning operating expenditures with negative current revenues, the city generated a stable operating and net current balance. Increased annual debt service did not jeopardize the positive net-operating surplus trend, which was used for investments. The city is capable of implementing additional investment activities from accumulated cash reserves.

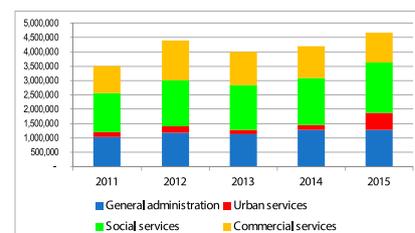
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
State transfers	1,999,042	2,637,905	2,703,806	2,359,572	2,550,573	6.3%	52%
Own-source revenues	2,265,109	2,495,656	2,036,526	2,286,853	2,072,563	-2.2%	42%
External revenues	120,509	5,804	780	-	294,968	25.1%	6%
Total revenue	4,384,660	5,139,365	4,741,112	4,646,425	4,918,104	2.9%	100%



Revenue: The revenue structure confirms that the city's finances were highly dependent on shared state taxes and transfers, which constituted 52 percent of total revenue. This affected the stability and predictability of the city's financing. Since 2011, the city's fiscal autonomy was further disrupted by the much faster growth of state transfers compared with own-source revenues. State shared revenue grew at an annual rate of 6.3 percent, while own-source revenue declined by 2.2 percent.

Expenditure (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
General administration	1,024,626	1,172,021	1,128,084	1,275,704	1,269,547	5.5%	27%
Urban services	184,115	236,270	150,429	173,328	595,090	34.1%	13%
Social services	1,369,798	1,594,014	1,558,827	1,647,774	1,763,368	6.5%	38%
Commercial services	918,249	1,393,658	1,151,863	1,104,044	1,039,218	3.1%	22%
Total expenditures	3,496,788	4,395,963	3,989,203	4,200,850	4,667,223	7.5%	100%



Expenditures: The expenditure structure in 2015 was dominated by social services (38 percent) and general administration costs (27 percent). The city of Subotica allocated substantial resources to commercial services, primarily land development and local economic development. The rest of the city's budget resources were allocated to urban services (13 percent), which grew at an annual rate of 34 percent.

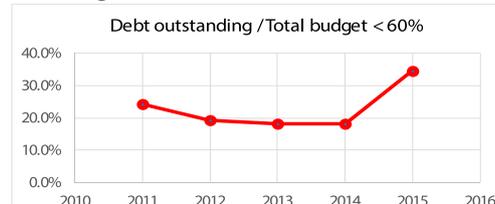
RATIO ANALYSIS

Indicator	Benchmark	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross operating savings/ Current revenue	> 30%	13.4%	15.6%	13.0%	15.2%	16.2%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	2.4	1.6	1.7	1.4	2.7
Debt service / Total current revenue	< 10 %	3.7%	3.9%	4.2%	4.7%	5.4%
Debt outstanding /Budget total	< 60%	24.3%	19.3%	18.2%	18.2%	34.5%
Borrowing /Current revenues	< 15%	3.2%	0.1%	0.0%	0.0%	5.2%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total current revenue	> 80 %	100%	100%	100%	100%	100%
4 Capital investment effort						
Capital investment / Total current revenue	> 40 %	15%	23%	14%	15%	21%
Capital investments from earmarked grants / Total investment exp.	< 50 %	5%	3%	5%	3%	22%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	6%	6%	6%	5%	8%
Fees collected/ Fees billed	> 90 %	92%	92%	75%	80%	79%
Taxes collected/Taxes levied	> 90 %	98%	96%	94%	95%	98%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	32%	32%	31%	34%	28%
Number of municipal employees/1000 citizens	< 25	8	8	8	9	9
Actual revenue / Planned revenue	95<A/P<1.05	95%	93%	95%	92%	88%

Subotica's fiscal performance has been sound, with stable double-digit operating surpluses over the last five years. The city's self-financing capacity could be enhanced by increasing own-source revenues and reducing city administration costs. The low level of indebtedness leaves room for further acceleration of investment efforts based on new borrowing.



Gross operating savings ranged from 13 to 16 percent of current revenues, confirming the improvement of the city's operating performance, which resulted from the successful alignment of operating expenditures with a negative current revenue trend.



Total direct debt increased from 24 to 35 percent of the budget during the observed five-year period, reflecting the city's low level of indebtedness.



The city's capital investment efforts experienced cyclical movement (every four years), ranging from 14 to 23 percent of current budget revenues.

FINANCIAL PROJECTIONS

The medium-term financial projection for the city's budget is a stable operating performance with a need to further increase financing sources for the enormous infrastructure needs. To this end, the city will focus on the effective collection of own source-revenues and an increased use of external funding sources, such as loans and private capital.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Enhance budget reality by improving the operational capacity for policy-based budget planning and the coordination of capital investments (2017); promote creditworthiness by increasing own-source revenue collection through the establishment of links among databases within the tax administration (2018); and foster service sustainability by improving capital projects planning through the establishment of a single platform and methodology for public investment analysis led by the ministry of finance (2018, fourth quarter).

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