



The Role of Municipal Finance Officer's Associations in strengthening local democratic governance

Proceedings of the FDI Regional Conference

27-29 November 1999
Bratislava, Slovak Republic

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**The Fiscal Decentralization Initiative
for Central and Eastern Europe**

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Introduction

In November 1999, the Association of Municipal Finance Officers in the Slovak Republic with the support of the Fiscal Decentralization Initiative for Central and Eastern Europe (FDI-CEE) and the Institute for Local Government in Budapest organized a regional conference in Bratislava, the Slovak Republic, around the theme "The Role of Municipal Finance Officer's Associations in Strengthening Local Democratic Governance". The conference was partly financed by the British Know How Fund, the Council of Europe in Strasbourg and also by the organising body itself - the Association of Municipal Finance Officers in the Slovak Republic.

Fifteen countries of Central and Eastern Europe and their associations of local authorities were represented at the conference. These were Albania, Federation of Bosnia and Herzegovina, the Czech Republic, Estonia, Hungary, Kazakhstan, Lithuania, Macedonia, Moldavia, Poland, Federation of Bosnia and Herzegovina - the Republic of Serbia, Romania, Federation of Russia, Ukraine, and the Slovak Republic. International organizations represented at the conference included the World Bank, the Know How Fund, the Finnish Association of Finance Officers, the Ministry of Finance and the Association of Municipal Finance Officers of the Federation of Bosnia and Herzegovina, the Urban Research Institute - Prague, the Czech Republic, the Hungarian Association of Municipal Finance Officers, the Association of Municipalities of Romania, the city of Petrozavodsk, the Association of Municipal Finance Officers in the Slovak Republic, the Institute for Municipal and Regional Development (IROMAR), the University of Matej Bel, Banská Bystrica, the Slovak Republic.

Main Objectives of the Conference

- to advocate the role of professional associations as stepping stones for increasing professional capacity of municipal finance officers in CEE and NIS
- to present and discuss benefits and potential of municipal finance associations on the grounds of existing experience with similar organizations in EU and CEE
- to attract interest of key municipal finance officers from CEE and NIS in the establishment of professional associations in their home countries
- to address specific professional issues of key interest to municipal finance officers from CEE and NIS as potential areas of new associations activities
- to establish a nucleus of a future network of municipal finance associations in CEE and NIS

Focus on key issues of a high quality finance management was not less important part of the conference.

Problem statement of the conference was based on understanding that the pace and success of local government reforms in a region is directly linked to the issue of professionalism of public servants. This is particularly the case of municipal finance officers who are responsible for management of local government funds and to a certain extent bear responsibility for proper functioning of municipalities. Municipal finance officers expressed great interest in having appropriate level of skills and expertise that would help them to make wise decisions concerning municipal funds management. That could be an important tool to succeed in local government reforms in CEE and NIS which are likely not in such a rapid progress as it would be necessary for desired economic development within the region.

There are many ways of stimulating professional development of public servants. For the purpose of this project, we have focused on possibilities to increase and stimulate professional development of local government officers— especially finance officers.

We believe that the most successful way in this respect is the establishment of professional associations, which fulfil four main tasks:

- a) foster professional growth of members through training and educational programs
- b) function as an information hub collecting, analyzing and disseminating information relevant to the needs of members
- c) represent members on national and international level, and
- d) provide other required services.

Similar associations are common in Western Europe and North America and some have already been established in CEE. We believe that trend should be taken further and the existence of professional associations in the field of municipal finance should not be limited only to few countries of CEE.

Most countries in CEE and NIS have little experience with establishment and functioning of at least some kind of local government professional associations. Potential representatives of the countries from this region need more information about services and arguments how an LG professional association can foster the importance of professionalism on LG field of services and benefits that these institutions offer. As a result, little effort has been made in CEE and NIS to create professional associations in general and municipal finance officers associations in particular.

Organizing the conference, we hoped for **establishing a forum for a significant exchange of ideas and personal experience and creating new initiatives in setting new associations in the near future**. In order to do that, we selected a group of CEE and NIS "leaders" in the field of municipal finance and exposed them to the experience of their colleagues from EU and several countries of CEE which they had gained in professional associations.

Results of the First Day of the Conference

The conference offered participants a great insight into the role and opportunities of the Municipal Finance Officer's Association supporting the process of a local government development and acting as an important democratization and lobbying body in all LG issues (for example, a new legislation). It is the institution that can effectively support professional development of LG finance managers. Moreover, MFOA is highly qualified and responsive to citizens needs, acts proactively and initiates co-operation with state administration and with other stakeholders as well. The specific sessions were focused on the role and benefits of local government finance associations:

- EU and US experience presented by Mr. Noel Hepworth, Director of CIPFA, Chairman of the Public Finance Institute, Chairman of the Public Sector Committee of the European Federation of Accountants from UK; Mr. Clay Wirt ICMA/USAID Consultant
- CEE context and experience presented by Ms. Eva Balazova – President of the Association of Municipal Finance Officers, Slovakia; Ms. Margit Zadravec, Vice-President of the Hungarian Association of Municipal Finance Officers; Mr. Maxim Acevski, Association of Finance Officers of Macedonia;

Both plenary sessions were followed by three working sessions, each with about 20 to 30 participants, and were chaired and co-chaired by the speakers mentioned above.

Session #1 focused on: Professional skills of municipal finance officers - degree on accounting or more? – Professional development and the role of the Association of Municipal Finance Officers.

Presentation of session results stressed the difference in obtaining professional skills that vary depending on the state education system, NGO's, foreign grants and local government that is aware of importance of highly qualified finance specialists, and of the necessity of different approach based on different target groups. The role of specialists at the stage of preparation of a new training and support material was discussed as well. Importance of an independent certification process for local government specialists appeared to be the main issue. The reason behind is that it can guarantee a high level of qualified LG finance specialists.

Session #2 focused on the following topic: How to finance professional associations in CEE and NIS countries? and Sustainability of Municipal Finance Officer's Association.

Discussion was focused on financial resources for Associations. Presentations and evaluation forms have shown very clearly that the exchange of experience on this specific issue was important for many participants. Next question discussed within the session was: What are other sources of financing the Association? The most frequently discussed issues were the following: voluntary work and other non-financial sources, income from consultancy work, conferences and co-operation agreements. Mr. Clay Wirt stressed that participants were intensively focused on the issue how to generate more income for the benefit of their professional Associations.

Session #3 focused on the Local Government Finance Officers Association and its services. Discussion was focused on four main groups of services and activities:

- 1) Scale of training certified (FM specific training but also training on computer skills, foreign languages and ethic)
- 2) Support for establishing hard and software conditions specific for LG, creation of database, statistic data on the specific standard level, tools and information to asses bank credits (national/international), database of information related to EU accession, translation of specific materials related to FM profession
- 3) Lobbying and assistance in the field of legislation
- 4) Self assistance – creation of professional library, the Code of Ethic; improvement of Association management – if possible, by employing a full time staff; co-operation with other existing local government associations on both, national and international, levels.

Mr. Clay Wirt summarized results of the first day as following:

- 1) Excellent sessions with good ideas, and as a bonus - demonstration of the Financial Management Training Program by representatives of the Slovak Association of Municipal Finance Officers.
- 2) Historical event – a meeting specifically targeted on the subject of Associations of Municipal Finance Officers.
- 3) Good timing and performing – FMA is prepared to help public administration reforms in their respective countries.
- 4) Twinning aspect of the conference and its importance
- 5) These Associations could help in a process of creating confidence of LG specialists as competent professionals
- 6) Existing FM Associations are measures of success.

Short demonstration of some modules extracted from the training project financed by USAID and prepared and delivered by ICMA in the Slovak Republic within the period of last three years as one of the best training project for local government specialists appeared to be an important part of the conference. This short demonstration of the Financial Management (FM) Training Program was delivered by trainers/Slovak FM managers/trainers and was based on manuals and technical issues from the Financial Management training series. The presentation was held in three simultaneous working sessions (each about 25 – 30 participants, including 2 trainers from the Slovak Association of Municipal Finance Officers). Topics of the presentation were the following:

Session #1 Financial Policy, Planning and Financing

Session #2 Public Procurement

Session #3 Citizen Participation

Results of the Second Day

A plan for the second day of the conference was based on work in three working sessions each for about 25 to 30 participants, including the chairman "shaping" the discussion. Each working group was opened with one or two short presentations.

Session #1 – Strategic and Current Budget Planning (Group leader Ms. Zsuzsa Kasso)

Issues discussed: Analysis of proposals and projects, timing, budgeting techniques, expenditure efficiency, etc.

Session #2 – Local Government Borrowing (Group leaders Ms. Sona Capkova and Mr. Mihaly Kopanyi)

Issues discussed: Role of borrowing, municipal creditworthiness, municipal bond market, etc.

Session #3 – Financial Relations with Municipal Institutions

Issues discussed: Fiscal relations with municipal service organizations, private companies and NGO's, control of budgeting and spending by citizens, etc.

Results of the group work is a part of the Conference Proceeding.

Mr. Stefan Bosnak, mayor of the city of Trnava, had a short presentation on the Public Administration Reform and the Fiscal Decentralization Process.

Specific attention of organizers, and also of participants, was paid to the topics stressed at the conference in two papers focused on **Local Government Finances and EU Accession**. They were delivered during plenary session with a panel of two speakers from the European Union – Mr. Turkilla and Mr. Michel Noel. This issue was added to the conference agenda on a special request of the AMFO SR as its members still felt the lack of information and impact of the EU accession on their professional work. Two presentations were delivered at the end of the conference.

Mr. Clay Wirt stressed

that the conference presented support to local government specialists efforts on a national and multinational level. The conference was a great opportunity for gaining new ideas for creating or strengthening of existing FOA, how each participant can help and contribute to the process of strengthening of such associations, what kind of changes could improve it, how to use opportunities that the conference brought in regional networking – new network of such professional body could be an important tool to reach EU countries. Could the AMFO SR be a co-ordinator for such a regional network?

Mr. Gabor Peteri stressed

that the conference brought together a new group of professionals – not finance officers but finance managers, responsible not only for implementing regulations but also for creating new ones that could change and improve LG, the managers able to negotiate within the market environment. The conference came up with new ideas that could strengthen local government within a region. **Creation of a local government finance specialists international network could be the activity that donors would be interested in and would like to support.**

Association of Municipal Finance Officers in the Slovak Republic: its program and objectives

Eva Balazova, President of the Association of Municipal Finance Officers in the Slovak Republic

The Association of Municipal Finance Officers (Slovak abbreviation: AKE SR) is a voluntary non-profit and politically independent non-governmental organisation of specialists - economists and lawyers, that deal with the theory and methodology of finance and tax policies, budgeting, finance and property management and their application in local self government

The purpose of the Association is primarily to provide assistance to city and community self governments in the fields referred to above.

The subject of the Association's activities is to provide:

- expert advise to local community and city governments in the areas of theory and methodology of financial and tax policies, budgeting, their applications in the communal sphere, and in the area of property management through sharing experience, mediating specialist information from experts, relevant state authorities, and from foreign partners,
- representation of self government's interests, given in economic and legal terms, in dealing with the outside world, primarily in relation to the public, and the relevant bodies of the state, mainly through its own activity, the Association of Cities and Communities of Slovakia etc.

AKE SR: the establishment, current state and directions for further development

The official inception of the Association dates back to September 1996. The idea to found it came at a time when after five years of self governments' existence, the knowledgeable specialists began to feel a need to communicate together and in mutual confrontation test what they had done and what they had not. As a matter of fact, they all started from a single starting line embodied by the Act No. 369/90 of the Collection on municipal establishment which gave rise to the establishment of self government in Slovakia.

Forming the official association was a matter of short time as the interest in membership was great - it happened within a few months. Today, the membership counts more than 120 persons. Technical and financial assistance on the part of USAID/LSGAC, as well as in the person of Fred Fisher from the USA was of great help in the beginnings. This support stepped up the process of forming the Association on a professional level.

This successful initiative has met with great understanding from statutory representatives of cities and communities - the Mayors.

By forming the Association, a forum has been created for Association members to discuss problems and provide each other with specialist assistance in areas that primarily concern financial management of self governments, accounting, budgeting, debt service, investments, tax administration, property management, management of city- or community-established companies, etc.

Since the finance or economic manager of the city and community and the lawyer are professions having a wide scope of responsibilities and competencies, the scope of problems that the Association incorporates in its agenda is determined by membership interests, which can be presented through questionnaires.

In addition to sharing information, the Association facilitates acquisition of information from experts, relevant state authorities, foreign partners, co-operating institutions in banking, etc.

Members of the Association play active roles as trainers within the training project for finance managers of cities and communities.

The Association has designed a short-term and long-term program of activities taking the form of the "AKE SR Action Plan" that was drawn by the Association's Board and approved by the General Assembly of the Association members on the basis of a resolution. The Action Plan assumes, in addition to the above activities, publication of a collection of best practices, the Code of Ethics, elaboration of assessment and appraisal procedures for self-government budgets, preparatory work for certification of self-government finance officers and further development of co-operation at international level.

The Association has set its basic directions for activities development in the following areas:

1. Greater involvement and stabilisation of membership.
2. Initiative and active involvement with self-government and state authorities in the public administration reform
3. Assisting in specialist training of membership, mediating as much specialist information as possible, addressing finance issues with the relevant authorities, acquiring and providing specialist positions, submitting proposals on its own initiative.
4. Emphasis on active involvement of specialist groups of experts.
5. Sustained efforts in further cycles of finance management training for self government (for both elected and appointed officials). Further up-dating of FMS manuals and incorporating additional topics.
6. Highlighting the importance of publishing efforts.
7. Completing the data base of the AKE SR and using it in mutual communication.
8. Continue initiating and expanding international activities with the objective to facilitate European integration of Slovakia.

AKE SR: its organisational structure, methods of work and financing

In harmony with the Slovak law, the STATUTES is the basic document, in which rules are approved for the functioning of the Association.

The General Assembly is the SUPREME BODY of the Association, composed of all regular members.

The President of the Association is the STATUTORY BODY, and has two Vice-presidents.

The Association's BOARD, composed of 9 members, is the executive body that manages the activities. The Board is elected by the General Assembly. The Board elects and removes the President and Vice-presidents from amongst its ranks. The General Assembly also establishes a controller's group which currently has three members.

The Association sees to achieving parity representation of economists and lawyers on the Association bodies. The term of office for all elected members is two years. To address specific problems, the General Assembly establishes specialised expert groups that elect their chairmen from amongst themselves. The Association has regular, associate and honorary members. Regular membership arises upon presentation of the membership form and payment of the membership fee. Associate and honorary memberships can arise in respect of both physical or legal persons engaging in activities that relate to those of the Association. The decision about this form of membership rests with the General Assembly. Among the outstanding figures that received honorary membership are Dr. Fred Fisher, an excellent manager and advisor from the USA, Ivan Mikloš, Vice Premier of the Government of the SR for economics, and Viktor Nižňanský, the Government's Commissioner for public administration reform.

The seat of the Association is determined by the President's place of residence. The Association has its Office in Bratislava, the capital, which is an executive body. It is established by the President on the basis of the decision taken by the Board. The purpose of the Office is to carry out mainly administrative business. It is currently arranged on the basis of a contract of activity.

The Board, as a rule, meets once a month, always at a different venue in the SR. It often invites its members to the session as well. The General Assembly is convened at least once a year.

AKE SR develops its activities most often through specialist conferences which are held in different parts of the country three or four times a year. Within the framework of these conferences, in addition to presentation of specialist topics there is scope for sharing experience and mutual communication of Association members. The Association activities include information exchange among members, publishing and training efforts and also creating and providing a common data base to members of the Association.

These days we are launching an Internet discussion club and, of course, topical information is available on the web site at www.home.sk/www/akesr.

The Association's finance is based on the annual budget approved by the General Assembly, drawn always for one year from membership fees, subsidies, gifts and own activity.

AKE SR and education to strengthen professionalism of its members

One of the priorities highly emphasised by the Association is educating its members, with the ultimate aim to effect a quality shift among its members from the positions of clerks to positions of finance managers.

To this effect, contents specification had to be made for training activities in financial management of self government.

With technical and financial support and co-ordination from the USAID/LSGAC and the personal commitment of our teacher and model, but also friend and admirable man Dr. Fred Fisher, and under the methodological guidance of American experts, with contribution of seven Slovak self government specialists, a series of 15 manuals for training financial management in self government (in Slovak and English versions) was conceived. In the afternoon session, the Associate Professor Žárska, the Project Manager, will speak about the way trainers were trained and about the whole pilot FMS training.

The Association members also take part in other program training activities, organised primarily by the Local Government Development Centre or through the Foundation for Education in Self Government. At present it is the interactive training titled "Management of Change".

AKE SR and the activities of drafting legislation for self government

The Association has an ambition to be accepted by authorities, state authorities, in particular, by producing comments on draft legislation, pointing to problems or colliding legal provisions related mainly to the economy of self governments.

The Association has produced scores of specialist positions to draft legislation (e.g. the Act on income taxes, which has been recently approved by the Slovak Parliament responding positively to the efforts by self government to exempt from taxation the municipal revenues of self government which stem from property management).

At present an expert group of the Association works intensely on an initiative proposal to draft a new law on local taxes which should already be part of the economic package of laws within the public administration reform.

Standardised performance parameters are being prepared for self government as well as the change in methodology of reporting the economic results of self governments.

The Association is eager to participate in the preparation of legislation, primarily related to financial management of self governments and offers the expertise of their members for co-operation.

AKE SR 's training young specialists

- takes place at the level of co-operation with Slovak universities which focus on teaching specialists for public administration. It concerns mainly the School of Economics of UMB Banská Bystrica, the Faculty

of National Economy of the Economic University in Bratislava and the Faculty of Economics and Management of the Slovak Agricultural University in Nitra. AKE SR members contribute to this co-operation in the following ways:

- offering concrete topics for diploma works to be written by undergraduates,
- offering guidance or experts opinions on diploma works by undergraduates,
- teaching, holding seminars and exercises or lecturing on specialist topics,
- being on the examining boards at state final examinations,
- collaborating in scientific research that is carried out at relevant departments or by university scholars
- enabling presentation of results of undergraduate works at AKE SR conferences.

AKE SR is establishing domestic and international partnerships

From the start, the Association gradually established official relations with associations and organisations acting in the field of self government.

Collaboration is good with the Association of Cities and Communities of Slovakia and with the Union of Cities and Communities of the SR. The partnership agreement with the Institute for the Development of Communities, Cities, and Regions (IROMAR) is also beneficial to both parties involved. The collaboration with the Association of Main Controllers and the Municipal Managers Association also provides inspiration. Though unofficially, the collaboration is beginning with the Public Works Association. AKE SR has been taking part in all common activities of self-government associations, be it through round tables or some other form. The collaboration with the Local Government Development Centre seems to be of great value, assisting AKE SR to gain access to different grant resources. We have gained good experience from collaborating with Regional Training Centres.

New international contacts are added, of which most important is the collaboration with the ICMA - International City/County Managers Association, and GFOA which is the association of government finance officers of the USA and Canada. We would like to foster also other international contacts and partnerships at this conference, as was presented under the objectives of the conference.

This regional FDI conference is also a good proof that our efforts at establishing contacts are getting understanding and strong support, for which I would like to thank particularly Ms Karen Hotra and Mr Adrian Ionescu.

A 3-week specialist study tour to the USA in 1997 of five members of AKE SR within a study tour, organised for members of SR self-government associations, has contributed a great deal to the enhancement of the overall activity of the AKE SR.

Two members have been included in the project of international exchange program of managers in self government. Since the project is in its beginnings, we anticipate participation of other members of the Association in the exchange program, considering its potential contribution and attractiveness.

The language barrier seems to pose a problem here, as the participants of the project are expected to have acquired English language skills of at least an average level.

Members of the Association are delegated to actively participate in international conferences with the objective to gain specialist knowledge and experience for their work in the area of financial management of self governments and to present their own specialist expertise and experience to strengthen democracy at local level.

Conclusion

It is definitely not little, that we have managed to accomplish over the relatively short period of three years. But there is much more to come that we still want to accomplish. This would simply be impossible if it was not for the understanding and support from mayors of cities and communities, personal involvement, commitment, enthusiasm, sacrifice to and love for one's own profession on the part of individual members of the Association.

Experiences and problems of analysing and presenting of aggregated data on financial management of local governments in the Slovak Republic

Peter Berčík, Economic University of Matej Bel

Along with the transformation of their economies into market economy, Central and Eastern European countries are solving the problem of public sector profilation, including the system of public finances. Budgets of local governments represent a distinctive part of it. They have been derived from the scope of public tasks they were entrusted with by the state. They have also been derived from the financial power that depends not only on the economic potential of the administered economy, but also on the possibilities and sometimes on the willingness of the state to provide to local governments certain share of the state budget income. This forms the basis of the permanent dialogue between local government representatives and the government. Its intensity increases primarily during the period of the preparations of state budget for the following year.

For this purpose and also for the needs of many other activities in the state administration, reliable aggregated information is necessary on the volume and structure of local government budgets. This information is based on overall annual financial results of individual villages and towns at the national level, and subsequent application of the whole series of analytical methods to obtain the most objective image of not only financial, but also of more general economic situation of local governments. This task has been given adequate attention in the Slovak Republic. The booklet "Financing of Local Governments in the Slovak Republic" that was distributed to conference participants can be considered as evidence.

The information obtained during its preparation, provided us with a number of methodical findings and raised some questions. The sum of reports of all 2 907 municipalities in the country provides comprehensive information about elementary sources of income on one hand, and the tendency and structure of costs on the other hand. Last seven years documented tendencies of increase and/or decrease of individual items in the total budget volume. However, this represents only a part of the necessary information. For the sake of objective assessment of the functioning of local governments financial system and their overall economic situation we need also other data, from another points of view.

A differentiated view is provided by aggregated data divided according to the size of municipality. Transparency of their mutual comparison allows their calculation per one citizen. Adequate division of intervals of individual groups is also important. It appeared that the group of municipalities (including villages and towns) with the population over 5 000 was rather large and was including substantially different municipalities (from 5 000 to 100 000 population). This was also reflected in distinctively different internal structures and overall volumes of their budgets. Therefore, from 1999, this group will be divided to further four groups (population from 5 000 to 9 999; 10 000 – 19 999; 20 000 – 49 999 and population over 50 000).

We consider that in the next period it will be necessary to expand the analytical information by including the following data:

- Data regarding extreme positions of some municipalities within particular groups, assessed through extremely high or low incomes and/or costs calculated per one inhabitant if the particular municipality; division by selected budget items (e.g. income from loans, etc.)

- Data based on administrative division of the state (mainly districts) in combination with standard groups based on the size of municipalities. Data divided in this manner will provide information about differences of the financial power of municipalities from the regional point of view. They will allow their subsequent comparison with other social-economic statistic information on regional basis (e.g. unemployment rate, etc.)

Extensively built databases on financial management of municipalities allow their utilisation for other specifically oriented analyses, such as the development rate of indebtedness of municipalities, development of wage policies, investment rates, etc.

The informative value of the document on the results of financial management was improved in its second edition by expanding the structure with social-economic statistic data from the Statistical Authority of the SR. In this way, this originally expressively financial-analytical document gained certain economic-analytical dimension. This step has been accompanied by several methodical, organisational and technical difficulties. It is a consequence of the poor connection between the method of gathering statistical data for municipalities and the method of the accounting system. Nevertheless, it is necessary to develop comparison of data from both sources, as it will allow to acquire a number of new and interesting data on the economical operation of local governments in villages and towns.

Processing of comprehensive documents on the results of financial management of municipalities is important for the following two reasons:

It provides a serious basis for the assessment of given topics at the central level and subsequent recommendations for operative-administrative acts, including possible initiatives for the legislative process.

Application of the method of calculating a large set of budget items per one inhabitant for each group of municipalities allows the local governments and their professional staff in specific municipalities to compare their own position with average data in the pertinent group of municipalities within the country.

There is also a chance for gradual establishment of at least indicative cost normative for the provision of various public services in villages and towns.

To conclude, we can state that the issues mentioned in this short contribution form the basis for exchange of this kind of information between the countries represented at the conference. In future, we shall welcome a professional dialogue about the methods used in processing of such documents that may facilitate the mutual communication between involved countries.

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Forms and Structure of Municipal Companies in Slovakia

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The European Court of Justice defines a municipal company, or a "local public enterprise" as any company where local government authorities have either direct or indirect majority influence, whether this is in the form of ownership of assets, or equipment, financial investments or via rules and regulations used to manage the company.

Local public enterprise can be considered an important instrument of municipal management. They exist in majority of European countries and they cover a wide spectrum of activities. But this instrument is not homogeneous within Europe – methods of management and control, structure of assets vary depending on the level of decentralization and system of powers and responsibilities in individual countries. Despite specific features of individual countries, their local public enterprises comply with the requirements cited in the above stated definition.

Forms of a local public enterprise

The structure of municipal companies in Slovakia was undergoing permanent changes during the last decade. In order to provide services under their responsibilities and to manage the assets in their ownership the municipalities established organizations of various forms, including business companies.

Currently there is a number of types of organizations owned by municipalities. Most frequently they take the following legal forms:

- budget funded organization
- subsidy funded organization, and
- business company.

The quasi-state, i.e. budget funded¹ and subsidy funded² companies have a rather long tradition dating back prior to year 1990.

These quasi-state companies have their budgets tied to the budgets of their founders. The founders then guarantee and control their operations and take appropriate measures if shortcomings are traced. Budget-funded and subsidy-funded companies are established to perform key public functions or public works that are fully or partially funded by municipal budget according to specific regulations or decisions taken by appropriate authorities.

The status of budget-funded organization is most frequently granted to institutions covering only a small proportion of their cost by direct income. As subsidy-funded organizations are characterized by higher level of independence, these organizations are usually made responsible for those services where the large proportion of cost is covered by fee income generated by provision of these services. Quite often these organizations

(1) Budget-funded organisation is a municipality founded legal entity tied to municipal budget by its revenues and expenditures. It has an independent management of funds according to approved budget allocated by the municipality within its budget.

(2) Subsidy-funded organisation is a municipality founded legal entity tied to municipal budget via contributions or withdrawing fees. It is governed by financial principles specified by the municipality within its municipal budget.

are also responsible for other services that are not generating a lot of income (e.g. public parks maintenance) but the cost of which reduces their tax basis.

As an alternative option to budget-funded and subsidy-funded companies local governments may vest the function of asset management and public work and service provision to so called legal entities (business companies) established in accordance with the Business Code³. Many local governments established such business companies and transferred to them activities previously provided by the existing budget-funded or subsidy-funded organizations. This process is frequently referred to as privatization, even if such a business company is owned by the municipality.

There is no specific regulation limiting the equity participation or interest of municipalities in business companies. A municipality may be a hundred per cent owner or a majority owner, while the minority owners are other municipalities or other private companies. A municipality may also be a minority owner while other municipalities or private companies may own the other equity shares.

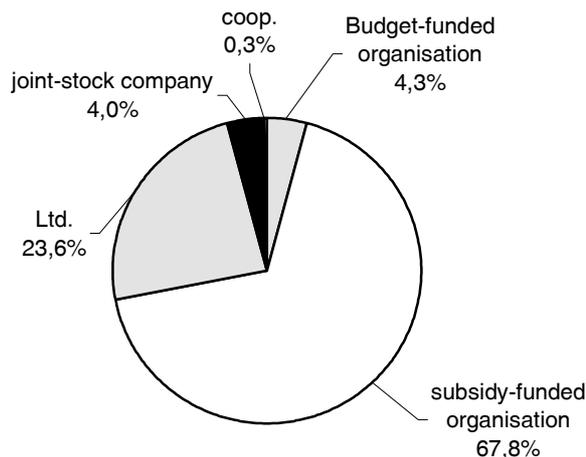
Current Structure of Local Public Enterprises

In 1998 the Institute for Municipal and Regional Development (IROMAR) conducted a questionnaire survey in all the Slovak municipalities of 2000+ population (more than 70 per cent of the population of Slovakia lives in municipalities of more than 2000 inhabitants). The survey focused on organization and legal forms of local public enterprises, their number of employees, services provided, as well as on the provision of local public works by private sector. Due to the high (63 per cent) return rate of the questionnaires this survey can be considered sufficiently representative and its results reflect the structure of local public companies in Slovakia. The following section presents some of these results.

The survey showed that 75 per cent of municipalities do have local public enterprises as their 100 per cent owners, while 44 per cent of municipalities are equity holders in these companies (e.g. less than 100 per cent ownership).

The companies that are 100 per cent owned by municipalities are mainly subsidy-funded organizations, and this apply to all size categories of the municipalities. Almost one quarter of the companies are limited liability companies, this being the second most frequent form of local public enterprises.

Companies fully (100%) owned by municipality



(3) The Business Code provides for the following types of legal entities: a limited liability company, a joint-stock company, a partnership, a limited partnership, and a cooperative company.

This means that out of the total number of companies in municipal ownership almost three quarters of them (72 per cent) are directly linked to municipal budgets (budget-funded and subsidy-funded organizations). In the business company group the most frequent legal form used is a limited liability company, while the joint-stock company form is used with a substantially smaller frequency. Here we must state that in large towns (with the population of more than fifty thousand) this proportion changes, and although the budget-funded and subsidy-funded organizations still represent more than a half of the total number (57 per cent), the proportion of business companies increases. Out of the business companies limited liability companies represent 27 per cent, and joint-stock companies represent 16 per cent.

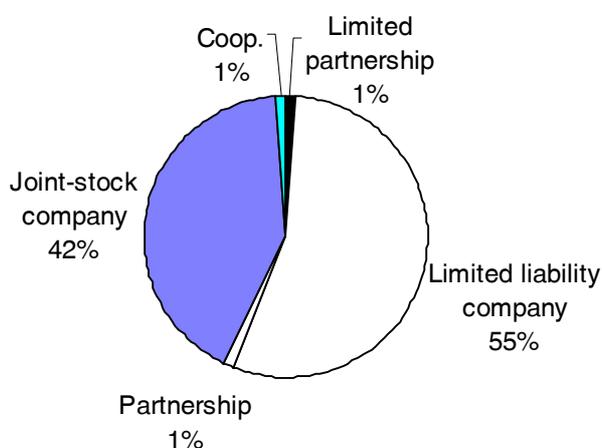
The size of a municipality is also in direct proportion to the number of companies per one local government, as shown in the following table:

| Size of municipality | Average amount of companies fully (100%) owned by municipality per 1 municipality |
|-------------------------------|---|
| population less than 5000 | 0,8 |
| population of 5001-20 000 | 2,5 |
| population of 20 001-50 000 | 2,9 |
| population of 50 000 and more | 5,0 |
| Municipalities Total | 1,7 |

With the increasing problem of employment the function of government (public administration) as job provider on its relevant territory is discussed more and more frequently. And this apply both to public servants (employees of local authorities) and to the employees of organizations managed by local governments. The vast majority of organizations fully owned by municipalities falls into the category of small size companies – 75 per cent of the companies has less than 25 employees. Only 5 per cent of municipal organizations falls into the category of companies with more than 100 employees.

As already mentioned, a municipality may have (a majority or minority) interest in business companies, owned jointly by other municipalities or private firms. The survey showed that in this case, although all forms of business companies are represented, limited liability companies and joint-stock companies prevail.

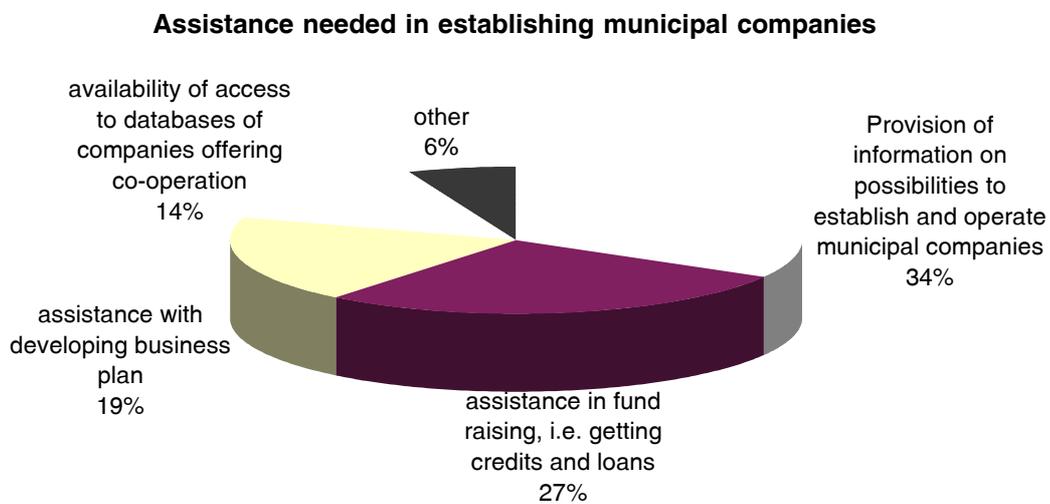
Companies less than 100% owned by municipality



With this form of ownership 17 per cent of municipalities have their interest in a company jointly owned by a number of municipalities, while the bigger the size of a municipality, the higher the number of municipalities having interest in companies owned by a number of municipalities.

Responses to the question on the main barriers to a successful development of municipal companies show that the highest weight is given by municipalities to the lack of information and shortcomings in knowledge and experience in management techniques for different organization and legal forms of companies. This reason was then followed by so called secondary insolvency, legislation, and unavailability of loans. Among other reasons were shortage of human resources, lack of experts and experienced managers, municipal assets in bad shape, requiring large capital investments, etc.

Adequate to the above described situation the municipalities stated information and knowledge of management and operations of municipal companies to be the most desirable assistance in establishing municipal companies, as it is shown in the following chart :



Although the majority of municipalities provides the services via their own organizations, most of them (75 per cent) make use of contracting these services out to private sector companies. Similar to the previous questions, the same principle applies, i.e. the bigger the size of municipality the higher is the proportion of municipalities contracting some of the services out to the private sector:

| Size of municipality | Proportion of municipalities contracting service provision out to private companies |
|-------------------------------|---|
| population less than 5000 | 72,6% |
| population of 5001-20 000 | 72,7% |
| population of 20 001-50 000 | 79,2% |
| population of 50 000 and more | 100% |
| Municipalities Total | 75% |

The most frequently stated reasons leading to the decision to contract the service provision out to the private sector were lower cost, bigger flexibility, and the existence of a private provider of the given service. Private companies provide all types of services under the responsibility of local governments. In large towns

and cities it is a quite common feature that one and the same service is provided by the local government both via a subsidy-funded organization and via a contracted private firm.

Among external providers of local public services are also non-profit making organizations with their core business in the area of culture, sport, and social well-fare.

The survey results showed that there is a kind of "mixed economy" in local governments in Slovakia. Within this economy the local public service is provided by municipal companies as well as by private and non-profit making sectors. But the tasks of standard setting, performance monitoring and subsidizing of services, if required by public interest or social justice, remain to be the responsibility of local government.

Currently a lot of Slovak local governments are reviewing the structure and forms of their municipal organizations. In order to take the best option of the form of organization it is necessary to summarize not only the pros and cons of individual forms from the aspect of service to be provided by the organization, but also from the aspect of economic efficiency, and budgetary implications, ownership structure, capital investment funding, and a need of service fee regulation, etc.

As a principle, it is an effort to find the balance in the trade off between an economic efficiency and effective control and management of local public services. And this problem makes Slovak local governments face the same type of challenges and questions that are dealt with by majority of local governments in Europe. They are as follows:

- What must local governments do to achieve an efficient management of autonomous municipal companies?
- How to harmonize operations regulations with effective management of municipal companies, especially business companies where the local government enjoy majority influence but the character of these companies is of commercial nature?

Borrowing by local self-governments

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Since late fifties, financing through borrowing has become a significant element of public sector finance and it seems likely to remain so in the future as well. It is one of the most frequently employed ways of addressing public budgets deficits, both state and municipal.

Increasing the share of local governments in financing public investments (primarily infrastructure) but also providing public services, makes greater demands on municipal budgets, forcing municipalities to use all accessible sources of financing. Thus borrowing in countries of Central and Eastern Europe currently comprises a much larger proportion of municipal revenues than in the past. The Slovak Republic can stand as an example, when in 1991, credits comprised 2.5 percent of the overall municipal budget revenues, while in 1994, the figure already was up to 4.6 percent, and in 1998, it was as much as 10.2 percent. Of course, per capita debt grows proportionately as well. This source of revenues is used by all size categories of municipalities, although the proportion is much larger in larger municipalities than is the case in smaller municipalities. The following table gives further particulars:

| | Year | Size categories of municipalities | | | | | | |
|--|-------|-----------------------------------|------------|--------------|--------------|---------------|------------|----------|
| | | up to 500 | 501 – 5000 | 5001 – 10000 | 10001- 20000 | 20001 – 50000 | over 50000 | SR total |
| Credits raised percapita. | 1996 | 0.106 | 0.2255 | 0.318 | 0.322 | 0.344 | 1.603 | 0.479 |
| | 1997 | 0.071 | 0.211 | 0.303 | 0.482 | 0.388 | 1.689 | 0.51 |
| | 1998 | 0.084 | 0.248 | 0.285 | 0.307 | 0.308 | 2.017 | 0.547 |
| Rate of credit growth | 97/96 | 0.670 | 0.996 | 0.953 | 1.497 | 1.128 | 1.054 | 1.065 |
| | 98/97 | 1.183 | 1.233 | 0.941 | 0.637 | 0.794 | 1.194 | 1.073 |
| Rate of revenue growth | 97/96 | 1.075 | 1.032 | 1.120 | 1.234 | 1.142 | 1.206 | 1.130 |
| | 98/97 | 1.020 | 1.005 | 0.982 | 0.908 | 0.968 | 1.037 | 1.000 |
| Proportion of credits in overall revenues | 1996 | 3% | 5% | 8% | 8% | 9% | 19% | 10% |
| | 1997 | 2% | 5% | 7% | 10% | 9% | 16% | 10% |
| | 1998 | 2% | 6% | 6% | 7% | 7% | 19% | 10% |

Why do municipal governments borrow?

Municipal governments borrow money for two main reasons:

- for cash-flow purposes in financing operating expenses primarily in cases of time mismatch between revenues and expenses of the municipal budget
- for financing capital projects, such as roads, water and sewerage systems.

Municipal governments borrow new funds most frequently to pay back older debts prematurely, particularly in the event of a falling interest rate (refinancing). In such case, municipal government replaces one credit with another, cheaper credit.

Borrowing by municipal enterprises is a separate problem that I am not going to discuss in my introductory paper but which, no doubt, deserves attention.

Financing operating expenses

Although credits¹ in general are not considered to be an appropriate form of financing operating costs, there are at least two situations in which financing operating costs through credit is justified:

- the most frequent reason is the time mismatch between the revenue cash-flow and the need to reimburse expenses of the municipal budget. While the expenses show an even development, the development in some revenue items may be affected by seasonal influences or single-time payments. In such cases, municipal governments make use of short-term /bridging borrowing;
- in some cases a need arises to cover current expenses that have been incurred by unforeseeable contingencies, such as a fire or a natural disaster. Where the reserves are not sufficient to cover such expenses, and where no possibility is available to increase current revenues, borrowing is the only way to address the situation.

Financing investments

Borrowing is one of the most significant activities in financing investments of local self governments.

Since increased subsidies, subsidies from the state, are hardly to be expected in the transformation process of countries of Central and Eastern Europe, there are essentially two basic ways available to municipalities to finance development programs. Either to accumulate reserves from current revenues over the course of several years or to borrow funds that will be repaid in the future from current revenues.

The theory offers so-called intergenerational equity as a decisive argument in contemplating financing capital investments. If current revenues (consisting of primarily tax revenues) are used to finance investments, then the present generation is paying for the investments that will be used by future generations. If current operating expenses (current consumption) are financed through (long-term) borrowing, then the cost of benefit that the present generation benefits from, is transferred onto the next generation. If, however, credits are used to finance investments, then the cost is shared by present and future generations, which then participate through taxes and charges in repaying the credit. The following table illustrates the mutual relations between sources of finance and resources uses. It gives in a simplified form four potential options for financing and the degree of fiscal equity between generations.

Inter-generation distribution of benefits and costs depending upon the form of finance and use

| Use | Source of finance | |
|---|---|--|
| | Current revenues (taxes and charges) | Capital revenues (loans) |
| Operating expenses (consumption) | Benefit: present generation Costs: present generation | Benefit: present generation Costs: present and future generation |
| Investments (facilities and equipment) | Benefit: present and future generation Costs: present generation | Benefit: present and future generation Costs: present and future generation |

Source: Bennet, R.J.: The Geography of Public Finance. Methuen & com., 1980, p.261

¹ pod pojmom úver v tomto prípade rozumieme všetky úverové formy, ktoré pre samosprávy prichádzajú do úvahy, vrátane komunálnych obligácií, leasingu a pod.

This principle holds fully, provided the term of repayment of credit matches the assumed operating life-span of the investment it finances. Only then all citizens having benefit from an investment can contribute towards coverage of its costs.

Credit financing is thus considered to be a natural or best suited way of financing investments because:

- if credits are paid during the whole life cycle of facilities acquired from the credit, it allows to share costs of investment between present and future beneficiaries of the service of the given facility,
- using surpluses of the current budget to pay back credit, rather than directly finance investments, steps up the pace of investments,
- the investment can generate revenues from sale of goods and services, which can not only finance the operating costs, but credit repayments as well.

From the practical point of view, self governments can afford some investments only because the credit allows them to repay them progressively. Inflation is also an argument in favour of financing investments through borrowing. Inflation reduces the real costs of repayment and thus also the tax payers real costs.

These arguments, however, need to be taken with caution, since the benefits of loan financing depend on the credit terms (mainly the term of loan, and the interest rate), the degree of certainty of one's capability to repay credit in the future, as well as the nature of investment project.

On the other hand, credit resources rank among payback revenues of local self governments and are always connected with interest burden. The interest burden restricts the scope of current expenses, i.e. expenses financing primarily provision of public services are squeezed. Each loan incurs also cost of servicing debt, which is not negligible.

We need to emphasise that financing through borrowing requires knowledge of and experience with debt management on the part of self government officials, which is closely tied to long-range planning and the creation of capital improvement program.

The creditworthiness of self government

The decision of self government of whether it will seek borrowing and how much, must primarily be based on its estimated capability to repay the debt thus incurred. Where the investment generates revenues directly, we need to ensure that the revenues of the investment far exceed the operating costs, in order to be able to pay back the principal and the interest.

Where the investment does not generate revenues directly, the principal and interest must be paid from the municipal budget – from tax revenues, charges, property, etc. It is often assumed that the investments in infrastructure (such as roads, or sewerage systems), even if not generating direct revenues into the municipal budget, will result in the development of local economy that will automatically bring about increased municipal revenues and allow to repay the credit. The time span needed before the anticipated economic growth will actually show is usually longer than is expected (and much longer than the term to repay the credit) and does not always bring about the increase of those revenues that the self government is able to raise.

In decision making about how much a self government can actually borrow, most methods in use take account of the result of the current (operating) budget . The current surplus is then that portion that can be used to repay the principal and the interests of the new credit and thus it determines also the maximum amount that the self government can borrow.

The amount of credit does not only depend on the surplus of the given year. It is necessary to project future results of current budgets because repayment takes several years. For this reason, long-range financial planning and an elaboration of projected recurrent and non-recurrent revenues and expenses should become part of debt management.

The lowest surplus in the projected years will determine the maximum amount that the self government can rely on in repaying its debt service.

This approach is deemed safer than the one that sets the maximum amount of debt service as a percentage of recurrent revenues. Accordingly, the maximum debt service is determined as a 5, 10 or 15 percent of the recurrent revenues. The annual proportion of debt service set on the basis of annual revenues however, does not take account of the inescapable current expenses of a municipality, similarly to the frequently applied parameter of debt burden of the municipality. This parameter relates outstanding debt and current revenues:

$$\frac{\text{outstanding debt} + \text{repayment of interest}}{\text{revenues}}$$

Such a standardisation eliminates the impact of different volume of expenses in individual self governments.

The parameter of debt burden is often part of a system of establishing credit worthiness of municipalities, which the banks or rating agencies use before approving a loan or issuing municipal bonds.

Large self governments like to use the parameters of debt burden which is used in the practice of enterprises, which gives the debt equity ratio (in the case of self governments, debt municipal property ratio). In assessing creditworthiness, it is better to focus on the debt/ high liquidity assets ratio.

Terms of obtaining credits by self governments in capital markets

One of the associated symptoms of loan financing is that the term of the loan , i.e. the period from accepting credit until its repayment often exceeds the election term of the municipal council that decided about the acceptance of credit. The consequence of decisions about loan financing does not reflect immediately in the financial situation of the self government but only in the years to come. The financial impact of decisions made by present politicians is being deferred, whereby accountability for decisions is being lost. The decisive political forces often prefer the policy of budgetary deficit and its coverage through credit in the assumption that the policy will help them to gain greater support from the public than they would otherwise get in case of reduced expenses or increased taxes.

Simultaneously with the rise of debt, the obligation arises of raising resources to repay interest and the debt itself. The future revenues do not have to always be sufficient to finance current expenses for services and debt repayment. That means that there is a risk of excessive debt burden.

The legislation of most countries of Europe, as a rule, allows local self-governments to use credits in financing long-term assets. In some countries, self-governments have an unrestricted access to capital markets, i.e. local self-governments can take loans and issue bonds under equal terms and rules as any other subject operating in capital markets. Some countries, however, stipulate some rules for municipal access to capital markets.

The extend of regulation in local self-government borrowing differs across countries: e.g. credits raised in capital markets can only be used for capital investment purposes or the right to take credit abroad is restricted or only credit in local currency can be taken.

Other restrictions in respect of borrowing are connected with

- setting a ceiling on the amount of borrowing
- determining financial institutions that self-governments can borrow from
- setting credit terms, such as a ceiling on the interest rate for borrowing by local self-governments, setting the length for domestic credits
- imposing restrictions on borrowing abroad – in many cases approval by the Ministry of Finance or the central bank is required, currency and maximum amount of credit may be set etc.

The experience shows that the financial problems encountered in relation to loan financing can be reduced by setting clear ceilings on the amount of borrowing that a self government can accept, and setting unambi-

guous procedures for credit provision, together with the discipline of the market limitations can minimise the risks involved.

The stipulation of rules to guide municipal debt is currently a discussed subject also in those countries of Central and Eastern Europe where there are as yet no restrictions. The regulation of municipal debt encounters resistance from many municipal officials that deem it to be an excessive interference in their decision making powers.

Financing the needs of local self-governments through borrowing should be preferably focused on assisting in financing investment development. As such, it has sufficient theoretical justification. Since the right to accept credit entails committing future tax payers to higher revenues, this decision should be cautiously evaluated, several alternatives should be considered. It also requires to stipulate appropriate financial mechanisms to ensure that loan financing does not jeopardise the financial stability.

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Civil Society and Association of Finance Municipal Officers: co-operation for budget transparency

Dmitry Antonuk, Director of the Civil Initiative Support Center

Since 1998 the project "Citizens and power toward co-operation: open and transparent budget" is working in Russia. The project was developed by Saint-Petersburg humanitarian and political center "Strategy" and supported by the Ford Foundation. Besides Saint-Petersburg the project is running in Petrozavodsk, Pskov and Velikie Luki, Novosibirsk, Samara, Ujgno-Sakhalinsk. Some of other regions are covered by co-operative activity.

The goal of our project is to develop budget process in Russian cities in term of transparency and openness. Finally, our efforts should provide entire system of budget transparency promoting resulting public participation.

In frame of the goal three guidelines were defined:

- standards of budget transparency development and/or adaptation;
- budget analysis stuff-core development;
- approaches approbation for civil society and policymakers relation.

In term of last guideline the relations with association of finance municipal officers has importance. To my knowledge, benefit of civil society in such partnership is:

1. An association of finance municipal officers might be credible source of budget analysis;
2. Access to budget information might be simpler through association of finance municipal officers than directly through municipalities;
3. An association of finance municipal officers might be indispensable partner for budget analysis dissemination.

In its own turn civil society may offer to an association of finance municipal officers and it's members:

1. Resources development experience of non-profit sector (in context of my country associations of municipalities are in creation process now but many NGOs were established up to ten years ago and have many successful projects behind);
2. Development of better social support for municipal financial decisions (from preliminary consultations to expert support and public education);

As a whole a co-operation of association of finance municipal officers and non-governmental groups of budget analysis would increase quality of governance, municipal publicity and investment environment.

Let me also propose some considerations of risks caused by an idea of association of finance municipal officers in view of civil society. Educational activity of association looks clearly positive, but functions of information exchange and municipalities interests aggregation don't look so harmless:

- association might become a kind of club ("sect") of financials and will continue ordinary (for some cities and countries) practice of fiscal hiddenness
- association might become (I would say "will become") a lobby entity and it calls for attentive and careful attitude especially concerning interests presented in lobby activity and

- substitution of non-governmental activity in budget process may happen; association is non-governmental organization by law but by its capacity may be fully municipal, i.e. consists of municipal officers only who could not be representative of general public because they are power itself.

To conclude, existence of association of finance municipal officers is positive fact in point of view of civil society and benefits cover risks. Nevertheless, civil society should implement active attitude to prevent existing and future risks. Obviously, it is better to achieve accordance in "budget transparency" understanding from the beginning. Especially if municipalities and civil society are going to co-operate in this field.

Dmitry Antonuk, Bratislava, 29 November, 1999

Local Government Finance Officers Associations Strengthening Democratic Governance

Bratislava
28 November 1999
Noel Hepworth

IPF

ABC

The Economic Context

- Public sectors under resource pressure
- This pressure will increase over time
- Increased use of the market to deliver public services
- Growing demand from clients/consumers/ taxpayers to influence services
- Need for professional management of public services

IPF

ABC

Local Government Finance Officers Associations (LGFOA)

- The UK Experience
 - organisation & finance
 - roles & relationships
- Lessons from UK experience - political & professional
- Benefits and disbenefits of LGFOA
- Key issues to consider

IPF

ABC

The UK Experience

- The Chartered Institute of Public Finance and Accountancy (CIPFA)
 - origins
 - constitution
 - roles
 - relationships
- The local govt. finance officers associations

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ABC

CIPFA

- A UK accountancy body established 1885
- Origins linked to 19th century local govt.
- Trains public sector accountants/auditors
- Authoritative adviser on public sector issues
- ‘Not for profit status’ and self financing
- Self governing with Royal Charter
- Part of European & world-wide accountancy profession

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ABC

Local Government Finance Officers Associations

- Four l. g. finance officers associations
- Act in interests of their type of l.a. and support negotiations with Cen. Govt.
- Tend to reflect the political bias of the controlling l.g.political party
- Members all usually members of CIPFA
- No independent professional authority
- Not seen as independent, unlike CIPFA

IPF

ABC

Advantages of CIPFA to UK Local Government

- political independence
 - status & financial independence
 - public sector wide
 - accountancy/audit qualification and CPD
 - part of accountancy profession
 - leading edge - not conservative approach
- A l. govt.finance officer asscn. cannot do this

IPF

ABC

Why are these advantages?

- In democracy political power changes
 - no political bias/financial influence must be shown on technical issues
- A broad public sector base helps address governmental issues in wider context
- Accountancy profession link provides status, authority, and support
- Rapid change requires initiatives to maintain relevance

IPF

ABC

Problems of UK local govt.

- Corporate governance reform
- Efficiency and performance
- Client/customer/taxpayer responsiveness
- Privatisation, market testing and partnerships.

All require modern and private sector comparable accounting/audit systems

Also require quality financial managers

IPF

ABC

Risks for UK local government

- Pressure on resources
- May be in political opposition to C.G.
- Pressure for reform may lead to diminution of power
- Resistant to change because of risk to power
- Large employers with strong Trade Unions

No protection from a written constitution

IPF

ABC

Lessons from UK experience

- The political context is crucial
- Privatisation, market testing and partnerships powerful drivers of change
- Competition and partnerships between l.g. and private sector must be on a fair basis
- Therefore accounting to same standards
- Audit has to facilitate this, not act as a brake
- Professional independence essential yet must facilitate change

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ABC

Benefits of Specialist LGFOA

- Seen as politically supportive of politicians
- Can develop deep understanding of issues
- Can mobilise wide support within Association
- Can encourage training and development of members

IPF

ABC

Disbenefits of Specialist LGFOA

- Not seen as independent
- Experience can be narrow
- Therefore difficult to encourage reform
- Not part of an independent profession
- Therefore no objective standards
- Less open to international influence and ideas

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ABC

Key issues for you to consider

- Does political change need independence?
- What arrangements will facilitate service delivery reform?
- Will privatisation competition and partnerships require similar accounting standards?
- What financial management skills needed?
- How important is the link to the European and international accountancy profession?

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ABC

Conclusions

- Development of LGFOA should reflect local political/economic circumstances
- This is a fast changing world - facilitate, don't oppose that
- Pressure on resources will grow, encourage a management that can respond
- There is valuable international experience, use it to the best advantage

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ABC

Financial Relations with Municipal Institutions

Věra Kameníčková – Urban Research, Praha

Municipalities in each country are responsible for providing a range of local services for people living within their territory. The scope of these services may differ in particular countries as well as the financial flows and the rate of independence of the local government on the central government. However, certain fiscal relations with municipal service organizations, private companies and NGO's are always in place. The same applied for control of budgeting and spending.

The local services are usually of two types. One type defined by the law and each municipality must follow the legal framework precisely (birth registration, construction permits may be the examples of this type). In case of the second one each municipality is more free to decide the scope and range and how much money will spend on a particular type of services. Parks, education, waste collection, water supply fit into the second group. It is usually the services in the latter group which are to be decided who will provide them.

The arrangement of service provision is usually in hand of local government. It is up to local representatives to decide which types of services will be provided by own organizations and which will be bought from private companies or NGO's. One of the most important issue in this decision is the relation between cost and benefit. To calculate this parameter is not always an easy task because of at least two reasons.

The one being the need to calculate entire costs connected to a service. The other being the need to evaluate all benefits from a certain service. Though these estimates might be difficult they are necessary to be done. This is the only way how to choose one of these three possibilities or a combination of them. These calculations are usually the task of municipal finance officers.

When calculating costs one should include direct and indirect costs as well as possible tax implications, especially VAT and social security contributions. Also the savings from large scale production should be taken into consideration. The latter aspect is very important in case of small municipalities. A private company may provide certain services for several municipalities while a municipal service organization does this usually just for its citizens. Although even here maybe some exceptions when several municipalities form a joint body which provides certain services for all participating municipalities (water supply, garbage collection, incinerators, and so on).

Not only short term but also medium and long term aspects should be taken into account. To provide a service may require not only the current costs but some capital costs may be needed to improve quality of some services or to make them more available for citizens. Capital outlays are usually financed by debt. The cost of borrowing may not be the same. It depends on who is going to borrow – a municipality, a private company or an NGO's.

When estimating benefits one often cannot avoid public opinion. This is usually one of the important source of information how are citizens satisfied with local services provision, what should be improved, where is a lack of capacity, where is the territorial distribution insufficient and so on.

Regardless which solution is adopted one should not forget that it is the municipality representatives who are responsible for local service provision. The way of service provision should also be accountable to the

citizen. Therefore the local council should always have a control over costs and benefits in case of all services in order to choose the best way, to avoid possible misuse of the budgetary means or to minimize it. And these decisions should be made public.

The budgetary means will always be scarce. The volume of them will always be insufficient comparing the need of local services provision. Therefore the effectiveness of their allocation is strictly required. One of tools to ensure that budgetary means are spent effectively is a regular control. There are basically two types of control – internal and external. Internal control of budgeting and spending is usually entirely in hand of local representatives. In some countries they may be detailed legal procedures of internal control. In others it is up to local representatives to put this control in place in the way they consider to be the best one.

Internal control usually has a broad range of tasks. Starting from the check that expenditure do not exceed revenue including reserves, via the level of collected own revenue (whether all local taxes, fees, and penalties are collected properly and in time), ending with the check that all revenue are collected and all expenditure executed according to the law and approved budget.

In case of external control there is audit, central government control (mainly of the legality of municipality actions and for state grants) and public control. For audit is required by the law example in the Czech Republic. It is done either by a private firm or by a corresponding district office. State grants control is the function of tax offices (part of the state administration). As concerns the public control there is a legal obligation to put the budget proposal and financial account on a place available to citizens several days before these documents are going to be discussed in the local council meeting. Citizens may attend this meeting and have right to tell their opinions and should get answers. There is also a system how to deal with citizens complaints in place.

However due to historical reasons and past experience the attendance of public at these meeting is not great. To get the public opinion is therefore quite difficult for local representatives. Exchange of information among similar municipalities (as far as the size and volume of budget is concerned) may be a form of a certain compensation of the lack of interest of citizens. The comparison of budget structure, services provision, cost levels for particular spending and so on made regularly may form a base for evaluating the present situation in local services provision, maybe a source of information what should be changed and how.

To install and manage a regular exchange of relevant information concerning budgeting and spending of municipalities across the country fits into the role of Municipal finance officers' Association. Apart from the fact that it may help their work it is also useful for others. However much depends on the central government attitude as it is usually this body which dispose by the basic data on municipalities.

There is no need to say that an exact description of service provision should be in place as well as some indicators enabling comparison.

While the demand for particular services may come from different departments of the local government office the final word before incorporating them into the budget will have the financial department. It is up to this body to propose which new services will be provided in the following year and which sources they will obtain. An analysis of presently services provision should serve as a base for this proposal.

Issues to be discussed:

- Procedures to select local service provider – should be a municipal service organization preferred?

- At which price should be a local service sold – equal to costs or below costs?
- How to get the information on the quality of services – public opinion polls or surveys or some other methods?
- How the total costs of a service are calculated and controlled?
- What are the procedures to include a new service into the budget?
- What is the evaluation process of existing services?
- How is the internal control organized?
- How can the Municipal Finance Officers Association help local representatives and finance officers with above mentioned issues?

Conclusions drawn by the third group: Fiscal relations among the municipal service providers – the private sector, and non-profit organisations, budgeting and the budget expense audit

Vera Kamenickova, Urban Research, Prague, Czech Republic

The participants of the third group have come to the conclusions as follows:

- A) Lately, not only the Central and East European countries have been witnessing a switch from the old state when a municipality procured for its local public services through its own service providers to a new state characterized by a greater variability at two levels. Firstly, conventional organisations funded and co-funded from the state budget have been expanded by shareholding companies and limited liability companies in which a municipality has as much as 100 per cent ownership. Secondly, the procurement for local public services via the municipal service providers has been expanded by their purchase from the private sector and non-profit organisations.
- B) This process concerns a rather high number of local public services, although differences may be found across the communities of a single country. Of the local public services included here are housing management, heat and hot water supply, care of the community cleanliness and public greenery, household waste transport and its hazard-free destruction, water, gas, and power supplies, sewerage, and waste water treatment. The size of a community is not the most vital parameter in this process, since one private company may simultaneously deliver public services to the inhabitants of several communities. Another factor is the association of communities so as to jointly procure for some services, such as a joint operation of a water house, the water treatment plant, household waste landfills, and the like.
- C) The above change in the procurement of local public services has a significant implication. The monopoly status of municipal organisations in the local public service sector is being changed gradually and a competitive environment is given more opportunities. However, these changes do not discharge the representatives of municipalities of their share of responsibility for the conditions, costs, and quality of the individual services delivered to the inhabitants.
- D) The third group participants agreed on the following benefits of these changes: fewer staff of the city office, cutting the municipal budget expenditure and providing opportunities for factoring other expendi-

ture in the budget; greater transparency in delivering public local services, higher efficiency and better quality of the services delivered.

- E) The discussion also touched upon the setbacks of the above development. Among them is a potential conflict of interests between the city officials and the owners of the newly-privatised or private companies. The above development is also more exacting than ever in terms of the high standard of the agreements concluded between the communities and a public service provider that undertakes to deliver certain services.
- F) In the second part of their discussion, the members of the third group focused on the identification of areas in which the associations of communities, and municipal finance officers can act to the benefit of their members.

Eight areas of concern have been identified, namely:

- 1) Procedures that are to apply to the selection of a provider of a service in question (is a bidding procedure also applicable to municipal service providers – should these be given preferential treatment over other bidders?)
- 2) At what price should the individual services be delivered – at a price equivalent to costs, or price higher/lower than inevitable costs. Price subsidies favouritize some groups of citizens (not everyone is a beneficiary of the service in question), and, hence, the space for other expenditure is limited. Is their preferential treatment in line with the city officials' intent?
- 3) Techniques on the gathering of information on the quality of the services delivered – public opinion polls, continuous processing of claims that are either submitted in written form or voiced at meetings with city officials.
- 4) The computation of total costs associated with the public services in question. Only based on these costs the offers of municipal service providers can be compared against the offers made by a private company. The computation of the total unit costs of services delivered by municipal service providers.
- 5) Projections of the scope of delivered services and checking whether hitherto expenses have not been unnecessarily high and which new services must be included on the list.
- 6) Efficient arrangement of the internal audit of the community budget so as to be conducive to a maximum alignment of the operation with the approved budget, deviation minimisation and regular analysis of their causes, and ensure that all the expenses be in conformity with the legal system and approved, or, adjusted budget, ensure that all the income is duly and timely collected, and subsidies allocated to companies and other organisations be used in accordance with the plan and budget.
- 7) The importance of an effective allocation of budget funds, debt management, and disposition of assets.
- 8) Exchange of information on the basic aspects of the community operation, its importance for the work of municipal finance officers, data collection, the distribution and evaluation of processed results.

Strategic and Current Budget Planning

Susanna Kassó, Hungary

The public sector is large and still growing in terms of revenues, expenditures, debt, and public needs, everywhere in the world.

Public budget fulfils multiple purposes: It provides a multitude of services, redistributes income and wealth, and stabilises the economy through fiscal and monetary policies. It has to combine financial and non-financial information in the context of city council policies and priorities.

Public services are meant to meet certain social need. When planning public services the costs of which are to be covered from tax revenues it is always a dilemma that needs, requirements are always higher than the tax revenues can cover. With planning those needs are to be selected which must be met under the given economic and social conditions.

In parliamentary democracies the election programs of political parties can in actual fact be regarded as some sort of comprehensive strategic concept, which serve as a guiding line in the election period for the development of public service strategies. Naturally the election programs generally do not have in their contents the features typical strategies, so it is necessary to prepare public sector strategies per the main areas of public services, which in turn are based on detailed analysis.

Currently, budgeting in a typical local self-government is rooted in a tradition of controlling and accounting for expenditures and revenues, which means mainly to control the input side.

Traditionally, the public sector has developed their budget, appropriation, management and reporting systems around inputs. While this provides a relatively good basis to control how resources are used, it provides very little information about what is actually produced with those resources. So it is an important question and decision: the management system should focus on and drive by inputs or outputs.

The following sheet highlights the main differences between the input and output focused budgetary system.

| | Input focused system | Output focused system |
|--|--|---|
| <i>The subject of (activity) planning</i> | <p>It could actually operate without specific activity planning, because its objective is to maintain the status of the previous year, and that does not have to be planned.</p> <p>The public needs, the public interests, the public services are hidden behind the financial figures.</p> | <p>The volume and quality of the services to be supplied must be planned with a view of the requirements and of the resources available. The resources needed for the planned outputs must be assessed.</p> <p>When resources are limited the volume or quality of output can be reduced or the ratio of self-financing can be increased.</p> <p>The planning documentation must include:</p> <ul style="list-style-type: none"> • arguments for needs of the proposed output, their justification, • the method by which the output is to be produced, expressed, if possible also in performance indicators, • proofs on the availability of the resources needed for the output, • the value of resources expressed in monetary terms. |
| <i>The subject of budgetary planning</i> | <p>Budgetary appropriations are not directly linked to physical outputs, so the only starting point can be the appropriation of the previous year, which is to be modified on the basis of the financial conditions during current year, to maintain the level of the previous year. The drop due to the financial conditions can be expressed - for lack of anything better – in percentage term, which further increases the differences between the level of public services.</p> <p>Reduction generally directly affects staff costs, which in practice means “to fire people”, something very difficult to implement.</p> | <p>Withdrawal takes place by reducing the volume or quality of the output, as a consequence of which resources can also be reduced. The executive bodies of the local government can identify the method, and that by itself is also a motivation to improve efficiency and reduce costs.</p> |
| <i>Co-ordination in the planning process</i> | <p>Planning is practically limited to budgetary planning, which means that there is no link on planning issues between the organisational units responsible for performing the public services and the finance staff. The task of budget planning is left with financial staff. Co-ordination takes place mainly between finance staff on the various levels of public finances.</p> | <p>Budgetary planning cannot take place without planning the activities of public services. So planning is the responsibility of the entire executive organisation unit of management. The foundation for activity planning and budgetary planning is in the cost centres. The financial staff is responsible for consolidating the budgets of cost centres, to co-ordinate the process within the institutions. On the various levels of public finances there is mutual relationship and co-ordination between the financial staff and other department staff focusing the public services.</p> |

| | | |
|---|---|--|
| <p><i>The incentives which can be built-in for improving performance</i></p> <p><i>Performance measurement.</i></p> | <p>It is very difficult to find any incentive from the financial side, because the basic incentive of the system is that the appropriations available can or should be spent.</p> <p>As the appropriations do not reflect the output, it is hard to prove whether or not additional demands are justified, so generally the partner in stronger position wins, that is one can be obtain budgetary resources without output, and genuine needs do not get the necessary resources.</p> <p>The system does not really need output and performance measurement.</p> | <p>Relationships between the approved appropriations and output is transparent, appropriations can be made available in proportion to output, accountability is related to output. By comparing the unit cost similar outputs it is possible to screen out the efficiency, and there are incentives for cost management.</p> <p>Budgetary resources are made available only on declared outputs, which are accountable.</p> <p>It is a precondition for the operation of the system to measure the outputs. Budget allocation, distribution takes place on the basis of expected outputs, the reporting system makes the differences between expected and actual outputs accountable.</p> |
| <p><i>Possibility for budgetary control (budget execution)</i></p> | <p>It is in practice possible to check payments in terms of compliance, and to see if the volume of sums spent is not more than the relevant appropriation. There is no direct relationship between output and appropriations, and it is subject of subjectivity whether payment demands are accepted or rejected. Check points can be established mainly in financial procedures, without the possibility to assess whether the given payment was indeed necessary for the organisation to produce the expected output.</p> | <p>It is possible to build-in checkpoints in the performance and in the financial lines.</p> <p>It is expected on the organisation level to produce the outputs within the planned unit costs. A preconditions for that is to have cost centres within the organisation, where one person is responsible for adhering to the rules related output and costs. In other words the person responsible for the output is personally responsible for initiating only payments which “fit” into specified output costs. This type of control guarantees that the organisation produces the output with the approved appropriations.</p> <p>Apart from the cost centres the compliance of payments must also be checked. The significance of that increases because an organisation can have rather large number of cost centres.</p> |
| <p><i>The accounting system</i></p> | <p>Mostly cash basis, which provides information on the different type of input appropriations.</p> | <p>It is a precondition for the operation of the system is to state the use of funds as per outputs. Mostly accrual or modified accrual based, focused on the elements of public services.</p> |

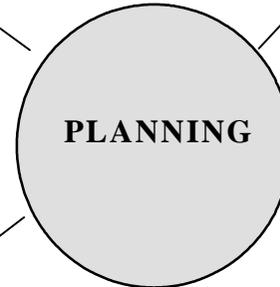
**FOR
WHOM**

The identification of social problems,
needs
Survey of the changes

Survey of requirements
by social strata

WHAT

What should be
the content of
the public
services?



What type of
performance
indicator covers
the public
service?

HOW
Who
What
When
How

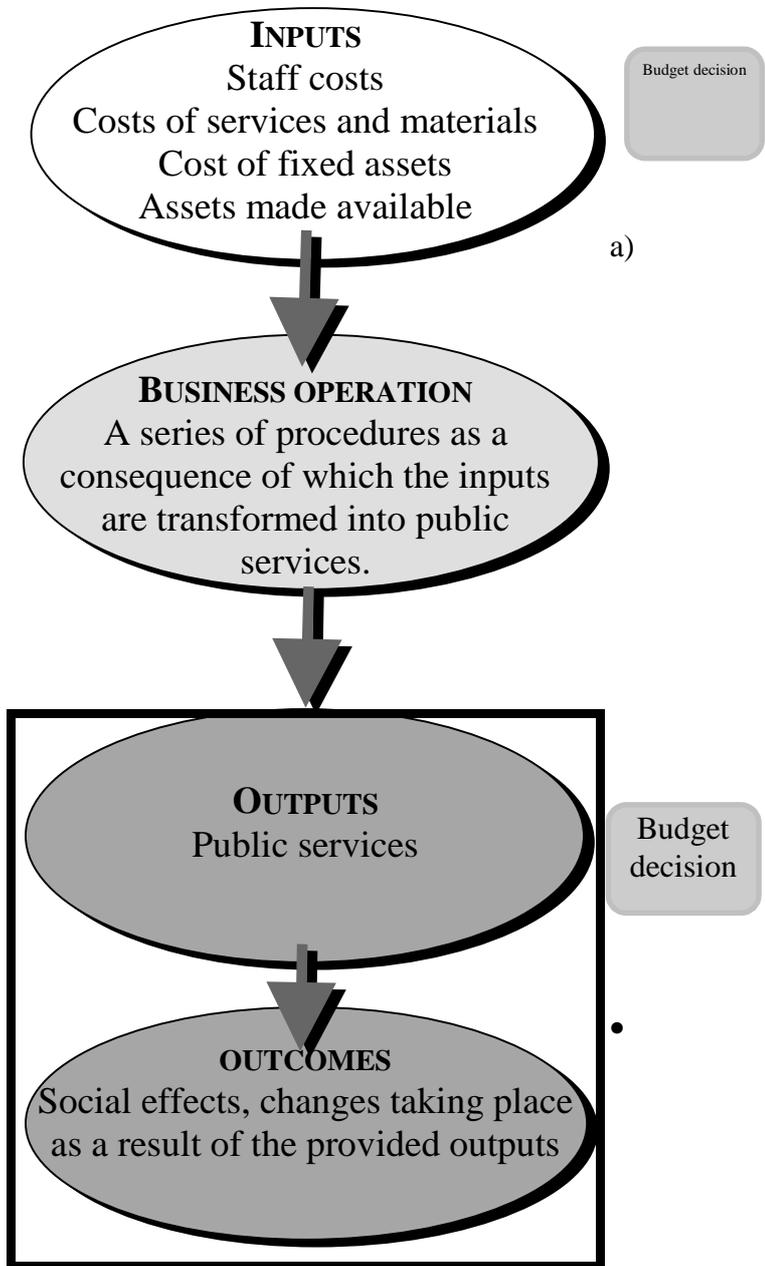
**Conditions for the public
services**

- Which organisation?
- What type of incentives?

Financing

- Single or continuous financing
- Financing requirements depending on quality and capacity
- Financial incentives for efficiency

Operation Model



| Planning | |
|-----------------------|------------------------|
| Input Focused Systems | Output Focused Systems |
| ✓ | ✓ |
| b) | ↑ |
| ✓ | ✓ |
| | ↑ |
| | ✓ |
| | ↑ |
| | ✓ |

| | Problems identified regarding the budget system | Legislative commitment | Reforms Expected changes | Employee motivation | The cause of resistance to change |
|--|--|-------------------------------|-------------------------------------|----------------------------|--|
| <i>The subject of (activity) planning</i> | | | | | |
| <i>The subject of budgetary planning</i> | | | | | |
| <i>Co-ordination in the planning process</i> | | | | | |
| <i>The incentives which can be built-in for improving performance</i> <i>Performance measurement.</i> | | | | | |
| <i>Possibility for budgetary control</i> <i>(budget execution)</i> | | | | | |
| <i>The accounting system</i> | | | | | |

The Role of Professional Associations of Finance Officers in the War Time

Hidajet Kelestura, JAFIS

The Association of Citizens for Public Finance” — JAFIS was established in Sarajevo in 1997. Its members, currently about 400 of them, are the experts in the fields of public — governmental finance coming from the regions of the Federation of Bosnia and Herzegovina (for those ones who are not familiar with the internal organization of Bosnia and Herzegovina, I would like to say that Bosnia and Herzegovina is consisted of two entities: the larger one – the Federation of Bosnia and Herzegovina and the smaller one — the Serb Republic).

A group of experts in the fields of public finance, supported by ICMA (International City/County Management Association), has initiated the establishment of a non — profitable professional association which would gather the workers from the governmental accounting offices. The basic program goals of the Association are the following:

- gathering of the experts in the fields of public finance and finance law;
- strengthening of democracy and improvement of management professionalism by public expenses in all levels where taxes and public expenses are made (entity, canton, municipality);
- provision of technical assistance and training of employees in the field of public finance through seminars, practical training and workshops;
- analysis, provision and taking stands related to legal rules and regulations in the fields of public finance and finance law;
- provision of communication services;
- publishing activities. etc.

The Association realizes all its goals through a close cooperation with the experts in the fields of public finance from Bosnia and Herzegovina and abroad (primarily from the USA and Western Europe), as well as through the cooperation with the universities, local and international associations which gather the experts in this field.

I am sure our Association — JAFIS is similar to similar organizations in other countries of Europe and the whole world. It has got similar objectives and goals, as well as working methods. It has also got a similar role in the region where it acts. The thing, which makes our Association different from the other similar associations in other countries, is related to the specific time it was established in, as well as the specific role it has had in Bosnia and Herzegovina — I would call it, „The role of professional association in the war time”. I would like to say a few sentences about it in the following minutes of my presentation.

There was a terrible war in Bosnia and Herzegovina in the period from 1992 to 1995. The war lasted almost 4 years and besides a huge number of war victims, about 200.000 killed persons and terrible damages and destroys, we experienced a complete splitting of the territories between people who live on the territory of Bosnia and flerzegovina: between Bosniacs, Serbs and Croats. A Peace Agreement was signed in Dayton, USA, on November 21, 1995, and besides the other things, they agree on the basic principles of functioning of the new country. In order to have such a split country being in function as a unit, it was necessary to start its reintegration again, in all sectors, which includes the beginning of getting people closer to each others, the ones who shot each others till yesterday.

Immediately after the Peace Accord had been signed, the military forces came to Bosnia and Herzegovina. (the majority of them were American soldiers), who came to keep the agreed peace.

After coming the American soldiers and their inclusion into the new reconstruction of Bosnia and Herzegovina, the Government of the USA, as well as the USAID (U.S. Agency for International Development) mission were included as well.

Besides the reconstruction of our country, USAID had, and it still has, the role of reform of the economic system from socialistic towards market economy. The reform of the governmental accounting in Bosnia and Herzegovina is a part of those reforms and it is done in accordance with the international standards. In this sense, through the professional associations, like ICMA and others, with the aim of education of staff in Bosnia and Herzegovina, USAID has started working on a large numbers of different projects since 1995.

By the USAID assistance, a group of experts in the field of public finance which was included into one of the educational USAID projects, has established a non — profitable professional association which started gathering the workers from the government's accounting offices. Gradually, the professional workers from the region of the whole Federation of Bosnia and Herzegovina, Bosniacs and Croats, became the members of this association. By the establishment of the appropriate legal regulations, which do not exist on the (national) level of Bosnia and Herzegovina at present, this association plans to extend its activities into the other entity, the Serb Republic.

So, the Association of Citizens for Public Finance has become an important integrating factor in Bosnia and Herzegovina., it has become the association which made the people closer to each others, the people who have recently been on different sides during the war. We consider it as the biggest success of our association that has been achieved so far.

The Role of Municipal Finance Officer's Associations in Strengthening Local Democratic Governance

Developing a Competitive Sub-national Finance Market Policy Issues and Challenges

Mihaly Kopanyi, (The Case of Hungary)

1. As it sets its sights on EU accession, Hungary faces a mid-term challenge to increase both private and public investment to support high economic growth and modernize its infrastructure, while maintaining internal and external macroeconomic equilibria. Investment needs in local infrastructure have been growing against a background of tight fiscal policies that have constrained budgetary transfers from central to sub-national levels of government in particular since 1995. The funding sources for municipal investments have included local operating surpluses, central government transfers, and proceeds from asset sales (the latter coming to an end), and municipal borrowing for investment purposes has been negligible. Nevertheless, a significant financing gap is envisaged in the coming years even if EU structural funds are taken into account. This financing gap could only be filled through private sources including FDI. This note addresses the policy issues related to the ability of local governments to access private capital markets in a way consistent with macro-economic stability (See also the Fiscal and Local Capacity Building Policy Notes).
2. **Present status and challenges:** Municipal investments are currently well below replacement rates and – a fortiori – well short of the rate that would be required to meet EU standards. As investment rates increase as part of EU integration strategy, and as asset sales vanish as a source of investment finance, municipalities and public service companies will need to turn to the market for the financing of their investments. *Demand-side impediments:* the vast majority of municipalities is too small to undertake investment projects at an economically viable scale, their individual demand is sporadic, low service fees and lack of expertise constrain non-recourse finance. There is no economic base for attracting private providers (particularly FDI) into new public service developments. The regional service associations of municipalities lack capital, thus they are economically non-viable market entities. *Supply-side impediments:* there is a lack of specialized financial instruments and private financial intermediaries to meet investment demand of municipalities and public service enterprises, investment finance is limited to 3-5 years at present. *Regulatory impediments:* Despite the municipal bankruptcy law of 1995 is a strong instrument to limit moral hazard, there remain weaknesses in the prudential framework for municipal borrowing, in the financial sector regulatory framework for sub-national debt, and in the budgetary framework to support municipal borrowing.
3. **Local versus Central Government borrowing and macroeconomic risk.** Central and local governments constitute the general government sector and public debt levels should be kept consistent with macro-economic stability and objectives. Local government borrowing should be a substitute to central government borrowing, not an added burden to the national public debt (inter alia, to comply with the Maastricht criteria). The pay-off justifies the shift from central to local borrowings or vice versa, cheap money might turn to be expensive. Sovereign borrowings imply the lowest interest rate, and central government transfers financed from borrowings are instruments to reduce horizontal imbalances and control fiscal policy. However, there are significant transaction costs of intergovernmental transfers, they create adverse incentives for local investments, entail full sovereign risk, hamper mobilizing long term (e.g. 20 years) resources,

reduce incentives for private sector participation in local infrastructure, and also reduce opportunities for non-recourse finance of local investments. Direct borrowing by local governments and public service enterprises, by contrast, encourages a closer fit between local investment choices and citizen's priorities; it reduces sovereign risk exposure and risk for contingent sovereign liabilities; it also increases opportunities for non-recourse and term finance.

4. To foster a healthy environment for local government borrowing, policies and guidelines are needed to: (i) ensure that borrowings are based on strict investment criteria and risk/return benchmarks so that they generate adequate economic returns; (ii) ensure at the time of borrowing that debt service will be affordable when measured against local government income; (iii) encourage non-recourse finance options where project revenues/assets are segregated from other local government assets, with creditors having no claims to the latter (in this case, debt could be secured by the project's dedicated income streams and assets); and (iv) ensure that local government borrowings are dedicated to funding capital and not current expenditures or operating deficits (to this effect clear budgetary distinctions must be made between these two expenditure categories)
5. **Meeting the demand for sub-national investment finance.** One key challenge at the demand side is the issue of multitude of small local governments. In accordance with the concept of functional regionalism, the creation of ad-hoc associations such as „special purpose entities“ may be one solution. While this would avoid tempering with political and administrative sub-divisions, the approach would ensure that services are delivered more effectively with the desired economies of scale. The government may want to encourage (through incentives if need be) the ad-hoc establishment of special purpose entities for the exclusive purpose of delivering services. The laws should provide that these entities: (i) be legal units vested with powers to enter into contracts, borrow, levy fees against services provided or betterment taxes against improved property values; (ii) be adequately capitalized; and (iii) be able to pledge project revenues as security for borrowings.
6. *Local investment demand, a risk to fiscal and current accounts.* Local public investments, which contracted during the second half of the nineties, are projected to increase progressively over the mid-term as local infrastructure will be modernized as part of EU accession strategy. In parallel, profound changes are envisaged in the structure of local investment finance. Private funds will play a growing role, which will ease fiscal burden, but have impact on the current account. Local government finance will remain tight, because physical asset sales and privatization revenues are projected to decline rapidly, central government transfers to be reduced, and matching capital grants to increase progressively (required for inflows of EU funds). As a result, net borrowing of local governments, which amounted to -0.7 percent to GDP in 1997, is roughly estimated to increase to about 0.5 percent by the time of accession and onwards.
7. In parallel with a moderate increase in municipal investments, about two thirds of the projected increase of the investment rate in the economy will be accounted for by public service enterprises over the medium-term. Investments by companies providing local public services are projected to increase to about 3.2 percent to GDP by the time of accession, and remain at that level from there on. Meanwhile net operational surplus of public service enterprises is projected to increase progressively as a result of the introduction of cost recovery measures. In addition, capital grants to public service enterprises are projected to increase progressively in line with projected inflows of EU pre-accession and structural funds as well as FDI. Hence, net borrowing requirement of public service companies, which amounted to 1.0 percent to GDP in 1997, is projected to increase to about 1.5 percent to GDP by the time of accession and onwards.
8. **Supply of sub-national investment finance.** The supply of funds has been growing as a result of the increased mobilization of savings, availability of new financial instruments, and growth of domestic capital markets with entry of new institutional investors (e.g. pension funds). These provide a growing funding pool for local government investment finance. Government policies should focus on enhancing the development of a range of financial/debt instruments through direct access to the bond market or through financial intermediaries (including credit enhancement tools e.g. revenue collateralization) to allow better

management of risks. Municipalities and public service enterprises must carefully manage their risks, both through maintaining their borrowings within limits where they can manage possible currency and interest rate fluctuations (that depend on the quality and predictability of macro policy) and through hedging instruments.

9. *Local government access to credit markets.* One constraint to local government access to credit for infrastructure finance pertains to the limited availability of long-term lending, as loan maturity to local governments rarely exceed 5 years. This situation arises from lenders' concerns regarding interest rate and credit risks. Government policies could provide an environment and guidelines for: (i) credit risks to be reduced through credit enhancement, including lending secured by project recurrent revenues (user fees or incremental tax revenues), that would encourage longer-term commitments by potential creditors; and (ii) for interest rate risks to be mitigated, as they have been so far, in pricing loans on an indexed, floating rate basis, further mitigated through fixed income portfolio diversification techniques (for which guidelines may need to be provided).
10. *Specialized financial intermediaries for local government investments.* In Hungary, it would not be feasible for a vast majority of small and medium-sized local government entities to have access to credit through direct bond issues. The use of private financial intermediaries that could tap private credit markets on behalf of local governments could be one way to foster market access for such borrowers through pool financing arrangements. This would entail leveraging the intermediary's equity funds through bond issuance. Lending would be for: viable, revenue-generating infrastructure investments that would meet debt service out of revenues; and public goods investments able to generate fiscal resources needed for debt service. The policy challenges in establishing market-based specialized financial intermediaries, and on which government attention is required, would relate to: (i) the institutional framework conducive to establishing market-based financial intermediaries that would issue debt without government guarantee; (ii) the main features in terms of products range (loans, guarantees, underwriting, etc.); and (iii) the funding, product pricing and risk management policies needed to support financial sustainability.
11. **Strengthening the legal/regulatory framework:** Three fundamental components need to be addressed: the prudential framework, financial sector surveillance, and budgetary framework for local government borrowing. *The prudential framework* needs to enhance municipal borrowing ability while limiting moral hazard. The definition of public debt should include guarantees and other contingent liabilities of local governments. The central government may need to issue legislation stating that it will not, as a matter of principle, issue sovereign guarantees for sub-national transactions. The existing limit on local government borrowing should be replaced by a borrowing limit based on the long-term debt servicing capacity of the local government. The major capital market development issues are as follows: (i) underwriting, distribution, registration, settlement, and market-making capabilities in secondary markets for municipal securities; (ii) capital adequacy ratios and disclosure standards for underwriters and market-makers for municipal securities; and (iii) benchmarks for pricing debt obligations of municipal entities.
12. *Financial sector legal and regulatory framework* needs to improve market transparency and disclosure by local government borrowers. It is necessary to set up a central debt registry to record all sub-national debts including, contingent liabilities, and assets pledged as collateral. These records need to be updated in a timely manner and be accessible to all market participants. The format of the annual financial report required by local government bond issuers needs to be defined. *The budgetary conditions for local government borrowing.* Beyond the issues discussed in the Fiscal Policy Note, to enhance local borrowing there is a need to distinguish recurrent and capital budget, to regulate local revenue collateralization, asset registration, valuation, and collateralization, and to improve external auditing of local government budgets. A municipal finance information service would be instrumental to provide creditors with relevant, reliable, and standardized information on local governments (such as debt service to revenue, current revenues to expenditure ratios).

Local Government Borrowing

Panel discussion

Mihaly Kopanyi, WB Financial and Enterprise Sector Specialist, Hungary

1) The role of LG borrowing

- Why do LG borrow?
- Wrong arguments: because they are in shortage of money and because they receive less and less money from the central G.
- Short term borrowing must be for liquidity purpose i.e. to cover the difference between revenue inflow and outflow within a budget year
- Long term borrowing: must be retained for investment purposes. LG borrow because they are able and willing to meet the highest priority needs for local public services, while the investment in question can not be financed purely from the current year budget.
- Equity issues about the long term borrowing (LTB): (a) LTB creates a cross generation burden since the money will be repaid by the next generation; (b) the respective public investment result in a durable good, hence if it is managed properly it provides a significant benefit for the next generation too.
- Local versus Central G borrowing: (i) Both are parts of the consolidated government system, so there is no difference in public debt, general budget deficit, or current account impact. (ii) CG is better to borrow for national development programs and for equalizing purposes. (iii) LG borrowing improves local incentives, local priorities, accountability, cost efficiency, and local democracy.

2) Borrowing capacity depends on

- Local revenue capacity: size of municipality, local economic conditions
- Well defined projects, and
- Creditworthiness which is depended on:
 - Streamlined and predictable rules for CG transfers
 - Strong local tax administration, tax and user fee collection, proper local tax base and tax rate
 - LG budget practice with credible accounting system and external audit
 - LG payment, cash and liquidity management, and financial control system
 - Good capital budgeting and investment planning
 - Strong asset/liability management including control over the municipal enterprises and institutions
 - Transparency: financial disclosure standards, reliable basis for credit rating
 - Good data base with indicators/ratios on LG finance (e.g. debt service to revenues, local taxes? share in local revenues)

3) Regulation of borrowings

- Some regulation is needed because LGs are part of the general government system, and moral hazard must be reduced too. In Poland the CG can issue temporary prohibition for LG borrowings if the central budget deficit turns to be too high.
- Borrowing from abroad is prohibited in most of OECD countries, because local public services do not generate foreign currency revenues, hence there is a significant exchange rate risk.
- Full freedom of borrowings: very dangerous both for local and for national budget reasons at least temporary prohibition is often applied. The fast growing indebtedness (and particularly foreign borrowing) of the Slovak municipalities (10% of revenues in 1998) might be a problem sooner or later, because these may result in failures of municipalities or banks and finally bail out by the central government.
- Ceiling on borrowing: very often used method worldwide. Mostly very simple benchmarks are used e.g. 70 percent of net annual revenue, or 25 % of investment cost etc. It is better but more complicated if the ceiling is tied to the real debt service capacity indicators
- Bankruptcy Regulation (used in Hungary and Latvia) is a useful tool to internalize the lending risk for the banks and other creditors, reduces moral hazard (CG bail out), for these reasons, however, makes the banks rather conservative in lending to municipalities.
- Prudential regulation for the market players are also well used tool in combination with some of the above elements

4) Bank and capital Market Issues

- There is no difference between bank loan and issuing bonds. The question is which one provides cheaper funding in a particular project case.
- Bond issuance could be very good for several supply side institutions (e.g. pension funds, insurance companies, and investment funds). Plus the secondary market helps in diversifying the risk etc.
- LGs are mostly too small in Central ? Eastern Europe, hence they are unable alone to issue bonds, and hence there is a challenge of pooling. Pooling might be done at the demand side e.g. establishing ?special purpose districts and tax increment districts?
- Pooling can be made by specialized financial institutions: state owned municipal bank (like in Holland), state owned municipal development fund (developing countries), both are challenging the moral hazard effects.

Private market makers are used in Finland, Sweden, private banks are providing pooling services in most of EU countries. The pros and cons must be carefully analyzed.

Financial and economic instruments of municipal company management (*Principles*)

Mihail Kuznecov, Head of Financial Department, Petrozavodsk

The most serious challenge currently faced by local government authorities is the creation of an optimum scheme of financial relations with municipal companies (local public enterprises owned by municipalities). These companies are mainly active in the area of housing or public transport sectors and due to their business focus they are forced to deal with issues of providing for necessities of life for the population of their relevant territory. For historical reasons these companies, as a rule, are so called natural monopolies in the service market and this fact increases the urgent importance of this issue.

The current system of mutual relations between local government authorities and municipal companies needs to be reformed due to the following reasons:

1. the municipal budget expenditures allocated to cover subsidies to municipal companies are continuously increasing and they are out of control, while at the same time the transfers of funds intended for this purpose from higher level budgets are cut and the population debt for services provided is increasing;
2. there are no possibilities of efficient control of these companies and their fund management by local authorities, and therefore no possibility of exact forecasting of their financial performance and necessary amounts of budget funds to be allocated.

Budget funding of municipal companies is currently done in a number of ways:

1. Compensating for difference in price charged for municipal services caused by the fact that (in compliance with valid legislation) the population does not pay for the services provided the full amount (the standard rule on cost coverage adopted by the Russian Federation for 1999 and applying to cross-budgetary relations represents sixty per cent).
2. Compensating for company budget deficits caused by discounted provision of services to certain categories of population (military veterans and ex-servicemen, handicapped people, etc.).
3. Direct budget funding of certain types of public work and services provided by companies for the benefit of the population (street cleaning, public area maintenance and care).
4. Purpose-tied budget funded capital investments to local municipal economy.

Cost of local economy funding represents app. forty per cent in the local government budget structure, and unless things change in this area this proportion will continue to increase.

On the other hand, the starting assumptions of inevitably deficit nature of local economy and of its principal budget form of funding evoke certain doubts. The situation should be the other way round, as a principle. And this presents huge opportunities for ensuring financial independence of local authorities. The unique feature of municipal economy is the fact that it does not have to deal with promoting the sale of its products. Work and services provided by these companies are directly demanded by the consumers in the full amount, and therefore they should be 100 per cent paid for. The business of these companies cannot be loss producing in the very principle of this activity. It is made a loss making business by the lack of any external audit system, by lacking cost regulation by the local government bodies and by the lacking internal financial policies of these companies that do would set cost reduction as their objective.

It is impossible to introduce system of controls without organizational restructuring of municipal companies. The existing organization and legal form of municipal companies does not allow local governments fully exercise their rights as owners. We believe the solution would be in transforming municipal companies into joint-stock companies with a 100 per cent municipal interest. There is another aspect to the whole issue of

municipal management and its reform. The company restructuring process and follow-up activities require that local government experts conduct a continuous cross-factoral analysis of company activities and performance. In the present situation in their organizational structure the local government authorities do not plan to employ specialist capable of performing these required tasks at adequate level of quality.

EU Accession and Municipal Finance

Priorities for Municipalities Associations

Michel Noël

Three Key Points:

- I. EU accession implies a large increase in local investments. A substantial part of these local investments will need to be financed by private sources.
- II. Convergence to the EU single financial market presents both opportunities and challenges for the financing of local investments. Policy reforms are required to create orderly and efficient sub-national debt markets, and for building the architecture for sub-national bond markets.
- III. Municipalities associations can play a major role in supporting the development of the sub-national debt market, develop the capacity of their members to access this market, and create linkages with their counterparts in EU member countries.
 - I. EU accession implies a large increase in local investments:
 - Environment investments requirements of EU accession
 - Examples: Poland, the Czech Republic, Hungary, Slovenia

Poland

Czech Republic

Hungary

Slovenia

The Structure of Local Government Investment Finance:

Poland

The Structure of Local Government Investment Finance:

Hungary

II. Convergence to the EU single financial market presents both opportunities and challenges for the financing of local investments.

In the vast majority of EU member countries, competitive sub-national finance markets are key to

- mobilize resources from savers through diversified instruments
- price sub-national credit
- allocate scarce investor resources among competing sub-national investments

IIB. Building the architecture for sub-national bonds markets

1. Building a dynamic relationship between the domestic bond market and the market for sub-national bonds

- Developing a benchmark yield curve for the sub-national bond market
- Contributing to bond market diversification through sub-national bond issues

- Supporting the development of the secondary sub-national bond market
- 2. Strengthening the regulatory and supervisory framework for the sub-national bond market
 - Regulating bond issuance and disclosure
 - Developing regulations that are specific to sub-national bonds
 - Developing regulations that are required for structured sub-national bonds
 - Developing regulations that pertain to portfolio holdings by sub-national investors
 - Maintaining a non-distorted tax regime for sub-national bonds
 - Developing the market supervisory framework
- 3. Building a dynamic relationship among key market players
 - Bond issuers
 - Financial advisers, bond counsel and underwriters
 - Credit rating
- 4. Developing instruments for credit enhancement and credit pooling.
 - Refunded bonds
 - Credit insurance
 - Bond pooling

Priorities for action by municipalities associations

1. Support the development of inter-municipal undertakings, such as special purpose districts and inter-municipal companies that are required to achieve economies of scale in local investments.
2. Promote the design and implementation by the central government of policies required for the development of an orderly and efficient sub-national finance market as part of the EU single financial market.
3. Support the development of institutions and programs to provide technical assistance and training to municipalities in the areas of accounting, budgeting, investment programming and financial management, including asset-liability management.
4. Support the development of exchanges of knowledge and experiences with municipalities associations in the member countries of the EU.

Local government finance and eu accession, finnish experience

*Juhani Turkkila, Economist, Municipal Finance
The Association of Finnish Local and Regional Authorities*

Local Government in Finland

Finland is a republic with a population of about five million. Finland is one of the biggest countries in Europe, covering 338.000 km². One third of the country lies north of the Arctic Circle. Population density is 16 inhabitants/km². Finland is a bilingual country, 93 % of the population speak Finnish as their native language, 6 % Swedish.

The local government is based on self-government of the residents of a municipality. Local self-government is guaranteed in the Finnish Constitution. There are 452 municipalities in Finland.

Finnish municipalities have wide responsibilities. Municipalities provide basic services for their residents. The most important services provided by local authorities concern education, social welfare and health care, protection of environment and maintenance of technical infrastructure such as street maintenance, water supply and sewerage and the co-ordination of waste management and energy supply. Local authorities run comprehensive schools, upper secondary schools and vocational institutes. They also provide adult education, art classes, libraries, and cultural and leisure services. Other responsibilities are children's day care, care for the elderly and disabled, and a wide range of social services. They provide preventive and basic health care, specialist medical care and dental care. They also seek to promote a healthy human environment.

The Municipal Act

The new Municipal Act was passed in 17th March 1995. The Act sets out to maintain and strengthen local autonomy and is the fundamental legislation for local government functions. The Act contains all the significant provisions concerning local authorities and their administration, with the intention that less specific legislation will be needed in the future. Municipalities are defined by geographic area.

In addition, local government accountants are bound by the provisions of the Accountancy Act and related Statute. This ensures that the calculation of financial results, key financial indicators and the valuation of balance sheet items are made in accordance with generally accepted and broadly comparable accounting practices. The new regulations covering local authority finances and audit procedures came into force at the beginning of 1997.

Finland's municipalities have the right to tax their residents. The local council sets the local tax rate, and the central government cannot interfere with these decisions. The average local tax rate is 18 % of income. Local tax revenues account for about 50 % of municipal revenues. Municipalities charge for their services, and these charges account for about 25 % of municipal revenues. The central government provides grants and subsidies to local authorities in exchange for the local provision of statutory services. State grants account for 15 % of municipal revenues on average. Finland's local authorities have over 400 000 employees on their payrolls. Over 80 % of municipal employees are engaged in social welfare, health and education.

Preparations for the Finnish EU Membership

Finland joined the European Union at the beginning of 1995 and thus has very recent experience with preparations for EU membership, and with the enforcement and implications of EU legislation.

A national preparatory-work apparatus was created for the membership negotiations. Both ministers and civil servants within the ministries participated in the preparatory work, and the Parliament was informed regularly. The central organizations of municipalities, as well as representatives of the state administration, participated in the work of the Advisory Committee on European Integration, which was headed by the Prime minister.

Implementation of the EU's legislation required a review of a great part of Finland's legislation. Innumerable changes in the statutes had to be made. Adapting national legislation to Community legislation requires careful preparatory work and precise clarifications. The process is hard. In Finland, expert civil servants in the various ministries performed the basic work.

Participation by an applicant country's central administration in the legislative preparatory work required by membership is essential and in a sense automatic. Membership is not possible without actions taken at the national level in each country. At the sub-national level the situation is somewhat different: Preparing the sub-national level for EU membership requires initiative above all. The regional and local levels must take it upon themselves to play an active role in the application of Community legislation. It is important to seek co-operation with the national level.

Preparing for the EU membership requires purposeful work at the local and regional levels, too. In Finland, preparations for possible Finnish membership in the European Community began in 1989, several years before that membership became a reality. The central organizations of municipalities and regions took the initiative. Later, in 1993, those organizations joined forces, becoming the Association of Finnish Local and Regional Authorities. The central organizations established the so-called European Community follow-up group, whose tasks were to get to know the Community's objectives and policies, and to clarify the impacts of Finnish EC membership at the regional and local levels.

The importance of contacts between local and regional authorities and state authorities can not be emphasised enough. These contacts are essential during the membership negotiations.

Relationship between central and local government

In 1975 a new approach in the co-ordination of public finance was introduced in Finland. It was agreed between central and local government that in order to adjust the development of public finance to the macro-economic development and to co-ordinate the measures to be taken, annual negotiations shall be carried on with a view to create conditions necessary for a stable development of public finance.

In the negotiations participate on behalf of the State, the Ministry of the Interior, the Ministry of Finance, Ministry of Education, Ministry of Social Welfare and Health and on behalf of the local authorities the Association of Finnish Local and Regional Authorities.

Regular negotiations are arranged in February-March and in April-May, and even in August-September when the draft of State budget is available. At other times negotiations can be entered into on the initiative of one of the parties.

The Delegation for Local Government Administration and Economy consisting equal number of delegates representing both Central and local government, constitutes the practical framework for negotiations.

In the negotiations in February-March the implementation of the recommendations concerning the previous year and accounts of the growth prospects for the national economy shall be examined. In the negotiations in April-May the following items shall be dealt with:

- legislative projects, resolutions and plans that affect the development of local government functions, and their impact on local finance,
- the prospect for the economic situation of local government economy,
- the targets to be set for the development of public finance, and the views possibly expressed on the subject.

These parties shall, if possible, agree upon joint recommendations concerning e.g. local tax rates, the development of activities, operating and investment expenditure and the distribution of costs between central and local government.

If an agreement on joint recommendations has been reached the local authorities are expected to follow the recommendations. It should be noticed however, that the implementation of recommendations at the local level is not compulsory. Each individual municipality decides how they take into account the general guidelines and recommendations in the management of local activities and finance. Neither can one guarantee that the State authorities and the Parliament follow the agreed recommendations in preparation and adoption of new legislation.

Even though the recommendations reached through negotiations have not been implemented to the letter, the experiences have been positive. The process has offered a forum for open and confidential dialogue between central and local government representatives and opened a channel for the exchange of relevant information and discussion of common interests.

The formal organization of the negotiation procedure between the State and municipalities does not need any major changes. How well the negotiation procedure and exchange of information between the State and municipalities works in practice depends on mutual attitude rather than on provisions. Sincerity and informal interaction between the State and municipalities ought to be increased.

The Delegation for Municipal Administration and Economy with its sections will have a central role in the development of the negotiation procedure. When developing the work of the delegation, it is important that it is not seen merely as a formal observance of provisions, but that it is used in searching for new forms of communication and negotiation that have a positive influence on the co-operation atmosphere, improve information and make it available at an earlier stage, and thus offer both parties a chance to prepare for the solutions to be made and for the development that these solutions bring about. The data and statistics pertaining to municipal finances must naturally meet common acceptance, and their interpretation must be possible.

The results of the work of the most important sector-specific working groups appointed by different ministries and related to municipal administration and economy ought to be examined within the Delegation for Municipal Administration and Economy. This would ensure that the propositions would be sufficiently adapted to the overall way of thinking. Even EU-questions e.g. monitoring of national stability program, pertaining to municipalities could be subject to a co-ordinated assessment of this Delegation.

Recent government economic policy premises

The Finnish economy has experienced a sustained period of rapid economic growth since 1994. At the same time, economic imbalances have been redressed or have abated, general government finances have strengthened and employment has improved quickly. As a result of the deep recession of the early 1990s, both unemployment and central government debt are still at high levels.

The primary objectives of Finland's economic policy in the latter years of the 1990s have been to foster growth by strengthening the economic fundamentals and to stabilise public finances. Overall, this policy has

proven successful. The emphasis in future economic policy will be to focus more on structural issues that are instrumental in securing economic growth.

Owing to the policy aimed at economic stability and participation in EMU, inflation has remained slow. Moreover, increased competition due to accession to the Union, and low upward pressures on import prices, and the comprehensive wage agreements reached at the labour market have also strengthened price stability. Capacity utilisation rates have, however, gradually risen to high levels in some sectors of the economy, with the possibility of bottlenecks appearing. Consequently, the risk of overheating is increasing. To avert this risk, product and labour market reforms need to be continued and moderate wage developments should be safeguarded also in the future.

The sizeable central government debt, along with a heavy tax burden, is the most serious problem in public finances. With a view to preparing for both cyclical fluctuations and expenditure pressure caused by the ageing of the population, the government will reduce the central government debt-to-GDP ratio below 50 per cent during the election period ending in 2003. To this end, a structural surplus will be created in central government finances (the National Accounts definition) by means of tight fiscal policy. The Government announced in its programme that central government expenditure, including interest expenses, will be kept constant in real terms, at the 1999 Budget level or lower, over the whole term of office.

Recent experiences of financing municipal services in Finland

Drastic changes have occurred in the municipalities' financing system during the 1990s. The State subsidy system was reformed in 1993, when a transfer to State subsidies allocated on the basis of calculated costs took place. Previously, State subsidies were based on municipalities' real costs, and amounted to a certain percentage of accepted costs. The linkage between State subsidies and real costs was abandoned because it was considered to lead to inefficiency and to increase public expenditure. The system was again reformed in 1997, when the policy currently followed was introduced.

The government economy has been balanced, to a considerable extent, at the expense of the municipalities. State subsidies dropped during the 1990s from more than FIM 40 billion to some 20 billion. The latest cuts in State subsidies were realised in 1998. Although costs were initially meant to be allocated between the State and municipalities on a fixed basis, the State has had to compromise on this principle at the municipalities' loss. This has made the State subsidy system unsteady during this decade. Another factor that has caused instability is the reform that took place early this year. In the reform, the municipalities' shares of corporate tax were changed. It is to be feared that the harmonisation of excise taxes will further increase the pressure to cut State aid to municipalities and to transfer part of the municipalities' Taxation right to the State, as was actually done in connection with the preparation of next year's State budget. The pressure to cut the State's progressive income taxation thus increases the pressure to cut municipal revenues.

The high tax rate has been considered as a problem in Finland. Municipalities have had to contribute to the management of the deficit in the national economy as well as help solve the high tax rate problem. Some of the State's decisions, for example on income tax cuts, have been made at the municipalities' expense. Years 1997 and 1999 saw an increase in the income tax allowance, which affects municipal tax revenues. Income policy agreements for the following agreement period are currently being negotiated, and the basis of taxation is likely to be changed once again as part of the income policy solution. The most probable change is that municipal tax revenues will again be cut. Parliament will decide upon the basis of taxation after the income policy agreements have been concluded. However, the Government has promised to compensate municipalities for the lost tax revenues this time.

Despite cuts in State subsidies and changes to the taxation system, municipalities' financial position as a whole has developed reasonably well, because the marked economic growth in the past few years has increased municipalities' tax revenues. Municipal tax percentages have remained more or less the same. Municipal economy is estimated to show a surplus in the next few years, which means that cash-flow financing will cover the expenses of operations, depreciation and capital expenditure. The main cause for concern at the moment is that municipalities are affected in very different ways by the new system of State subsidies and by the new allocation of capital income tax and corporate tax revenues between municipalities. There are also considerable differences between municipalities in the growth of tax revenues, migration within the country and intensive structural changes. Many municipalities find it difficult to adapt to quickly diminishing incomes. To sum up, the economic differences between municipalities are growing dramatically.

Summary

The aim of European Economic and Monetary Union is to give EU Member States a stable common economic policy and currency area, to do away with exchange rate fluctuations, to secure a low inflation rate and to strengthen the internal market. EMU will also help ensure steady economic growth and high employment.

In Finland, the validity of the Nordic public services model has not been questioned to any large extent. There has been discussion mainly about the relation between the tax rate and the service standard. People are generally satisfied with municipal services as such and with municipalities as the organisations responsible for the provision of these services. Solutions are being sought to determine ways in which municipal services can be provided and re-organised. Among the questions discussed are the outsourcing, corporatisation and competitive bidding for municipal services, as well as the charges to be made for the financing of services.

There are also differences in the financing solutions of local government in other European countries. This may have an effect on municipalities' ability to adapt to economic development and cyclical fluctuations as European economic integration deepens.

Some aspects of indebtedness of slovak municipalities

Doc. Ing. Elena Žárska, CSc., Economic University, Bratislava

In recent years, the municipality and the local level have been taking on significance in the development processes. It is the result of the ability to identify and resolve substantive problems of development of the territorial unit. At the same time, it is the place where the citizen involves or can get involved as an activation factor of development, both in his role of an initiator as well as the bearer of his decisions

The municipality, as a co-ordinator of territorial development, projects itself on one hand in terms of the scope of responsibilities with which it was – as a self-governing territorial unit codified, on the other, with the volume of financial resources to cover these responsibilities. Confinement and shortage of funds requires the municipality and its bodies to apply such a policy that allows – from both substantive and time aspects – to identify opportunities, set priorities and volumes of resources to secure economic, social and territorial development of the municipality.

Under Slovak circumstances, this reality is still augmented by a declining proportion of stabile revenues (local taxes and fees, shared taxes, subsidies). The other part – unstable revenues are unforeseeable revenues, often also non-recurring revenues. The municipality must raise them through sound and responsible property management. In the structure of the budget, the yields of municipal property comprise an important part, but municipal sales seem to have become problematic, having comprised in the hitherto existence of Slovak self governments a significant part of the overall revenues. Table 1 illustrates the situation of recent years.

Table 1: Revenues from property sales and non-tangible assets

| Year | 1996 | 1997 | 1998 |
|-----------------------|-------|---------|---------|
| In million SKK | 831.2 | 1 077.0 | 1 191.4 |
| Year-on-year increase | - | 29.5 % | 10.6% |

Source: State closing accounts of the SR for 1996-1998

Table compiled by: Žárska 1999

Sales of property cannot solely be seen as a negative phenomenon in view of the future municipal yields. If property is sold that is genuinely unnecessary or property that is unnecessarily cost-demanding in its maintenance, and the proceeds of this sale are invested rationally and efficiently, from the point of municipality the property should be thus enhanced.

Borrowing by municipality is a way municipality supplements its resources facing shortage of financial resources.

Table 2: Credits raised in million SKK

| Year | 1996 | 1997 | 1998 |
|-----------------------|---------|---------|---------|
| Domestic credits | 2 559.9 | 2 099.5 | 2 501.9 |
| Foreign credits | 5.8 | 633.6 | 440.8 |
| Total | 2 565.7 | 2 733.1 | 2 942.7 |
| Year on year increase | 118% | 6.5% | 7.7% |

Source: State closing accounts of the SR for 1996-1998

Table compiled by: Žárska 1999

The credit-raising efforts of Slovak municipalities are growing. We need to note that the creditworthiness of small municipalities is significantly limited and the figure prevailingly hides cities and larger communities. Attention may be drawn to the rising volume of foreign credits, which may evoke several issues – exhaustion of domestic sources, terms of provision of foreign credit in relation to potential repayment problems.

The debt burden of Slovak self governments has become a serious problem in recent years threatening their functioning and evokes – not only theoretically but primarily in practical terms – several facts

- ✓ Limitation of municipal indebtedness (in relation to the volume of property, by its amount per capita, percentage related to own revenues, etc.), which encounters resistance also among municipal officials as interference in exercise of their powers. Since the state comes in when municipalities fail to pay their liabilities, which makes self government of municipality more relative, and as the state should guarantee provision of basic public services to its citizens no matter where the citizen lives, the problem cannot simply be circumvented but has to be addressed thorough a mechanism, which has already been designed by several advanced countries.
- ✓ Municipal bankruptcy legislation- as a solution of municipal insolvency and state receivership, i.e. taking over municipal debt by the state also encounters its problems since the nature of municipal ownership has its specificity when compared to private ownership. The solution of this problem will be complex.
- ✓ Defining credit as an ethical credit – a credit that will ensure development of the municipality from the perspective of the needs of future generations as well, i.e. to see that credits burdening the following generations are accepted by municipal officials in the pursuit of prosperity of municipality and not to satisfy their own personal ambitions or programs.
- ✓ The purpose of credit use in relation to investment needs, i.e. credit resources should be designated for investment expenses and are to improve municipal property and not to cover current expenses.

We give the data on the growth of debt service in the expenses of municipal budgets to complete the picture of municipal indebtedness.

Table 3 : Debt service in million SKK

| Year | 1996 | 1997 | 1998 |
|---------------------------|---------|---------|---------|
| Repayment of interest | 576.9 | 673.0 | 889.0 |
| Repayment of principal | 1 218.2 | 1 342.7 | 1 626.9 |
| Total | 1 795.1 | 2 015.7 | 2 515.9 |
| Year-on-year increase | | 12.3% | 24.8 % |
| Share in overall expenses | 7.75% | 7.57% | 9.17% |

Source: State closing accounts of the SR for 1996-1998

Table and computations made by: Žárska 1999

When comparing the data of tables 2 and.3, one can see that the credits accepted and the debt service are on the rise. The rate of year-on-year increase in debt service over the last two years has been higher and can still grow as a result of repaying the principals of municipal bonds, which emerged as a banking product mainly following 1993, having a nature of term credits with the maturity of either 5 years, or, to a lesser extent, 10 years. In the year 2000, our cities will have to pay back around 152 mil. SKK in principals of municipal bonds.

The above facts, with more than urgency, call for debt management, financial planning, etc. i.e. that self government officials, particularly executive representatives responsible for financial area acquire the practices, develop skills and gain experience in these activities. Training and education of creative and flexible specialists for the financial area of self government functioning – finance managers, is a vital part of the work of self governments, their professional and interest organisations.

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Hungarian Association of Municipal Financial Officers

Margit Zadravec, Head of Financial Department, Győr, Hungary

The Hungarian Association of Municipal Financial Officers (HAMFO) a non-political, professional organization, was established in 1998 with the aim to:

- provide a professional forum and advocacy for municipal financial officers,
- distribute knowledge on modern and innovative techniques on financial planning and management, and
- to assist in providing more successful and efficient services in municipal financing.

To achieve its goals, the Association undertakes the following activities:

- organises professional events and conferences,
- organises local meetings with municipal and financial officers,
- establishes professional clubs,
- issues a quarterly Newsletter,
- edits and publishes the so called "hot wire" information kits,
- monitors regulatory changes and submits recommendations for their further elaboration.

Background

The Hungarian Association of Municipal Financial Officer's was established to provide support to municipal experts and thereby support the continuous renewal of the profession.

The establishment of HAMFO was necessary and timely, because:

- in the previous years municipalities faced several new challenges /such as the increasing role of local revenues, credit financing, bonds/ in the area of financial planning and management that requires the continuous education of financial officers and the exchange of information among financial officers,
- the conditions of central transfers changed continuously in the past years, and the decisions did not take into consideration the local interests and problems,
- the members of the municipal councils would like to base their decisions on well-founded arguments, therefore, they require clear and understandable alternatives from the experts,
- innovative local/internal initiatives have emerged recently supplementing the financial analysis traditionally undertaken by external organisations and consultants.

The founders of organisation believe that the conceptual and structural renewal of the municipal budgeting process and document is the most important task right now that would support the implementation of widely used techniques in the West and provide a more informative document.

This goal became the main incentive underlying the establishment or the organization, when the founders learnt about these modern methods under a technical assistance program financed by USAID.

In the program of the Association the modernisation of budgeting techniques receives outstanding emphasis, including the dissemination of knowledge and information among the Hungarian municipalities on program budgeting and the related management theories and techniques.

The services of the Association

The Association concentrates on the organisation of professional seminars and editing and issuing publications.

The Association intends to organise professional seminars in areas defined by the members based on a preliminary survey among the members. The seminars are free of charge for the members of the Association.

The Association also emphasises the significance of continuous assistance, including consulting services to interested municipalities and the local exchange of information among the members.

The Association continuously monitors the regulatory changes concerning financial management and provides up-to-date information on them. The Association makes preparations to occasionally submit recommendations to the central government in issues concerning the Association's activities.

The Association plans to disseminate information about its activities through its Newsletter that will be published quarterly.

The Association plans to select, translate if necessary, and disseminate publications and professional articles. The organisation would like to publish these documents in issues requested by the members.

The operation of the organisation: leadership and members

The President is responsible for strategic planning.

The Association has *four vice president*,

One of them is responsible for membership and marketing,.

Second is responsible for financial and other administration,

Third is responsible for financial strategy,

Fourth is responsible for regulatory issues and PR.

The leaders of the Association work free of charge.

Stipulated by its foundation deed, the Association is open to anybody who would like to become a member. The **regular members** of the organisation include municipalities and individuals or legal entities working in municipal financial management and /or service delivery.

The Association does not differentiate among municipalities on the basis of size or the number of employees in the City Hall, welcomes the application of every municipality and provides equal opportunities for every member.

The future members, upon declaring their intention to join and paying the membership fee (defined by the Foundation Deed), will receive all services provided by the Association and may initiate new activities as well.

The Association would like to call your attention on the possibility to become a **patron**. Any supporting organization that identifies with the goals of the association and finds it worthwhile to subsidise a program or the activities of the association in general, may become a patron.

The Centre of the Association is : Szolnok City Hall

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Local Government Finance Officers Associations: the Role and Benefits based on the United States Experience

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The United States is a country that believes in the value of associations.

This was evident as early as 1831 when an aristocratic Frenchman Alexis de Tocqueville traveled the United States for nine months and studied the American people and their political institutions. He later authored *Democracy in America* and spoke of a new social invention, the voluntary association. He wrote:

„Americans of all ages, all conditions, and all dispositions, constantly form associations. Whenever, at the head of a new undertaking, you see the government in France, or a man of rank in England, in the United States you will be sure to find an association.“

Shortly after 1900, the use of associations in the United States moved beyond the private sector and non-profit groups to include formation of associations by mayors, council members and local government professional staff persons. For example, in 1905, several city and town mayors in Virginia, and their local governments, joined to form the Virginia Municipal League — an organization similar to ZMOS here in Slovakia.

In 1906, finance officers joined to form the Government Finance Officers Association, a countrywide association in the U.S. and Canada. In 1914, city managers started the International City/County Management Association. In 1924, the National League of Cities was formed. In 1938, the Municipal Finance Officers Association began in Michigan. And as recently as 1984, the South Carolina Government Finance Officers began.

Today, there is not only the national Government Finance Officers Association — usually called the GFOA — but also state chapters.

In the United States, we not only have associations of finance officers, but — at both national and state levels — associations of city managers, city clerks, city public works directors, city attorneys, and nearly every category of local government professional.

Although associations have played an important role in the developing and maturing of our U.S. democratic system throughout this past century, U.S. Vice President Al Gore points out that in the 21st century, associations and networks of people will have even greater power. He says it will be „networks“ of persons with common interests that define government in the 21st century and not „hierarchies“ within governments. The increasing importance of networks is being driven by the Internet and the incredibly rapid and significantly expanded forms of communication its provides.

Believing in the power of networking and the vehicle of the Internet, Vice President Gore in 1994 helped establish within the U.S. government, and through the National Science Foundation, the web site FinanceNet. FinanceNet (<http://www.financenet.gov>) took the philosophy that government can be improved by opening

the doors of information as widely as possible. The web site serves the government finance world as an electronic medium for sharing ideas, successes, news, lessons learned, best practices and experiences. A key objective is to serve as a catalyst for continuous improvement and innovation at all levels of government to ensure a more effective use of the taxpayers resources.

How successful was Vice President Gore in this experiment? While it is difficult to measure exact outcomes, we do know that in this past 12 months computer users have logged onto FinanceNet approximately 25 million times. It is clear that the communication medium of the Internet will change forever the way that business is done.

With the vast amounts of information now at our fingertips, those of us who join together for common purposes are bound to increase our effectiveness and power.

In the U.S. setting, we have come to believe that working in isolation is not an option; rather working in, and through networks and associations, is essential.

With this as background, I will now speak more directly about the role and benefits of finance officer associations in the U.S.

I will largely focus on the national Government Finance Officers Association, headquartered in Chicago, and its state chapters. State chapters are typically identified by placing the state's name before the title Government Finance Officers Association. Thus the name of the association in Virginia is the Virginia Government Finance Officers Association. Usually, we use as a shorthand, GFOA for the national association and VGFOA, for example, for the state association in Virginia.

While I will primarily talk about the GFOA and state GFOAs, I need to point out that a number of our local government finance officers are Certified Public Accountants, or have another professional degree. Many of these officials also belong to other associations, such as a Society of Certified Professional Accountants or to the National Association of Government Accountants.

However, based on my conversations with a number of finance officers, it is the Government Finance Officers Association and its state chapters that most widely brings together the local government finance officers across America. When I refer to a state chapter or a state association, do not be confused by my use of the word „state.“ I am not referring to an association created by the state government, rather I am referring to an association of local government finance officers that geographically is statewide in its membership.

While our state associations are undoubtedly more similar in size and resources to some of your own finance associations, I will spend some time talking about our national association, as it serves to bind together and provide a good working framework for the state associations. In the United States, the national association was formed first and the state associations came later.

Government Finance Officers Association in Chicago

In terms of membership, the GFOA is one of the larger public associations in the United States. The GFOA has 14,100 members in the United States and Canada, with a substantial majority of the membership from the U.S.

Its primary purpose is to promote the sound management of government financial resources. The key program to further this goal is to provide a wide range of educational activities that are geared to improve the professionalism of its members.

Nearly every local government of any population size in the United States has at least one financial staff person who is a member of GFOA at either the national level or in a state chapter. But it is very common for larger localities to have several finance officials who are members in the national association.

In short, finance officers across the United States know about GFOA and view GFOA as a trusted friend.

Education Opportunities Provided by GFOA

The biggest educational event of the year for GFOA is the annual conference, where nearly 7,000 persons gather. GFOA's 2000 annual conference will be held June 11-14 in Chicago. This will be a three-day professional meeting, providing an opportunity for members to share ideas, develop technical and managerial skills, view new products and network with their peers. Conference attendees will be able to select from more than 85 concurrent sessions, roundtable discussions and preconference training seminars to customize their own training agenda.

The Government Finance Officers Association's educational efforts do not stop with the annual conference. They continue in other forms throughout the entire year. Especially important are five national training seminars that are held each month at various locations throughout the United States. These courses focus on a variety of core finance and are offered at the beginning, intermediate and advanced levels of public finance. In addition, GFOA hosts video satellite teleconferences, has an array of videotapes and self-study courses.

The GFOA also:

- Recently established and plans to administer a certification program. It includes two components: five examinations to assess the body of knowledge required of a practicing public finance officer, and a continuing professional education (CPE) requirement. An individual who meets eligibility requirements and successfully completes the five examinations within a five-year period will be awarded the designation Certified Public Finance Officer (CPFO). Once awarded, the CPFO title is maintained by participation in 30 hours of continuing professional education each year.
- Developed a „recommended practices“ program, which gives guidance on key topics in the areas of cash management, debt, budgeting, pension and benefits, and accounting. Committees — with its members competitively selected — are used within GFOA to develop these recommended practices. The recommended practices program has proven very useful not only for new finance officials, but also veteran finance officers who must keep up with changing laws and regulations and improved practices.
- Mails to its members an informative twice-monthly newsletter and a semi-monthly publication titled *Government Finance Review*. *The Review* is filled with articles contributed by practicing finance officers and other finance experts.
- Has a very extensive library of public finance materials available to its members.
- Provides representation in Washington, D.C. on the interests of finance officers in the legislative and regulatory arena.
- Develops easily understood Elected Official Guides to brief elected officials on key financial topics, such as multi year budgeting, debt financing and public procurement
- Administers award programs among its membership to recognize innovation, and also publicize such innovations to the membership and others.
- Has a line of microcomputer software products available to help government officials perform their financial analysis and management, including providing compressive annual financial reports.
- Has a consulting practice providing fee based services to local governments. The most popular: helping local governments know how to go about integrating their various financial management systems. The amount of the fees is calculated to cover the cost of providing the service.
- Contracts with public- and private-sector clients to provide public finance research in a variety of financial management areas.
- Has a Code of Ethics to affirm that finance officers are not to take advantage of their public positions for personal and private gain.

Membership Criteria for GFOA

The core membership within GFOA comes from local government.

But it may surprise you to know that membership is universally open to everyone whose career, studies or interests involve government financial management. The GFOA membership includes a diverse group of individuals — from entry-level employees to senior managers — who work for a broad range of governments, including cities, towns, and other municipalities of all sizes; county governments; school districts and special districts; public employee retirement systems; states and provinces; schools of administration and public affairs; libraries; federal agencies; and accounting firms, law firms, investment banks, and consulting institutions.

This broad membership has worked in our country for many decades. Skills needed for the proper management of public funds are very similar at all levels of local and state government. The sharing of solutions is very beneficial. It has been felt that the similarities in the subject matter outweigh the differences, and the combined resources allow a wide range of educational choices to meet needs.

Although GFOA includes opportunity for membership by private sector persons, the right to vote is only given to persons employed in the public sector. Private sector persons — such as bankers or persons with certified public accountant firms — are typically classified as associate or affiliate members.

Many of the private sector persons are highly trained and skilled in the financial areas. They serve as a valuable resource as speakers in training sessions, and will often help pay a portion of the cost of educational events.

Staffing and Revenues

The GFOA has approximately 50 staff members. Most work out of GFOA's headquarters in Chicago, but six work at GFOA's Washington office. The Washington office closely follows and advocates GFOA's position on legislation and regulations of interest to the association.

Annual membership dues begin at \$125 U.S. This amount slightly increases as the population size of governmental units increase. With 14,100 members, one can readily see how membership dues become a vital part of the GFOA budget. Such dues help GFOA to cover organizational expenses that do not generate income, such as GFOA's Washington, D.C. legislative staff.

The GFOA also receives sizeable revenues from fees charged for participation in educational sessions. Charges for these educational sessions, as well as the GFOA annual meeting, are geared to cover expenses.

Fees from consulting services also naturally are geared to cover the full cost of providing these services. Also, these types of contracts will typically help U.S. associations to cover some of the overhead of their operations, such as the maintenance of a quality library.

While private sector sponsorships will represent only a small portion of the overall budget, they serve as an important funding supplement and at times will make the difference that allows educational sessions to be held.

Paying for the cost of providing training and other educational activities represents the biggest expenditure in the budget.

State Chapters of the Government Finance Officers Association

The mission and objectives of the state chapters of the Government Finance Officers Association will closely parallel that of the national GFOA. For example, the Florida Government Finance Officers Association indicates that its mission is „to develop professionalism among members through education and leadership opportunities.“ While the overall mission of the two levels of organizations is generally the same, a state chapter’s staff size and available financial resources are substantially less. In fact, only a small number of state associations have a full-time paid staff member. However, both the local and national levels of associations are equally important and essential to the U.S. finance officers. Both groups closely work together and compliment each other.

An additional key benefit of state associations is the greater opportunity for members to volunteer their services to the association. For example, serving on committees or sharing expertise often make up for the state associations’ lack of financial resources.

The following are examples from specific state associations and are provided to give readers of this paper a good idea of the role and benefits of the finance officers associations at the state level.

Mission Statement of the Tennessee Government Finance Officers Association

The Tennessee Government Finance Officers Association is a professional organization whose purpose is to enhance the practice of governmental finance in Tennessee’s 347 cities and 95 counties.

Our objectives include providing educational training and informational updates to our membership relating to:

- proper procedures of accounting and financial reporting;
- cash management;
- financial administration;
- debt management;
- capital budgeting;
- and to promote networking of finance officials within all branches of government in Tennessee.

Our association is affiliated with the national Government Finance Officers Association (GFOA) and maintains contact with its staff to promote training opportunities and participation in annual GFOA conferences.

The Purpose of the Florida Government Finance Officers Association

- To improve the knowledge, skills, and performance of those responsible for governmental fiscal policy and management.
- To encourage a uniform accounting system.
- To promote regular independent audits of governmental entities.
- To discuss and analyze the financial challenges created by the law of Florida.
- To upgrade the employment standards and ethics in the field of government finance and administration.
- To improve efficiencies and services provided by governmental entities.
- To develop closer working relationships among public finance professionals.
- To pursue objectives of mutual interest to public finance officers.

Key Programs of the Colorado Government Finance Officers Association (these are described as membership benefits in the association's literature)

- National programs through the Government Finance Officers Association.
- Affordable continuing professional education training programs.
- Colorado library book list.
- Certified Government Finance Officer Program.
- Programs to facilitate the understanding of finance related applications.
- Coordinated networking opportunities.
- Bi-monthly newsletter, „Footnotes.“
- Annual conference.
- Award programs.
- Promotion of a high standards of governmental ethics.
- Early information on legislation affecting governmental entities.

Code of Ethics — Florida Government Finance Officers Association

The Florida Government Finance Officers Association is a professional organization dedicated to promote and improve the quality of financial accountability, management, and communications by and for all governmental units in the State of Florida by providing training and individual development for governmental financial professionals in technical finance related areas and other aspects of financial management.

To further these goals, we the members of the Florida Government Finance Officers Association are enjoined to adhere to legal, moral, and professional standards of conduct in the fulfillment of our professional responsibilities as set forth in this Code of Ethics in order to enhance the quality of our performance.

We shall conduct ourselves with integrity in all working relationships with public officials, employees, and the citizens whom we serve.

We shall not condone or allow the issuance of any false or misleading financial information or omit any information that is essential to making an informed decision.

We shall prepare and present financial information in accordance with generally accepted governmental accounting principles.

We shall abide by all applicable laws and regulations of the State of Florida and those of our individual local jurisdictions.

We shall not be involved with or by our actions condone any illegal activity.

We shall conduct ourselves objectively and not seek or accept personal gain that would influence the conduct of our official duties.

We shall not use public resources for personal gain.

We shall not reveal or improperly use confidential information.

We shall accurately represent our professional qualifications, education, and affiliations.

We shall promote equal employment opportunities and oppose any discrimination, harassment or other unfair employment practices.

Agenda of the Annual Meeting of the Utah Government Finance Officers Association

Wednesday April 12, 2000

Morning – Welcome, State Auditor, Bonds, Utah League of Cities and Towns

Afternoon – Golf Tournament

Thursday April 13, 2000

Morning – Accounting Topics

Afternoon – Accounting Topics

Night – Dinner sponsored by Dennis Robbins and Ed Erickson

Friday April 14, 2000

Morning – Accounting Topics

Night – Banquet Holiday Inn 7:00 PM

< Attending the courses will count towards certification requirements >

Recent Professional Education Training Programs of the Colorado Finance Officers Association (There is a \$20 fee for attending each session.)

| | |
|-----------------------|---------------------------------------|
| September 16-17, 1999 | Basic Public Sector Accounting |
| September 21, 1999 | Grant Administration |
| September 23-24, 1999 | Debt Administration |
| Sept. 30-Oct. 1, 1999 | Intermediate Public Sector Accounting |
| October 18-19, 1999 | Intermediate Public Sector Accounting |
| November 16, 1999 | Ethics for the CPA in Government |
| November 16-19, 1999 | Annual CGFOA/CMA Conference |
| November 19, 1999 | Board Meeting Annual Conference |

Certification Program of the North Carolina Government Finance Officers Association

The North Carolina Government Finance Officers Association and the North Carolina Association of County Finance Officers jointly sponsor the N.C. Public Finance Officers Certification Program. This program is designed to enhance the public finance profession in North Carolina. Certification is achieved by successfully completing four examinations in the public finance field:

- Governmental Accounting,
- Financial Planning and Budgeting,
- Cash Management and Investments, and
- Financial Management.

The examinations are offered twice a year. Certification is valid for five years and can be renewed at the end of each subsequent five-year period through a point system.

Additional Information on Certification

Certification programs are not mandated by U.S. or state law, yet they are commonly sponsored by state associations. The certification programs represent a voluntary effort of finance officer associations to increase professionalism, and also to provide increased recognition and job opportunities for finance officers who are certified.

While state law would not generally require the persons holding the positions of financial officers to be certified, local governments may decide to require this or may give preference in their hiring to a person who is certified.

The recent establishment of the national GFOA certification program was welcomed by Illinois, which has decided to discontinue its own state certification program. The association in Illinois had long encouraged the national association to establish a certification program.

Sampling of the Approximate 40 Books in the Colorado Government Finance Officers Association Library

Advanced Governmental Accounting – GFOA Seminar
 Audit Management Handbook
 GFOA's Recommended Practices
 Effective Budgetary Presentations – The Cutting Edge
 Investing Public Funds
 Manager's Guide to Purchasing an Information System
 Banking Relations – A Guide for Government
 Revenue Collection Administration – A Guide for Smaller Governments
 Selecting Financial Services for Government
 Reinventing Government

Sampling of Items in the Fall 1999 Newsletter of the Virginia Government Finance Officers Association

- (Death of) Hap Gardner (served 14 years as Executive Director of the Virginia Resources Authority)
- National GFOA Update — including information on next year's annual conference, and recently released GFOA recommended practices.
- The Internal Revenue Service Finalizes Regulations on the Tax-exempt Bond Market
- Year 2000 (YK2) Update
- Winners of VGFOA Awards Program
- Virginia Legislative Issues of Interest to VGFOA Members

State Association Web Sites

<http://www.gfoa.org/organiz/states.htm> provides the Internet link to the home pages of 21 state level GFOA associations.

As an exploration of these web sites will show, they are used to directly communicate with the membership. For example, many will post their newsletters on the site.

Some have set up a member „listserv“ to allow the typing of one e-mail message that automatically is sent to all state association members without the need to enter each e-mail address.

A growing number of states are starting to add useful reference materials such as requests for proposals for audit services, underwriting services, banking or legal services. The California Society of Municipal Finance Officers has set up a Virtual Resource Room at <http://www.csmfo.org/resourceroom/index.cfm> that includes more than 80 different resource documents that have been used in California.

These pages will often lead to other resources. For example, the home page of the North Carolina association provides additional links to web pages that will be of interest to finance officers in North Carolina: <http://ncinfo.iog.unc.edu/ncgfoa/finance.htm>

Awards Program of the Colorado Government Finance Officers Association

Each year, the Colorado Government Finance Officers Association recognizes the achievements of its members by presenting awards for significant contributions at the annual conference. The „Significant Contribution“ award is intended to recognize projects or programs that are original and represent a major role in the field of government finance. The categories eligible for awards are:

- Budget and Financial Planning
- Capital Financing and Debt Administration
- Accounting, Auditing and Financial Reporting
- Cash Management and Investments
- Pensions and Benefits
- Financial Management
- Application of New Technologies.

A separate award is also given annually for the Finance Officer of the Year. This award is presented to a finance officer who made outstanding contributions to further the goals of the Colorado association.

Legislative Activities of State Associations

Similar to the GFOA’s legislative efforts at the national level, the state level Government Finance Officers Associations monitor legislative and regulatory activity at the state level that deals with government finance issues. Unlike the national level, the states will not have paid staff to help with this work. The work is carried out through the voluntary efforts of the members and is normally facilitated by a Legislative Committee. Final positions are generally made by the full membership at the annual meeting or by the Executive Committees, as the nature of the issue does not allow time to wait until the membership can decide.

State GFOA legislative efforts are typically carried out in close coordination with state municipal leagues or other associations of elected officials who also have a vested interest in the issue. State associations, however, will stay away from those types of financial issues that clearly divide governmental units, such as the formulas the state uses to grant state monies to local governments. Such highly political and hotly debated issues are left to the lobbying efforts of associations headed by mayors and council members.

If financial officers are seen advocating for or against state funding formula issues, they will be doing so as a representative of their own locality or for the municipal association, and not in their capacity as members of the finance officers association.

U.S. municipal leagues often will ask for the assistance of individual local finance officers in the league's legislative activities. The knowledge base of financial officers is very important to the mayors and council members. It is normal for finance officers to work with their elected officials in this manner. It is also common for municipal leagues and associations of finance officers to jointly work together on legislative issues in which both associations are in agreement.

Opportunities Provided by the New York State Government Finance Officers Association to its Private Sector Business Members

- Advertise in the quarterly Newsletter
- Advertise in the Annual Conference Program Booklet
- Sponsor training seminars held across the state
- Sponsor at the Annual Conference
- Exhibit products/services at Annual Conference
- Submit Non-Marketing articles for the Newsletter
- Submit their name or company representative as a potential speaker for a training event or the Annual Conference
- Have direct contact with municipal finance officials

Policy of the Alaska Government Finance Officers Association on Corporate Sponsorship

- A. It is the policy of the Association to avoid the possible conflict or appearance of favoritism towards the endorsing of any business over another. This policy shall extend to the use of the Association's name in literature. Should a particular issue become questionable, Executive Board members may be polled on the issue or it shall be placed on the agenda for the next regular Executive Board meeting.
- B. Mailing lists or labels of the Association membership may be supplied to a requester. A nominal fee may be charged.
- C. Function sponsorship:
 - FULL function sponsorship entitles the sponsor to bring an unlimited number of associates to attend that function only
 - \$500 or greater donation toward a function entitles a maximum of three (3) sponsor associates to attend that function only
 - \$250 – \$500 donation toward a function entitles a maximum of two (2) sponsor associates to attend that function only.
 - Less than \$250 donation toward a function entitles no more than one (1) sponsor associate to attend that function only.
 - Cash donations will be used as needed for conference expenses with donor recognition in the program.
- D. Donation toward function sponsorships does not waive the conference registration or membership fees for sponsors or associates attending other conference functions.
- E. Display booths: The Association will notify the conference hotel and request that they make space available to Association sponsors for demonstration booths or displays. It will be the individual sponsors respon-

sibility to make arrangements with the conference hotel for the actual space at the sponsors expense. It is not the intention of the Association to endorse a product or service and the Association will not be held liable for such.

F. Notification of 8C, 8D, and 8E shall be included with the request for sponsorship letters for each conference.

Membership Categories of the Tennessee Finance Officers Association

Active: Any public finance official, including finance officers, city and county managers or administrators, accountants, clerks, recorders, treasurers or auditors, whether elected or appointed, and officials and employees of the State of Tennessee.

Associate: Any other person not eligible for active membership, but who is interested in the principles and practices of governmental finance and who subscribes to the purposes of the Association. Associate members shall have no vote in the affairs of the Association.

Membership Categories of the Government Finance Officers Association of Connecticut

Active: All public officials or employees, elected or appointed, who are employed by any municipality of the State of Connecticut in any aspect or function of public finance. The word „municipality“ shall mean any town, city, borough or other duly authorized political subdivision.

Affiliate: Any state employee who is engaged in government public finance service in the State of Connecticut.

Associate: Any person who is not eligible for Active or Affiliate membership, and who is both interested in public finance and subscribes to the objectives and purposes of the association.

Honorary: Any person elected to this class by the Corporation in recognition of his or her exemplary service to the Corporation.

Structure of the Virginia Finance Officers Association Executive Board (10 Members)

Officers — Each officer serves a one-year term with the President-elect automatically becoming the President the following year.

- President
- President-Elect
- Vice President
- Executive Secretary-Treasurer — serves at the pleasure of the Board. (Has a separate full time job as a finance officer for a Virginia municipality.)

Directors — Each Director serves a two-year term with the use of staggered elections (two directors are elected each year). Each Director serves as chairman of one of the standing association committees. Each standing committee has seven to nine members.

- Awards and Membership Committee – 2 years
- Education Committee – 2 years
- Newsletter Committee – 2 years
- Government Finance Research Committee – 2 years includes a standard setting oversight sub-committee and a legislative and regulatory oversight sub-committee

Note: the Past President and the State Representative to the GFOA fill the last two positions on the Executive Board. They serve for one-year terms.

Additional Committees That Are Often Appointed by State Associations

Audit Committee
 Annual Conference
 Internet Committee
 Nominating Committee
 Scholarship Committee
 Certification Committee
 Professional Ethics Committee
 Sponsors and Exhibitors Committee

Staffing of State Associations

The Virginia association follows the pattern of many state associations in appointing one of its members as the association Executive Secretary-Treasurer. This individual serves the functional role of the association Secretariat and does the essential work of collecting dues, helping make arrangements and provide staffing for the Executive Board meeting, assisting with facility arrangements for the annual meeting, and so forth. The Virginia official is a full time local government finance officer and has served in this Secretariat position for a number of years.

The Secretariat will typically receive a small honorarium each year for these services — but it is only a token amount and well below what it would cost to pay for an outside group or individual to provide this work. Some states may provide the extra benefit of paying for the individual holding this position to attend the GFOA annual meeting.

In North Carolina, Florida and several other states, the Secretariat services are provided by the state municipal league. Finance officer associations, as well as all types of local government professional associations in the United States, make strong efforts to stay in good standing, and work with the municipal associations headed by the mayors and council members. This is just good politics. So much of what finance officers do requires the approval of these elected leaders.

Sampling of State Association Member Dues in U.S. dollars

| | |
|-------------------|---|
| New Jersey: | Regular member: \$75; Associate member: \$125; Retired Member \$5. |
| Tennessee: | Active member: \$25, if paid before Jan. 31, otherwise \$35 Associate member: \$35, if paid before Jan. 31, otherwise \$45 |
| New York: | Government: \$80 |
| Business members: | \$210* |

Student: \$25
 Maryland: Active member: \$25; Associate member: \$35; Retired member: \$1

Budget of the Government Finance Officers Association of Connecticut for Fiscal Year Ending June 30, 2000

The Connecticut association has a total budget of \$73,080 (U.S.) for the year ending June 30, 2000.

Approximately 69% of the total income is derived from fees or sponsorships related to training and education opportunities. At least 65% of the expenditures can be directly tied to these same training and educational activities.

18% of the total income in the association budget comes from member dues and approximately 11% from private sector sponsorship of educational activities. A very small amount comes from interest income.

Besides the approximate 65% of association expenditures for training and education opportunities, other key expenditures include: professional services (9%), newsletter (7%), planning and work of the Executive Board (7%), a professional certification fund (5%), and a scholarship fund (4%).

Although the Connecticut association's budget breaks out their expenditures in a fashion slightly different from the percentages listed above, the numbers clearly show the importance of education and training activities to state GFOAs.

It is important to note that U.S. local governments routinely pay for the membership dues of their employees to participate in local government professional associations, and to also attend the annual meetings of their state associations. It is also a common practice for local governments to pay for the cost of employees to attend the national annual conference. However, a local government may only budget enough money to pay for the attendance of an official, for example, once every other year or every third year. A finance director from a large locality would generally attend the national conference each year, but lower level employees may only attend once every several years.

Summary of Member Benefits

Advertisement of the New York State Government Finance Officers Association

New York GFOA Membership Means Being Informed About:

- Changes in the finance world that would impact you
- New state and federal legislation
- State and federal budget news
- New accounting and auditing practices
- New cash management techniques
- New debt financing methods

New York Membership Means Receiving:

- A quarterly newsletter
- A Financial Management Handbook
- Reduced rates at NYS-GFOA sponsored events

New York Membership Means Professional Development:

- At the Annual Conference in Albany, NY

- At the Annual Comprehensive Training Seminar
- At regional seminars and workshops
- Through CPE Credits

New York Membership Provides You Direct Contact With:

- Municipal finance officials
- Elected officials
- Private sector experts
- Other professionals through your participation on a standing committee

OVERALL, New York GFOA offers many educational opportunities throughout the year, information relative to changes in the finance world and communicates to you through the quarterly Newsletter, Legislative Alerts and a Membership Directory.

In Conclusion

I would to thank you for the opportunity to participate in this conference and would like to share with you a few lessons we have learned over the years from our association experience in the United States. We look forward to continuing our friendships with finance officers in this part of the world, and we look forward to learning from your experiences. We wish for you every success.

Sampling of Lessons Learned Over Our First 100 Years of Associations in the U.S.

- Associations are small organizations with broad missions — their influence goes far beyond the numbers of persons involved.
- Communications is a way of life — it is the lifeblood of associations.
- The most important ingredients of an association are the members. An association's success will depend on active involvement of the members.
- The association must work to develop an organization, not simply to build-up a leader who has a group of followers.
- The initial success of an association can often be traced to selecting the right President — a person who has the vision to develop a top notch organization and the following to make it happen. But over the longer term, the success of an association can often be traced to a top notch executive director/executive secretary who stays with the organization over a number of years and focuses on building the organization.
- Networking with other support institutions of local government is critical. Today's issues are too complex for any one organization to solve on its own.
- Associations must be nonpartisan — otherwise they will disappear when a new party comes into power.
- If associations are going to remain competitive, they will need to take advantage of the newer technological advances.
- Promotion of high standards of ethics is important. Over the long term, the values held by the members will be even more important than the professional techniques that are learned by the members.