

Programmatic Cooperation Framework for
Armenia, Azerbaijan, Georgia, Republic of Moldova, Ukraine and Belarus

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STRENGTHENING INSTITUTIONAL FRAMEWORKS FOR LOCAL GOVERNANCE

PILOTING LOCAL FINANCE BENCHMARKS IN MOLDOVA

Local Finance Benchmarking: prospects, benefits, methods

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Basis: CoE Recommendations on financial resources and management

I. Financial resources (2005)

II. Financial and budgetary management (2004)

Recommendations => bases of benchmarking:

a) central authorities, on local finance systems:

- 76 items on financial resources
- 43 items on financial management

b) local (regional) authorities, on local practices

- 31 items on financial resources
- 43 items on financial management

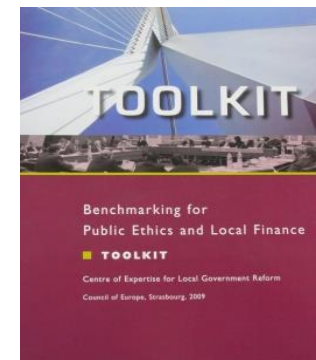


Areas of standard finance benchmarks

1) Financial resources:

- Local taxation: sufficient, diverse, locally administered
- Fiscal equalization: spending needs and revenue capacities, transparent, predictable
- Grants to local governments: general vs. specific grants, incentives created
- Fees, charges: significant, local autonomy, cost recovery, social policy
- Borrowing: for capital financing, debt limits
- Local property: inventories, management

Not all areas are relevant at LGU level!



Areas of standard finance benchmarks (2)

2) *Financial management:*

- Fiscal strategy: multi-year, discussed
- Budgeting framework: regulated procedures, openness, local implementation autonomy, methods and capacity
- Budget implementation: regulations on commitments, transactions, recording, accounting, adjustment, control and monitoring, balanced budget
- Financial monitoring system: transparency, accuracy of fiscal information, audit capacity

National systems or local government practices?

<i>Areas of local finances:</i>	a) National systems (scope of decentralization)	b) Local practices: (management quality)
<i>1.financial resources</i>	Statistical data Institutional review	Data analysis Assessment
<i>2.financial management</i>	Institutional review Data analysis	Review Evaluation

Benchmarking: scoring by areas of recommendations

0. Defining critical areas of local finances, financial management

1. Section ➡ area ➡ components ➡ sub-categories
2. Specifying the activities, indicators measured
3. Identifying sources of verification, documents
4. Scoring (interval scale: 0-10)
5. Interpretation of the results:
low scores ➡ factors behind the differences?



External evaluation and not self-assessment!

An example: local taxation

SECTION, AREA, COMPONENT	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENT	SCORE, WEIGHT
SECTION: <i>II. Local taxation</i>			
AREA: Local tax policy design			
COMPONENT: b) Local taxes should produce high yield (R9) c) Local taxation should be operated at low administrative costs (R9)	<ul style="list-style-type: none"> •Local tax revenues in % of total/current budget •Local tax revenues in % of local own source revenues •Total tax administration costs in % of local expenditure on administration •Tax yield compared to total costs of tax administration (for all and by taxes) 	Municipal fiscal statistics Local budgets	0–10

Local Finance Database and Indicators

Supporting LFB Toolkit and international comparison

Benefits:

- CALM : policy design, advocacy
- LGUs: unit costs, own revenue administration
- Transparency, accountability

Fiscal and statistical data (app. 50) by municipalities:

- Revenues: grant dependency, creditworthiness, inequalities, rankings
- Expenditures: municipal profiles, competitiveness, efficiency, indebtedness, differences, concentration
- Statistical data: population, area, urbanization

Why to benchmark local finances?

1. *It is a mirror*: comprehensive analysis of local finances and financial management
2. *What is done well*: successes, innovations
3. *What to change*: areas of improvement
4. *Ranking tool*: positioning a country/city
5. *Lessons for policy makers*: need for change, lacking capacities, wrong incentives, missing regulations
6. *Learning from each other*: internationally (Eastern Partnership); within your country

Evidence based analytical and diagnostic tool!

LFB results: comparing local practices



http://www.coe.int/t/dgap/localdemocracy/Centre_Expertise/Local_Finance_Benchmarking/

Bulgaria: 6 pilots (2007)=>70 (2015)

- significantly simplified LFB
- local interest after elections
- transformed to self-assessment tool
- paid service to members
- lessons for legislative changes

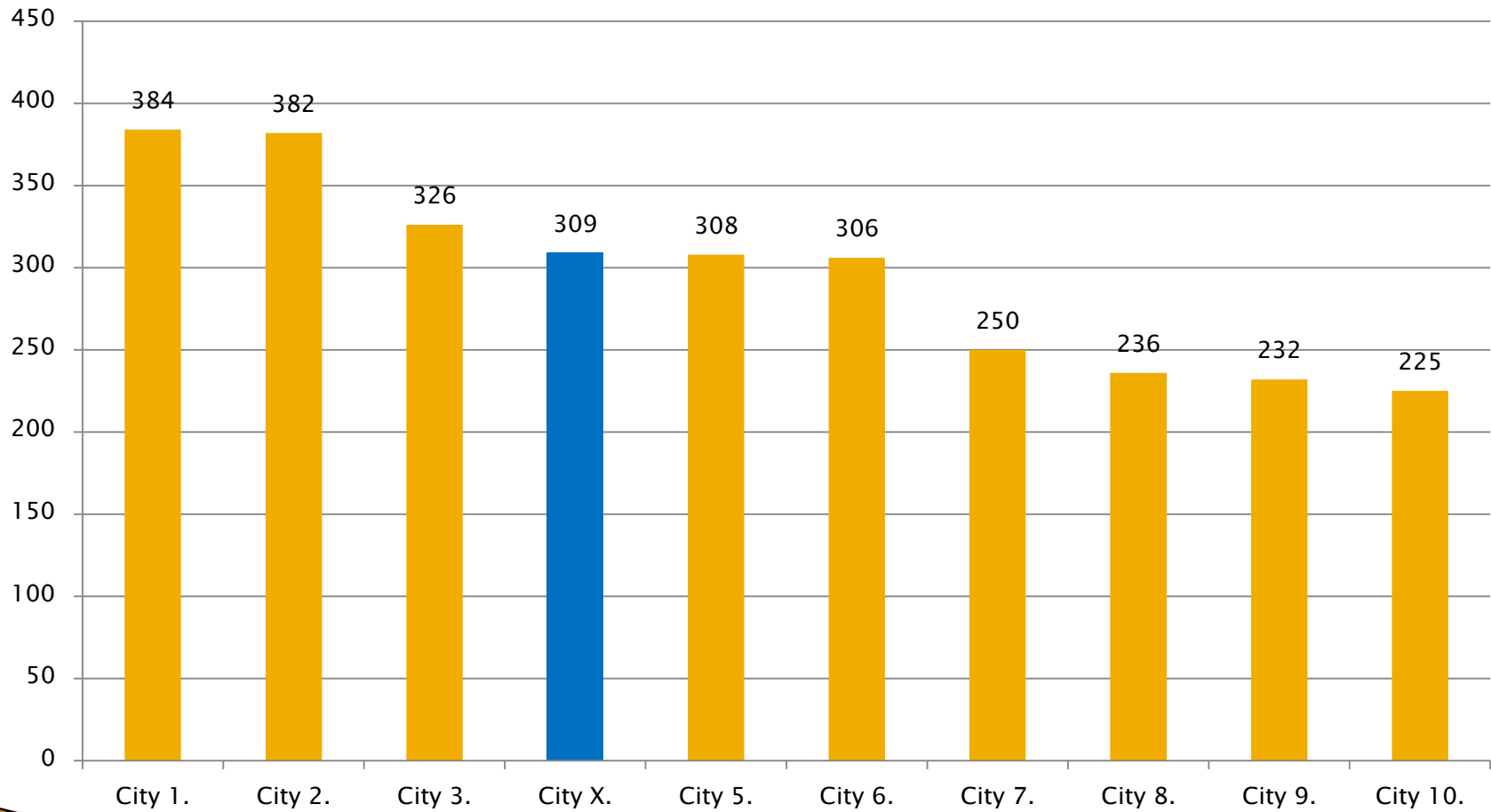
Ukraine (2012): 10 city pilots

- ✓ focus on budgeting and transparency
- ✓ unified rules=>diverse implementation
- ✓ lacking local taxing powers, revenue administration autonomy
- ✓ strong data component
- ✓ no host organization

Three country pilots (POR, GRE, ESP, 2013): self-assessment: lacking capacity, need for local support

Basque Country (2015): Bizkaia region, 5 pilots, web application, LG Association hosting (EUDEL)

Ukraine: total scores in pilot cities



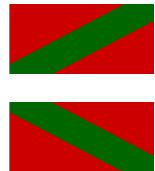
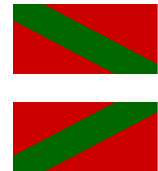
Formulating policy lessons: *areas of improvement in Ukraine*



<i>Areas of local finances scored zero</i>	No. of cases
Frequent budget amendments during the fiscal year	9
Low shares of local taxes and duties	8
Lack of borrowing	8
No PPP projects	8
Internet is not used in local (tax) policy design	7
Information disseminated to citizens (booklets, leaflets)	6
Limited local funds in capital investment projects	6
Low share of non-public funding of capital investments	6
High ration of unfinished, delayed construction projects	5
Not depositing temporarily free funds in banks	4
Limited budget proposals from NGOs, citizens	4

Policy lessons:

7 city pilots



Lower scores items:

- Multi-year planning, impact assessment methods
- Public involvement, transparency in budgeting
- Support to tax policy design, tax administration
- Improved external audit and not intervention
- Need for capacity dev. (administration, elected)
- Better service contracts, performance control
- Proper local assets management techniques

Piloting in the Bizkaia region (Basque country)



- Adaptation with 80 items
- Focusing on principles, taxes and fees, capital budget financing, budget planning, budget implementation and supervision
- Objective scoring method, weighting
- Steering Committee with EUDEL, pilots, consultant
- Piloting: Basauri, Bilbao, Galdakao, Getxo, Ermua

Piloting in the Bizkaia region: findings

- Reports are kept confidential

I. Resource policies	5.64
II. Taxes and charges	5.07
III. Equity and investment financing	7.01
IV. Budgetary planning	4.03
V. Budgetary implementation, monitoring and control	4.54
<i>Average</i>	<i>4.91</i>

Main lesson on LFB: should be part of an organizational and management improvement programme

Piloting LFB in Moldova with CALM

Services received by the host organization:

1. Adapted standard LFB Toolkit
2. LFB survey results
3. Reports on pilot LGUs
4. Proposals on LFB program management
5. Right to use LFB toolkit (copyright with CoE)
6. Policy recommendations on fiscal decentralization

CALM: host organization

Tasks and responsibilities:

1. Managing the LFB pilotin activities
2. Organize a review session and closing conference (in cooperation with CoE)
3. Promoting the LFB programme
4. Translation of piloting survey results and reports
5. Designing long term plans:
 - a) organizational and management forms,
 - b) options for financing,
 - c) publicity, advocacy and promotion activities.

Cooperation with the pilots

Services received by the LGUs:

1. Adapted LFB survey results
2. City specific report with recommendations

Tasks, responsibilities:

1. Active participation at the LFB project meetings
2. Commenting the draft adapted LFB toolkit
3. Assisting local LFB experts: sharing municipal documents, data
4. Discussing the draft report
5. Contribution to planning the LFB program

Proposed timing

<i>Activity</i>	<i>Responsibility</i>	<i>Timing</i>
LFB program launching, project planning	CALM/CoE	December 31, 2015
LFB Toolkit adaptation	Local and CoE experts	February 15, 2016
Piloting LFB in selected LGUs (survey and reporting)	Local experts	May 15, 2016
Proposals for CALM, ministries (country report)	Local and CoE experts	May 31, 2016