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Municipal Finances in the COVID-19 Context: The Case of Gazi Baba and Shkodër Municipalities

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Summary

The COVID-19 pandemic challenged governments of all levels, all around the world, requiring an immediate response. The Governments of Albania and North Macedonia, intervened with support packages aimed at mitigating the negative effects of the health emergency, which soon transformed into a socio-economic crisis. In both neighbouring countries, the outbreak of COVID-19 found municipalities on the front lines of response, protecting their communities and ensuring the continuity of their activities, while facing financial constraints. Lockdown measures, freezing of economic activities, and eased local fiscal policies reduced the inflow of municipal revenues, while municipalities faced a growing expenditure to alleviate the negative impact on the most vulnerable people, and to adapt to remote working while ensuring the provision of essential public services. Findings from Toto, et al. (2020) and Prorok et al. (2020) suggest that the inadequacy of financial resources has been assessed as the main challenge that municipalities face amidst the COVID-19 crisis.

The purpose of this policy document is to better understand the potential impact of COVID-19 on municipal finances and present an overview of the Albanian and North Macedonia governments' interventions in response to the crisis. Such an assessment builds on the Municipal Finances Self-Assessment (MFSA) methodology and specifically the General Accounting Framework (GAF) as described in Farvacque-Vitkovic and Kopanyi (2019) and applied in Trajkov and Nikolov (2020)[1] and Toska and Shutina (2020)[2].

Municipal finances in Albania and North Macedonia are expected to be adversely affected by the COVID-19 crisis in 2020 and in 2021, based on the scenario results presented in Trajkov and Nikolov (2020) and Toska and Shutina (2020). In light of the expected lower revenues (especially from own sources), added pressures for expenditures, and unbalanced cash-flows, it becomes imperative for municipalities to re-establish financial control, avoid liquidity shortages, and be equipped with adequate finances.

Keywords: Municipal Finances, Revenues, Expenditures, COVID-19, Albania, North Macedonia

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Introduction

The COVID-19 pandemic has brought about a new reality, and the functioning of local governments are no exception. Being on the front line of COVID-19 crisis response, municipalities witnessed financial difficulties (among others) while trying to respond to the immediate needs of citizens and simultaneously ensuring the continuity of their activities. As stated by the United Nations (2020: p.24) the pandemic has "reminded policymakers that the local government level is the closest to citizens and thus the best positioned to respond to their specific challenges." Other authors also highlight the critical role of subnational governments in an immediate response to the crisis as well as in the recovery phase (Allain-Dupre et al., 2020; UN, 2020; Toto et al., 2020).

Municipal response, recovery, and resilience require financial resources, which are limited and expected to be adversely affected by COVID-19 both in the short and midterm (Allain-Dupre *et al.*, 2020; Pozhidaev and Jackson, 2020). Quantifying the impact and understanding COVID-19 repercussions on municipal budgets are preconditions for informed and effective decision making at the subnational level.

The aim of this paper is to contribute to the assessment of the potential impact of COVID-19 on municipal finances and to summarize the measures undertaken in the response phase to the crisis in Albania and North Macedonia. The municipalities of Shkodër in Albania and Gazi Baba in North Macedonia are taken as case studies for this assessment. Impacts are explored though the Municipal Finances Self-Assessment (MFSA) tool and especially the General Accounting Framework (GAF) as described in Farvacque-Vitkovic and Kopanyi (2019) and applied in Nikolov and Trajkov (2020) and Toska and Shutina (2020).

For both municipalities, a scenario-based approached will be used, building on a set of assumptions about revenue streams and expenditures for the years 2020 and 2021. In setting up these scenarios, assumptions on the effect of local factors (specific to each municipality) and macro factors (economic growth rate, business climate, expectations on future health developments, consumer behaviour, etc.) are used. The summary of the support measures undertaken by the Government of Albania (GoA) and the Government of North Macedonia (GoNM) will be presented to complete the picture, paying particular attention to the state budget revisions due to the COVID-19 outbreak. However, these are only early assessments of the potential impact of COVID-19 at a municipal level; the larger picture is frequently changing.

Public finances under COVID-19

The COVID-19 pandemic poses unprecedented challenges and uncertainties at all levels of governments around the world (Prorok et al., 2020; UN, 2020; EBRD, 2020; Damian and Nikolov, 2020). The response to this health emergency has required governments at all levels to intervene by introducing sets of measures aimed at mitigating the negative impact of the COVID-19 crisis. This has included severe lockdown measures to flatten the infections curve and support packages, both for individuals and for the businesses, to at least partially absorb some of the negative effects. The response to the emergency through these measures and packages has required revisions in the enacted state budgets with implications for municipal budgets as well.

GoA and GoNM Response to the COVID-19 Crisis

The two neighbouring countries, Albania and North Macedonia, were affected by the pandemic around the same time. The first positive case in the Republic of North Macedonia (RNM) was registered on February 26, 2020 and in Albania a few days later on March 9. Since then, the number of infected people has spiked with an upward trend registering a total of 13,927[3] cases in the RNM and a total of 9,513[4] in Albania as of

August 31, 2020. By March 18, the President of the RNM declared the first round of a state of emergency caused by COVID-19, which was extended until June 22, 2020. At the beginning of the state of emergency a complete lockdown with curfew hours was imposed. Almost at the same time, by March 23, the GoA declared a national state of natural disaster due to COVID-19. A strict lockdown was implemented including the cancellation of all cultural, sporting, and other events; as well as the closure of bars, restaurants, fitness centres, recreation areas, and land borders, among other sites. As a result of the imposed measures, the socio-economic activity in both countries froze. A large number of enterprises were forced to close and those that continued to operate did so with reduced capacities. A gradual easing of these measures was implemented in Albania starting on April 27 and in the RNM starting May 8, 2020.[5]

Alongside the immediate health crisis in both countries, the socio-economic effects of the COVID-19 pandemic are becoming increasingly more tangible, forcing both economies to slow down sharply (World Bank, 2020).[6] Furthermore, the pandemic of COVID-19 in Albania overlaps with a very fragile economic situation following the devastating earthquakes of September 21, 2019 and November 26, 2019 (of 5.8 and 6.4 magnitude, respectively). International and national institutions assessed that Albania's and the RNM's real GDP would drop substantially during 2020 (as summarized in Annex 1 and Annex 2) and that unemployment would rise over the same year (OECD, 2020; IMF, 2020; World Bank 2020).

In the case of Albania, the real GDP growth rate is expected to drop to -4.3% from an initially projected level of 4.1%[7,8] (Ministry of Finances and Economy, 2020) due to the stagnation of tourism and trade activities and the spill over effects from the EU economies with which Albania has close ties (and which have been severely affected by the pandemic, especially EU countries like Italy). Similarly, a disruption in the income levels of households and businesses, decreased tourist numbers, and disrupted value chains (being highly dependent on imports) are assessed as factors contributing to the projected real GDP plunge in the RNM to -3.4% for 2020. Alongside the real GDP contraction in both countries, other macroeconomic indicators have been revised downwards (a summary is provided in Annex 1 and Annex 2).

The mitigation of negative impacts of the COVID-19 crisis in these economies has required interventions on behalf of the GoA and GoNM through specific support packages. The GoNM introduced three sets of economic measures. These three sets of measures targeted primarily vulnerable groups and a different array of businesses and citizens, with an estimated relative value of 5% of the GDP or 550 mil EUR (see Annex 3 for details). In Albania, fiscal and monetary policies were used simultaneously in order to match the costs from the private sector to the public sector. The Bank of Albania eased its monetary policy[9] and set up a repo line to provide euro liquidity in the presence of added market pressures due to the COVID-19 shock (see Annex 4).[10] The GoA adopted two packages aimed at supporting businesses and individuals affected by the pandemic at a total of about ALL 45 billion (or about 2.8% of nominal GDP) as detailed in Annex 4.[11]

Budget Revisions and Implications for Municipalities

Amidst the COVID-19 pandemic and the stimulus packages introduced, the GoA and GoNM revised enacted budgets for year 2020[12] with altered macroeconomic assumptions and projections on both the revenues and expenditures sides. In Albania, the revised budget envisioned a contraction of revenues of about 3% and an increase in expenditures of about 17.8% for 2020 as compared to realized values in 2019. In the presence of lower projected revenues and higher expenditures, the budget deficit is expected to widen greatly from the initially projected level of about 2.2% to about 8.4% of nominal GDP (see Annex 5).[13] The same patterns appear in the

RNM's fiscal indicators, where the revised budget envisioned a decrease in expected revenues by about 11.5% compared to the originally enacted budget, an increase in projected expenditures by 1.4%, and a higher expected budget deficit of about 6.8% of GDP.

Regardless of the fiscal decentralization models, changes in state budgets have implications for municipal budgets through two main channels: (i) intergovernmental transfers unconditional (general or specific), and (ii) shared taxes between the central and local government. The third source of revenues for municipalities is represented by own source revenues or those generated from local taxes, fees and charges, and asset management activities, among other sources, which feed into the consolidated national budget.

In the case of Albania, budget revisions introduced by the GoA left the level of unconditional (general and specific) transfers unchanged in 2020. The current legislative framework in force provides for the stabilization of the size of unconditional transfers: they should be at least 1% of nominal GDP and not lower than the level of the same transfer for the previous year. Conditional intergovernmental transfers for delegated functions and investments also are not expected to change in 2020. Due to the sluggish economic developments in internal and external markets, revenues generated from shared taxes[14] are expected to drop 10.4% lower than the initial projections for year 2020. Such a drop is not expected to severely affect municipal finances, since shared revenues account for a marginal share in the total local governments' revenues. (In 2019, shared taxes represented about 2.1% of the total revenues of municipalities).[15]

Revenues from municipal own sources are expected to make a smaller contribution to the consolidated national budget. In the initial budget for 2020, revenues from local governments were projected at about ALL 26.9 billion (about 1.5% of GDP) or about 16.6% higher than revenues collected during 2019. This is based on projections for higher revenues from: building tax (ALL 5.3 billion, +2.8% compared to 2019); simplified small business profit tax (+3.8% higher compared to 2019); and revenues from other local sources (other taxes, asset management, local fees, etc.), which were projected to contribute about ALL 21.2 billion, 21% more than the level collected in 2019. In the revised budget, planned revenues from the local government were reduced by about 14.5% compared to the initial projections; the property tax revenue was projected to be about 20.5% lower; other revenues from local government were revised by -13.2 %; and no changes were applied for revenues from the simplified small business profit tax. Local government expenditures, initially planned at ALL 57.6 billion (2.4% higher than 2019), were reduced by about 7.1% as compared to the initially planned figure for 2020.

Data on fiscal indicators for the first half of 2020 are in line with the expectations of MoFE envisaged in the revised budget document for 2020. Total revenues from local government in the first six months of 2020 marked a sharp decline of about 23.9%, while tax revenues and property dropped by about 28%, and revenues from other local sources by about 23.7% compared to the same period the previous year. On the contrary, a positive development is registered in the tax on the profit of small businesses, where revenues marked an increase of about 10% in annual terms (it had a marginal weight in total revenues of about 0.1% during 2019).

In the case of North Macedonia, budget revisions introduced by the GoNM will undoubtedly have an impact on transfers from the central to the local government. The effects of the revenue collection declined compared to last year, which can be seen primarily through the revenue decrease in tax collection in the first four months of 2020. Instead of the initially planned increase of the annual budget revenues by 9%, the month-to-month (mtm) total revenues during March and April dropped by 5% and 20% (respectively) and the total tax revenue collection dropped by 11% and 31% (respectively). Personal income tax collection in April compared to the same month last year dropped by 12% while VAT tax revenues dropped by 17% in March and 43% in April compared to the same months in 2019.

The PIT is a centrally administered tax that is shared with local governments in North Macedonia (3% of the centrally collected PIT taxes), acting as an important source of revenue for local governments. April 2020 employment forecasting projected that 28,000 employees would be sent into technical unemployment and that their contracts would end (around 7% of total contracts), which is expected to drastically impact the stream of total PIT revenues and, in turn, the portion that goes to local governments in RNM.

The VAT ta is shared unconditionally with local governments (4.5% of the VAT collected centrally, distributed by criteria[16]) and thus, it is another important source of revenue for local governments. Yet, private consumption is forecasted to shrink in 2020 by 4.3% and imports by 15.4%,[17] thus also having an impact on the intergovernmental VAT transfers for local governments (see Annex 6).

Considering the past data on the budget, revenue from tax collection is relatively balanced.[18] Variations can be observed with regards to the PIT in the months of January and December, which is usually around 6% and 13% of the annual tax collected (respectively). The VAT collection is more balanced throughout the year with differences of around +1pp to +2pp in the months after the ending of the quarters (4th, 7th, 10th and 12th month).

Assuming the projections of the revised 2020 budget, the expected PIT revenues will be 8% lower than originally planned (down by EUR 26 million), and VAT will be 14% lower (down by EUR 126 million). The overall budget revenue will drop by 11% (down by EUR 415 million). Thus, it is expected that the transfers from the central government to the local government units (LGUs) will be reduced as well.

The 2020 enacted budget (prior to the COVID-19 pandemic) envisaged a larger relative increase in the planning of transfers to LGUs compared to figures from the previous year. Transfers to local governments for 2020 were planned to be about 12% higher compared to the previous year, unlike the average annual increase of 4% (ranging from between 2% to 8% over the last decade). Considering the almost full (99.6%) execution of current transfers historically, it is likely that the execution for 2020 will reflect the same situation. However, it can be noticed that although overall tax revenue is expected to drop by 16% with the supplementary 2020 budget, current transfer levels to the LGUs have not been downsized. The supplementary 2020 budget provides for only a 0.2% reduction of the current transfers (from MKD 21,375 million to MKD 21,330 million, almost exclusively within the block transfers account).[19] However, given the percentage change in the overall tax revenue collection, transfers from shared taxes (including VAT and PIT) can be expected to drop by around 16%.

A 16% drop in the current transfers (unlike the revised 2020 budget projections) compared to the originally planned budget will mean a decrease of about EUR 57 million (from MKD 21.38 billion to MKD 17.85 billion, a difference of MKD 3.5 billion) for LGUs. If we consider only a drop in the VAT (note that the transfers should be 4.5% of the VAT and 3% of the PIT collected) would result in an overall reduction of funds for the transfers of about MKD 396 million or EUR 6.4 million.

In summary, economic growth rates in both countries have been revised downward, with real GDP growth rates projected to be negative. The containment measures introduced by the GoA and GoNM in response to the health crisis has led to a deep socio-economic crisis. In order to alleviate the negative impact of COVID-19 crisis, both countries introduced specific support packages which included measures

Table 1. Current Budget Transfers to LGUs (MKD million)

	Budgeted	Execution	VAT transfers	Earmarked transfers	Block transfers	PIT revenues for LGUs
2010	13,317	13,309	1,196	451	11,662	259
2011	14,414	14,074	1,164	397	12,513	216
2012	15,355	15,345	1,340	283	13,722	216
2013	15,646	15,631	1,540	279	13,812	228
2014	16,004	15,987	1,733	279	13,975	250
2015	16,343	16,322	1,733	288	14,301	279
2016	16,663	16,647	1,876	293	14,478	293
2017	17,049	17,014	2,067	289	14,658	314
2018	18,097	18,057	2,154	291	15,613	341
2019	19,124	n.a	2,216*	335*	16,573*	n.a
2020	21,375**	21,330**	2,343	403	18,564	n.a

*Note: *2019 Budget data, ** 2020 Budget and Revised (supplementary) Budget 2020*

targeting both households and businesses and revised their enacted budgets for year 2020. A scissor effect is foreseen in the public finances of both countries at the national and sub-national level, as well as a shortfall in revenues and higher expenditures.

Municipal finances in Shkodër (Albania) and Gazi Baba (North Macedonia)

Subnational governments in Albania and North Macedonia are reporting a significant loss of revenues based on data from the first half of 2020. The response to COVID-19 has required the use of financial resources to support communities, creating additional difficulties for municipalities. Moving to the next phase of recovery, municipalities need to quantify and assess what might be the impact of COVID-19 on their municipal finances, both on the revenues and expenditures sides. The potential impact of COVID-19 on municipal finances will be explored using two case studies, namely the municipalities of Shkodër (Albania) and Gazi Baba (North Macedonia).[20] Such an assessment builds on the Municipal Finances Self-Assessment methodology and specifically the General Accounting Framework (GAF)[21] as described in Farvacque-Vitkovic and Kopanyi (2019) and applied in Trajkov and Nikolov (2020) and Toska and Shutina (2020). For both municipalities, Trajkov and Nikolov (2020) and Toska and Shutina (2020) proposed three scenarios based on a set of assumptions about revenue streams and expenditures (which build on historical trends, average growth rates, updated information from the municipalities involved, and expert judgments) for the years 2020 and 2021. These include a:

- Baseline scenario which builds broadly on projections prior COVID-19;
- Optimistic scenario, which assumes a moderate impact of COVID-19; and a
- Pessimistic scenario, which assumes a significant impact of COVID-19.

Using alternative scenarios through a set of assumptions based on revenue streams and expenditures enables a better understanding of the impact of COVID-19 on municipal finances, which constitutes a precondition to set up recovery plans over the short- to mid-term. For a better understanding of the impact of COVID-19 on municipal finances, it is important to understand the structure of municipal budgets, both in the Municipality of Shkodër (MSH) and the Municipality of Gazi Baba (MGB).

Structure of the Municipality of Shkodër's Local Finances and Potential Impact of COVID-19[22]

The Municipality of Shkodër is the fourth largest municipality in Albania by population (according to Census 2011 data) and the sixth largest by area under administration.[23] About 4.5% of all active enterprises in the country exercise their activity within the territory under MSH's administration (2018 data).[24] Business activity is mainly focused on the provision of services (trade, accommodation, and food services, among others); the agricultural sector; and the manufacturing industry. Small and medium sized enterprises represent about 73.5% of all businesses and are assessed to be the catalysts of local development, both for growth and employment. Large enterprises account for about 25.6% of total businesses (Municipality of Shkodër, 2020, p.8).[25] While the data are very dynamic, the trends so far (based on official figures) show that the Municipality of Shkodër and the Qark of Shkodër remain among the most affected LGUs in terms of total infections and infections per 100,000 inhabitants. As a result, finances are expected to be significantly affected in the short and midterm.

Municipalities in Albania have three major sources of revenues: (i) own source revenues, including revenues from local taxes, fees and charges, asset management, and others; (ii) intergovernmental transfers, including unconditional and conditional transfers, and shared taxes; and (iii) borrowing. Table 6 summarizes information on the revenue structure in MSH.

a. *Own source revenues* accounted for about 22.4% of MSH's total financial resources in 2019, out of which 10.2% stemmed from local taxes (mainly revenues from property taxes and the infrastructure impact tax of new constructions) and about 11.2% from fees and other own sources (mainly the waste management fee). MSH has full discretion over the allocation of these funds. At the same time, this category of

Table 2. MSH Revenues and Expenditure Structure (% vs. total)

	2017	2018	2019
REVENUES			
A. Own source revenues	22.1%	24.8%	22.4%
B. Intergovernmental transfers	77.9%	75.2%	77.6%
Unconditional transfers	*33.8%*	*35.8%*	*37.6%*
Conditional transfers	*41.9%*	*36.3%*	*36.4%*
Shared taxes	*2.2%*	*3.1%*	*3.6%*
Total financial resources	100.00%	100%	100.00%
EXPENDITURES			
A. Current exp.	87.1%	86.6%	78.2%
Personnel	*25.9%*	*23.4%*	*21.9%*
Operating	*19.3%*	*29.0%*	*22.0%*
Subsidies	*0.9%*	*0.0%*	*0.9%*
Transfers	*41.0%*	*41.0%*	*33.4%*
B. Capital exp. .	12.9%	13.4%	21.8%
Total expenditures	100.0%	100.0%	100.0%

Source: http://www.bashkiashkoder.gov.al/ and authors' calculations.

revenues is highly sensitive to the general economic situation in the municipality through two conduits:

- Deterioration of businesses' financial situation, which hinders their payment capacity. Measures undertaken due to the COVID-19 crisis such as the lockdown, social distancing rules, and working from home caused a significant contraction of activity, especially in sectors like trade, services (tourism), and transport, among others. Lower business activity means lower tax receipts (VAT, profit tax, etc.) and lower paying capacity (local taxes, fees, and charges).

- Deterioration of households' financial situation (being laid off, unemployed,[26] or earning lower salaries) weakens their capacity to cope with local fiscal burdens.

For both categories of taxpayers, a deterioration in their financial situation is expected, which in turn would negatively affect their capacity to pay taxes resulting in lower revenues and receipts at the local and national level.

b. *Inter-governmental transfers* represented about 77.6% of MSH's total financial resources at the end of 2019.

   - Unconditional transfers (general and specific transfers for the financing of new functions devolved in 2016) accounted for about 37.6% of the municipality's total financial resources in 2019;

   - Conditional or earmarked transfers for delegated functions and investments represented about 36.4% of total financial resources in 2019; and

   - Shared taxes accounted for about 3.6% of total financial resources in 2019.

With budget revisions applied, there are no foreseeable changes in the unconditional transfers block though minor changes are foreseen for the earmarked transfers for delegated functions (social assistance layouts and disability payments). Although no detailed information is provided on investments funded by the central government, the intention to keep increasing general public investments is a positive sign for local governments. In contrast, in the revised budget, revenues from shared taxes are expected to be lower compared to those planned in the initial budget, affected by falling prices in international markets and weakening export activity. Nonetheless, changes in this item are not expected to affect MSH's budget heavily, since the contribution of shared taxes to its total financial resources is low.

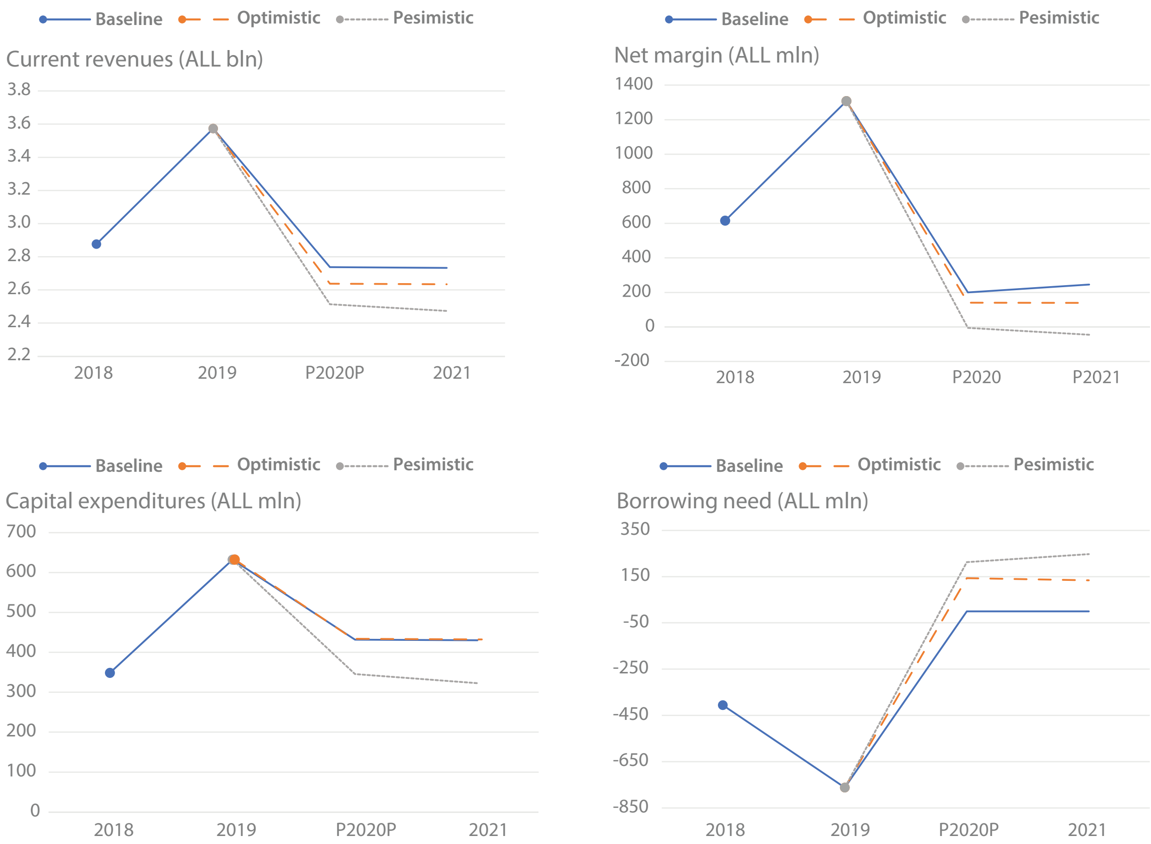
c. *Local borrowing (for investment and/or liquidity)* is an instrument available for local governments[27] and was accessed in 2010 (five municipalities) and in 2014 (two municipalities) for investment purposes. To date, local borrowing has not been exercised by any of the 61 municipalities operating in Albania. During the pandemic, the use of such an instrument is considered unfeasible, since Albania's public debt is revised at 85% of the GDP and municipalities have a large stock of arrears (Co-PLAN, 2020).

The largest share of available financial resources, about 78.2% in 2019, is channelled in current expenditures aimed at the coverage of personnel (21.9%), operating costs (22%), and other expenditure items (34.3%). Capital expenditures in 2019 represented about 21.8% of total expenditures. In light of less funding available, MSH is expected to introduce budget revisions including: containment of personnel expenditures in the range of -2% to - 3%; a possible increase in operating expenditures from 1% to 4% due to an increased need for supplies and disinfecting of public spaces; no substantial changes to the level of transfers (as defined by the line ministry); a drop in investments between 20% and 25%, since MSH is mostly financed through own source revenues.

MSH's financial management resulted in positive net operating margins over the 2017-2019 period, which accounted for 36.6% of current revenues in 2019. Capital revenues have been volatile and show decreases for the same period, from about ALL 129 million in 2017 to about ALL 62 million in 2019.[28] Capital expenditures have increased markedly during 2019 (+81.4% compared to the previous year) and accounted for about 48% of the net margin registered in the same year.

COVID-19 will adversely affect MSH's finances in both the optimistic and pessimistic scenarios as compared to its performance in 2019 and to the baseline scenario. Under the set of assumptions used for constructing the scenarios, MSH's current revenues are expected to contract during 2020 and 2021 by between 4% and8%; the net margin is expected to narrow significantly ranging from an expected drop of at least 30% to becoming negative in 2020 and 2021; and capital expenditures are set to shrink by about 20%-25% compared to the baseline projections of the MSH.

Figure 1. COVID-19 Impact on MSH Finances



Source: Authors' calculations.

Structure of the Municipality of Gazi Baba's Local Finances and Potential Impact of COVID-19

Gazi Baba is the largest municipality by population in the City of Skopje (according to the 2002 census) and the second largest by area. The municipality is the gateway to the City of Skopje and contains the city's largest industrial area. Within the MGB are some of the largest companies in the country, although of the approximately 3,000 legal business entities, 61.5% are micro enterprises, 35% are small enterprises, 2% are medium enterprises, and 1.5% are large enterprises dominated by the pharmaceutical industry, metal industry, food industry, and trade and logistics.[29]

In 2019 the transfers from central government accounted for about 45% of the MGB's total revenues, while own capital revenues accounted for about 30% and own current revenues for about 20%. Shared taxes from VAT represented 3% of total revenues and PIT represented 2%. Own capital revenues are coming primarily from land development fees (26% of the total 2019 revenues). In the structure of own current revenues, property tax accounts for almost 10% and communal fees for urban services for 10.2%.

Considering the structure of the Macedonian economy, the effects of COVID-19 are primarily going to be seen though disrupted income for businesses and households. Certain business sectors will be affected more than others.

The immediate impact of COVID-19 is on income, reflected through lower household and business spending. The impact on the national RNM economy will be felt through the limited ability for households to spend (household expenditure accounts for more than 60% of GDP in RNM) due to COVID-19 restrictions on mobility. The immediate result is that local businesses will receive less income, in turn reducing labour hours and laying off workers where possible. Less income is available to households, repeating the cycle.

The MGB's local economic activities will be affected by COVID-19 mainly in the sectors of logistics, manufacturing, and wholesale and retail trade (less so in tourism). Value chains in MGB are highly dependent on imports, particularly those from the European Union (EU). Keeping in mind that the RNM's economy is connected to the EU economy, COVID-19 has lowered external demand from the EU and will negatively affect the RNM economy and the MGB local economy, especially through exports.

COVID-19 is expected, in relative terms, to have the largest impact on the following revenue budget lines of the MGB, compared to 2019:

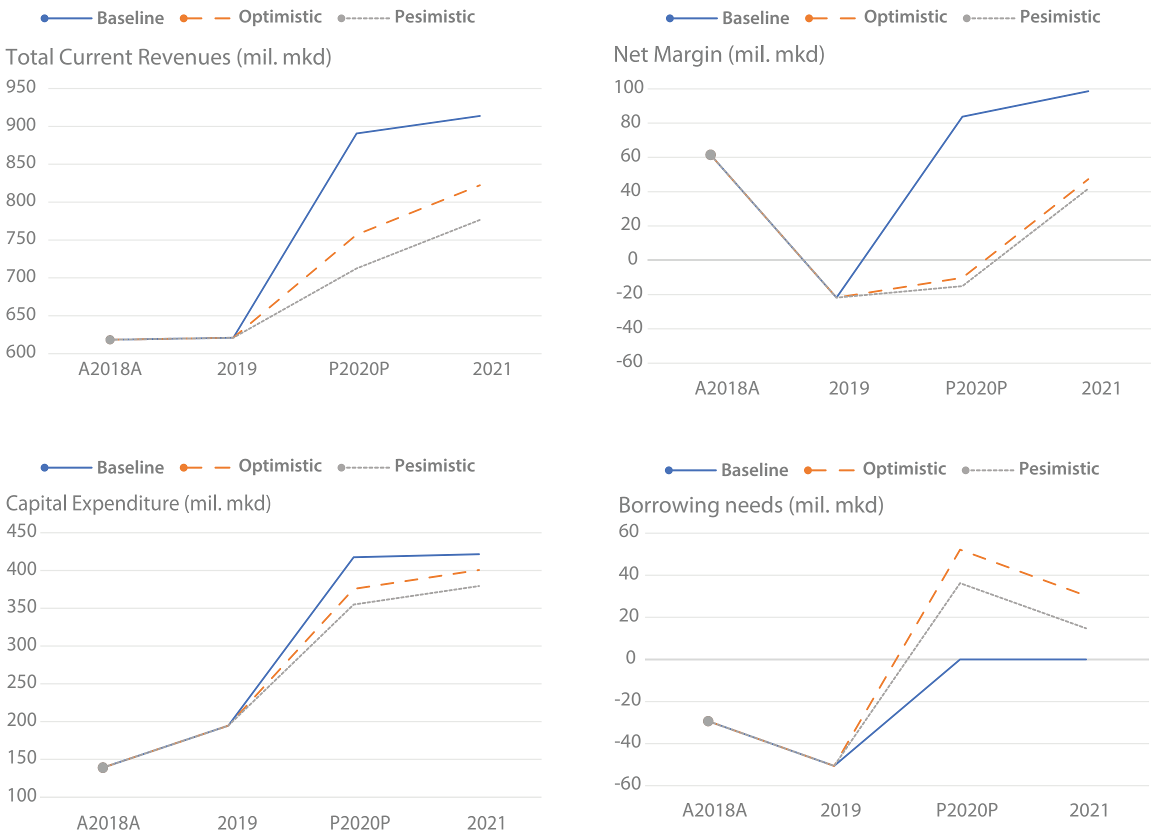
- Reduced block transfers of 2%-5%;
- Own source revenues 10%-20% (due to one-time event of 2019 revenues from EAST GATE[30] project fees);
- Fees for specific services 10%-20% (revenues as part of City of Skopje, dependent on accommodation and tourism dependent fees);
- Shared PIT and VAT (due to lower consumption, lower employment) 10%-20%.

The expenditure of the MGB is also expected to change in 2020 (compared to 2019) in the following budget lines:

- There are no changes in personnel expenditures;
- Goods and services reduced by 5% (primarily due to the closure of the kindergartens and primary schools reflecting reduced maintenance and hygiene costs);
- Subsidies increased by 5% as planned (primarily for public utility companies' services and subsides for micro and small enterprises);
- Internal transfers between entities in the local public administration (due to the likely decrease of cultural activities, sports activities, and other planned events); and
- Capital expenditures decreased due to overly optimistic planning.

Under a zero, optimistic, and pessimistic scenario,[31] the economy and thus the finances of the MGB are inevitably going to change due to the effects of COVID-19. Under certain assumptions for lower or larger changes,[32] the effects are expected to be decreases in current revenues by 15%-20% of the pre-Covid-19 plans, a reduced net margin between 112%-118%, reduced capital expenditures of 10%-15%, and a likely need for borrowing that was not planned for in the zero scenario.

Figure 2. Scenario Impact of Covid-19 on Certain Budget Lines of MGB



Source: Authors' calculations.

4. Conclusions and Recommendations

The COVID-19 pandemic has challenged governments at all levels around the world and has required immediate responses, which include countercyclical measures aimed at mitigating its adverse effects. The success rate of these measures has yet to be defined (or researched further) in countries like Albania and North Macedonia in terms of timing adequacy, effectiveness, transparency, and proportionality. Support packages made available in both countries have yet to be evaluated on a performance basis and it remains unclear whether state aid has been efficient and effective in mitigating the negative effects of the COVID-19 crisis. This is especially relevant in the period to come, as it overlaps with the pre-election period and election processes. Perceptions in both countries are that measures introduced were not adequately targeted, and that there has been of lack of transparency and clarity in the selection and approval criteria. Furthermore, whether the principles of state aid control have been enacted is yet to be evaluated, due to the non-functional parliaments throughout the crisis in both countries because of the emergency measures.

COVID-19 is currently affecting and will negatively affect subnational finances in both Albania and Macedonia. Data for the first half of 2020 show that a negative impact is materializing and that the financial plans of municipalities in North Macedonia and Albania are showing signs of financial distress. In light of expected lower revenues (especially from own sources), added pressures for expenditures, and disbalanced cash-flows, it becomes imperative for municipalities to re-establish financial control and avoid liquidity shortages. In the case of the MGB, COVID-19's negative effects are likely to be dampened due to the already planned capital projects and the revenues expected to be generated from them. For instance, the specific investment project EAST GATE will likely absorb some of the negative impacts on revenues due to planned land development and other fees. In the case of the MSH, little space for manoeuvre can be identified; revenues from own sources are expected to drop and expenditures can hardly be decreased in the short run.

The effects on municipal finances are going to be felt for a longer period of time and are expected to be especially severe during 2021. The COVID-19 pandemic has posed serious challenges for municipalities in light of amplified needs for expenditures and limited space to increase revenues. Municipalities in both countries are broadly dependent on intergovernmental transfers, which can be interpreted in two ways. First, such a dependency ensures for a continued inflow of financial resources that, if regulated in the legislative framework, will not change (ex. unconditional transfer size definition in Albania has two specifications: they should amount to 1% of nominal GDP and it cannot be lower than the previous year; in RNM block grants size is defined). For the other items like conditional grants for delegated functions and investments, central government decision-making about transfer size can change at any time. It is highly probable that shared taxes such as the PIT and VAT will drop, especially during 2021. In the case of Albania, there is no clear indication about whether PIT will be distributed, despite being in force since January 2018. Secondly, it is highly probable that economic activity during 2020 will end in negative, meaning that businesses and individuals' financial situations will worsen. In this case, there will be less money in the state budget for 2020 and 2021, which in turn means that less money will be available for municipalities in both countries.

Post-crisis recovery at a municipal level requires optimization in the use of resources (and if possible, mobilization of new ones) to ensure the provision of essential services and, at the same time, stimulate the local economy and enhance resilience. Naturally, a question arises: where would new financial resources come from? The answer might be from internal sources through saving and improved collection rates, and/or from external sources such as grants, donations, and borrowing (when possible). As of the first half of 2020, data on executed budgets show that municipal finances will suffer as a result of COVID-19. Hence, in order to establish financial control and stay on track for the rest of 2020 and for 2021, **the municipalities of Gazi Baba and Shkodër are recommended to:**

- **Review and define what constitutes essential and non-essential services to citizens.**[33] For both of these categories, it would be useful to determine reasonable levels of services to be delivered to citizens. This approach could allow municipalities to control for costs and ensure the continuation of local public services delivery in their constituencies. In addition, workforce 'savings' can be deployed and assigned to other tasks (like in essential services), to avoid contracting external parties for these services and having to lay-off labourers.

- **Prepare and review an inventory of the most essential public procurements and implement** those procurement procedures. Limiting what is assessed as non-essential procurements (at least for one year) could create space for diverting resources towards what is considered essential.

- **Monitor liquidity needs and consider the possibility to defer or relax payment of certain taxes and local fees,** such as postponing payment for categories particularly affected by the crisis (ex. tourism and trade sectors, households facing financial distress) and offering the option to pay in instalments.

- **Revise and prioritize investment projects:** keep pace with ongoing investments that create jobs and contribute to economic recovery.

- **Mobilize financial resources from external sources:** donor communities are active in both countries and municipalities are encouraged to put more effort on increasing their absorption capacities, especially for EU funds (improved planning and project preparation). In the case of the MGB, it should make full use of the World Bank MSIP 2 loans, grants, and investment grants from GoNM that support local capital investments.

- **Better budget planning and close monitoring of risks** from the COVID-19 crisis. In this context, it is important not to shirk responsibility and postpone payments to the next year, which could result in an increased stock of arrears.

As the government has provided support packages for individuals and businesses in Albania, the same would be useful for municipalities. A support package could be designed for municipalities in order to partially absorb encountered losses and ensure the continuity of (essential) local public services. Such a package could include measures and/or combinations of measures like: (i) a commitment on intergovernmental transfer levels as planned in the MTPB programs for 2020-2022; (ii) a support grant to compensate municipalities for the net loss in revenues as a result of the COVID-19 pandemic; (iii) short term credit lines to cover liquidity needs guaranteed by GoA; and (iv) a cost recovery grant to compensate municipalities for extra expenditures encountered and directly related to COVID-19.

Finally, for both countries, intergovernmental communication, coordination, and willingness are key to recovery and resilience. Governments at all levels should work in coordination to face the health crisis successfully and enable recovery. The decentralization and local finance models in Albania and North Macedonia differ and thus the measures or policies recommended should take into consideration the specificities of each country. Yet, undoubtedly, intergovernmental communication and coordination is necessary to soften the pandemic's effects on local finances.

Annexes

Annex 1. Albania: Main Macroeconomic Indicators

	2017	2018	2019	2020*	2021*	2022*	2023*
Real GDP growth rate (in %)							
Initial projections	3.8	4.1	2.7	4.1	4.0	4.0	4.0
Revised projections	3.8	4.1	2.2	-4.3	5.9	3.8	3.9
Inflation rate (in %)							
Initial projections	2.0	2.0	1.4	2.1	2.4	2.8	3.0
Revised projections	2.0	2.0	1.4	2.1	2.4	2.8	3.0
Budget revenues (% of GDP)							
Initial projections	27.7	27.6	27.4	28.7	27.7	27.6	27.6
Revised projections	27.8	27.5	27.4	28.2	29.3	29.1	29.0
Budget expenditures (% of GDP)							
Initial projections	29.7	29.2	29.3	30.9	29.6	29.3	29.0
Revised projections	29.8	29.1	29.3	36.7	33.5	30.8	30.3
Budget deficit (% of GDP)							
Initial projections	-2.0	-1.6	-1.9	-2.2	-2.0	-1.7	-1.3
Revised projections	-2.0	-1.6	-1.9	-8.4	-4.2	-1.7	-1.3
Gross public debt (% of GDP)							
Initial projections	70.1	67.9	66.2	65.4	62.3	62.0	58.8
Revised projections	70.2	67.7	66.3	80.5	76.5	73.2	70.9
Current account balance (% of GDP)							
Initial projections	-7.5	-6.8	-8.0	-7.2	-6.7	-6.3	-6.0
Revised projections	-7.5	-6.8	-7.6	-8.9	-7.5	-7.5	-7.4

Source: Ministry of Finance and Economy, Albania

Annex 2. North Macedonia: Main Macroeconomic Indicators

	Revised budget 2020 MoF, May 2020 projections[34]	**International Monetary Fund** April 2020 projections[35]	**National Bank of RNM** May 2020 projections[36]	**European Commission** May 2020 projections[37]
Real GDP growth (revised annual growth projections)	-3.4%	-4%	-3.5%	-3.9%
Inflation rate (revised annual projections)	-0.2%		~0%	0.1%
Budget revenues (change, original to revised budget)	-11.5%	-14.7%		-25%
Budget expenditures (change, original to revised budget)	+1.4%	-2.3%		
Budget deficit (revised budget)	-6.8%	-6.5%		-6.8%

Source: Ministry of Finance, North Macedonia, National Bank of North Macedonia, European Commission, International Monetary Fund

Annex 3. RNM Government Response Measures to COVID-19

<table>
<tr><th>First Set
(March 18, 2020)</th><th>Second Set
(March 31, 2020)</th><th>Third Set (May 15, 2020)</th></tr>
<tr><td colspan="2">Goal: Liquidity protection, job retention, and support for vulnerable categories of citizens. (Estimated value of €355 million out of which, for loans: 4.7 mil EUR Covid-1 line; 8 mil EUR Covid-2 line)</td><td>Goal: Restoring the domestic economy through domestic demand and consumption stimulus. (Liquidity of the private sector and job retention, support for citizens in order to stimulate domestic consumption, competitiveness of the agricultural sector and farmer (estimated value €355 million).</td></tr>
<tr><td colspan="2">- Tax breaks for profit tax and personal income tax;
- 50% subsidies for the social benefits of employment contracts for ‘the most’ affected sectors;
- Direct support to the private sector for employment contract salaries up to 14.500 MKD;
- Direct support for the most vulnerable;
- Liquidity support through no-interest loans, low interest rate loans, postponing of loans payments for citizens, and reprograming of loans for the business sector;
- Reduced/halved penalty for late payments, and late payment interest;
- Freeze on food prices.</td><td>- Payment voucher card for most vulnerable households for Macedonian products;
- Payment cards with a value of 6,000 MKD for citizens for domestic tourism services;
- Support of youth and students for financing ICT skills development;
- Financial reward for medical personnel;
- Support for those that have lost employment;
- No-VAT weekend for certain sectors’ products;
- No interest loans with 30% grant component for micro and small enterprises;
- State guarantee scheme for commercial loans;
- Platform for alternative sales;
- Support for innovation and start up;
- Matching funds for event organizing;
- Credit lines for the agriculture and agribusiness MSM enterprise.
- Payment cards for gas for mechanization.</td></tr>
</table>

Source: Government of North Macedonia

Annex 4. Measures of BoA and GoA in light of the COVID-19 Crisis

<table>
<tr><th colspan="3">Bank of Albania</th></tr>
<tr><td colspan="3">Measures introduced:
- Reduction of policy rate from 1% to 0.5% (Decision of Supervisory Council March 25th, 2020);
- Decrease in the interest rate for the overnight lending facility from 1.9% to 0.9% (Decision of Supervisory Council March 25th, 2020);
- Close monitoring of ER fluctuations (Decision of Supervisory Council March 25th, 2020);
- Regulatory changes (Decision of the Supervisory Council of the BoA, March 12, 2020);[38]
- Guidelines to banks for higher transparency, postponement of credit payments etc.;[39]
- Suspension of the allocation of profit from banks up to the end of June 2020 (Decisions by the Supervisory Council, April 8th, 2020);[40]
- Eased treatment of banks' exposure to Albanian government debt securities in foreign currency (for those to be issued during 2020);
- Rescheduling of loan instalments (up to three months);
- Temporary removal of commissions applied by banks on the non-paper-based credit transfers in ALL, starting from April 10, 2020;
- Ensuring Euro liquidity by setting up a EUR 400 million repo line with ECB, in place until June 2021;
- Cash supply and processing;
- Intensive communication;</td></tr>
<tr><th colspan="3">Government of Albania</th></tr>
<tr><td>Support Package 1

Aimed at the alleviation of financial losses of those affected by the COVID-19 crisis and alleviating the position of vulnerable categories.</td><td>Measures introduced[41] :
- Additional financing for health sector by about ALL 2.5 billion;
- Support for small businesses forced to close during the pandemic of about ALL 6.5 billion (this measure included monthly payment of ALL 26,000 for the months of April, May, and June 2020);
- Reallocation of funds for poverty alleviation for the categories in need of about ALL 2 billion (doubling of unemployment benefits and social assistance layouts);
- Sovereign guaranteed fund for companies accessing overdrafts in the banking systems for salary payments of about ALL 11 billion (0.6% of nominal GDP) (interest rates and cost fully covered by the government and no collateral requirements).</td><td>Implementation of the measures (as of June 22nd 2020):
- Allocation of about ALL 5.04 billion for the three months payments to beneficiaries (about 65,115 persons).
- Subscribed by 12 banks; Total amount requested about ALL 8.07 billion / 751 companies;
- Total amount approved about ALL 6.32 billion / 521 companies;</td></tr>
</table>

Support Package 1 Extended the support to all employees of the entities directly affected from the closure of businesses; those who lost their jobs, employees in tourism sectors, and all employees in businesses with an annual turnover of less than ALL 14 million who faced limited economic activity as a consequence of the COVID – 19 crises.	**Measures introduced[42] :** - Single lump sum payment for employees in small businesses affected by the crisis of about ALL 7 billion (0.4% of nominal GDP); - Sovereign guaranteed fund for all companies accessing loans for liquidity and capital expenditure financing of about ALL 15 billion (0.9% of nominal GDP). The GoA guarantees 60% of the principal and the maximum loan amount per company cannot exceed ALL 300 million (grace period of six months and five years maturity).	**Implementation of the measures (as of June 22nd 2020):** - Allocation of about ALL 373 million (about 9,333 beneficiaries) for those employed in businesses with turnover higher than ALL 14 million and closed due to GoA decision; - Allocation of about ALL 2.54 billion (about 63,405 beneficiaries) for those losing their jobs up to April 10, 2020; - Allocation of about ALL 2.66 billion (about 66,566 beneficiaries) for those employees in businesses with a turnover up to ALL 14 million, who experienced a contraction of their economic activities; - Allocation of about ALL 164 million (about 4,838 beneficiaries) for those employees in active accommodation structures since the beginning of the emergency; - Allocation of about ALL 29 million (about 720 beneficiaries) for employees in the Ballsh Refinery. - Subscribed by 9 banks; - Total amount requested about ALL 4.04 billion / 89 companies; - Total amount approved about ALL 0.84 billion / 40 companies;
Simplified tax on the profit of small businesses	Exemption for those businesses with an annual turnover of ALL 0-14 million for FY2020; postponement for a) tourism, textile, and footwear until January 1, 2021; and b) all other sectors (excluding banks, pharmaceutical companies, retail of food supplies and telecommunication until October 1, 2020).	

Source: Ministry of Finance and Economy, Albania

Annex 5. Budget Revision and 1st half of 2020 Performance in Selected Items (in ALL million)

	Year 2019			2020							2019H1	2020H1	2020H1 /2019H1 % annual change
	Plan	Executed	Executed/ Planned	Initial budget	% change to executed 2019 budget	1st revision*	3rd revision**	1st revision % change from initial budget	2nd revision % change from initial budget	% change from 2019 executed budget	executed		
Total revenues	**486,677**	**460,349**	**94.6%**	**509,675**	**10.7%**	**489,675**	**446,570**	**-3.9%**	**-12.4%**	**-3.0%**	**226,116**	**194,902**	**-13.8%**
VAT	151,314	132,412	87.5%	151,621	14.5%	142,621	130,760	-5.9%	-13.8%	-1.2%	65,913	58,235	-11.6%
Profit tax	33,500	36,575	109.2%	38,000	3.9%	34,000	30,390	-10.5%	-20.0%	-16.9%	20,444	13,701	-33.0%
Personal income tax	41,900	46,124	110.1%	47,500	3.0%	44,500	41,080	-6.3%	-13.5%	-10.9%	22,129	15,925	-28.0%
Local government revenues	25,661	23,102	90.0%	26,944	16.6%	26,944	23,045	0.0%	-14.5%	-0.2%	13,458	10,236	-23.9%
Other localtaxes	18,106	17,539	96.9%	21,222	21.0%	21,222	18,422	0.0%	-13.2%	5.0%	10,034	7,657	-23.7%
Property tax	6,915	5,208	75.3%	5,354	2.8%	5,354	4,254	0.0%	-20.5%	-18.3%	3,123	2,248	-28.0%
Small business tax	640	355	55.4%	369	3.8%	369	369	0.0%	0.1%	4.0%	301	331	10.0%
Total expenditures	**519,577**	**491,897**	**94.7%**	**549,374**	**11.7%**	**558,374**	**579,535**	**1.6%**	**5.5%**	**17.8%**	**229,569**	**233,389**	**1.7%**
Local government expenditures	55,286	56,227	101.7%	57,554	2.4%	57,554	53,485	0.0%	-7.1%	-4.9%	29,158	22,340	-23.4%
Unconditional transfers				26,040		26,040	26,040	0.0%	0.0%				
Own budget				30,844		30,844	26,845	0.0%	-13.0%				
Shared taxes				670		670	600	0.0%	-10.4%				
Budget deficit	**-32,900**	**-31,549**	**95.9%**	**-39,699**	**25.8%**	**-68,699**	**-132,965**	**73.1%**	**234.9%**	**321.5%**	**-3,453**	**-38,487**	

Source: Ministry of Finance and Economy, Albania and Authors calculations

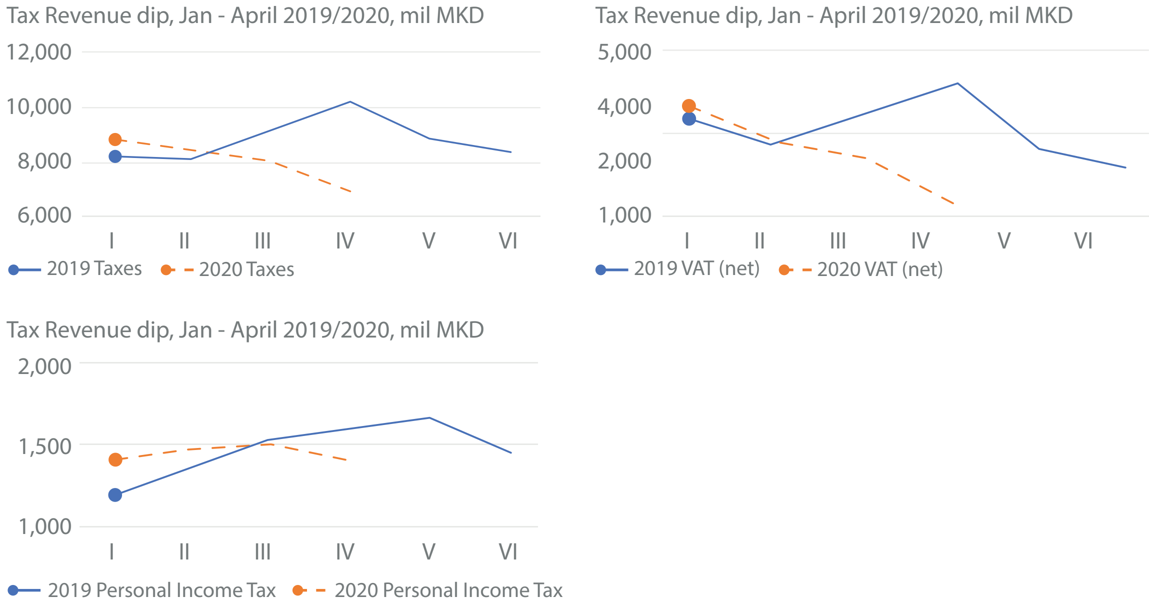
**1st revisions, are related to changes introduced with Normative Act No. 6, dated 21/03/2020 'For some changes and additions to Law No. 88/2019 'On year 2020 Budget'*
***3rd revisions are related to changes introduced with Normative Act No. 28, dated 02/07/2020 'For some changes to Law No. 88/2019 'On year 2020 Budget', amended'.*

Annex 6. Monthly Comparison, Tax Revenue Execution, 2019-2020, RNM

Budget of NRM MtM change %	I	II	III	IV	Total I-IV change	Expected annual change (Executed Budget 2019/Budget 2020)	Revised downward change (Budget to Revised budget 2020))
Total revenues	5%	4%	-5%	-20%	-5%	9%	-11%
Taxes and Contributions	11%	6%	-4%	-20%	-3%	10%	-13%
Taxes	7%	4%	-11%	-31%	-9%	11%	-16%
Personal Income Tax (PIT)	20%	9%	-1%	-12%	3%	8%	-8%
Value Added Tax (VAT)	6%	2%	-17%	-43%	-15%	7%	-14%

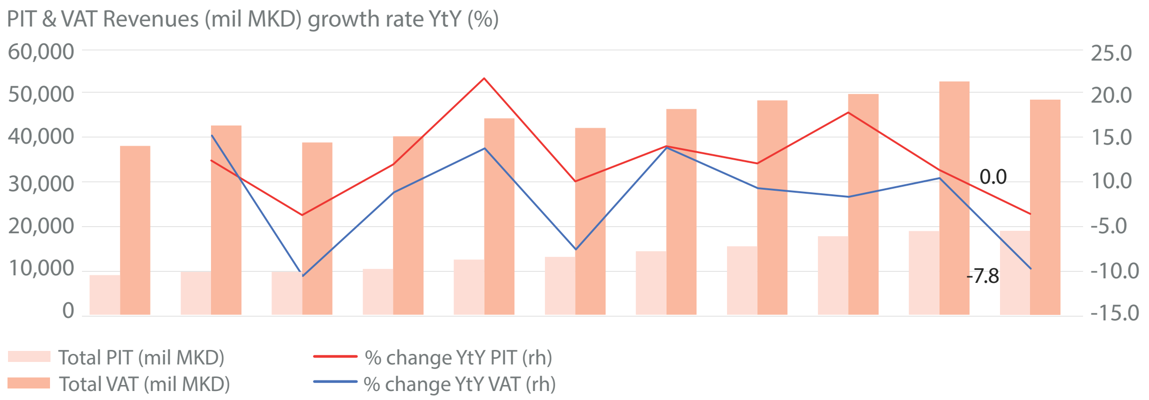
Source: Monthly and Annual Budget Execution Reports, Ministry of Finance of NRM, last checked 28.05.2020

Annex 7. Tax Revenue Comparisons Month-to-Month, RNM



Source: Monthly and annual budget execution reports, Ministry of Finance of NRM, last checked 28.05.2020.

Annex 8. PIT and VAT Tax Revenues, Annual Changes, RNM



Source: Monthly and Annual Budget Execution Reports, Ministry of Finance of NRM, last checked May 28, 2020.

Notes

1. The working paper was prepared under the World Bank Urban Partnership Program (UPP) in the Western Balkans in collaboration with the Municipality of Gazi Baba, North Macedonia. Main findings were presented and discussed in the Regional Workshop - Webinar 'COVID-19 Pandemic Risk and Potential Impact on LSG Finances' in October 29, 2020 (for more information see http://www.seecities.eu/seecities.eu/EVENTS/Workshops).

2. The working paper was prepared under the World Bank Urban Partnership Program (UPP) in the Western Balkans in collaboration with the Municipality of Shkodër, Albania. Main findings were presented and discussed in the Regional Workshop - Webinar 'COVID-19 Pandemic Risk and Potential Impact on LSG Finances' in October 29, 2020 (for more information see http://www.seecities.eu/seecities.eu/EVENTS/Workshops).

3. Statics of coronavirus in North Macedonia, daily update, https://koronavirus.gov.mk/stat

4. Source of data: https://new.shendetesia.gov.al/covid-19-ministria-e-shendetesise-75-te-sheruar-133-raste-dhe-4-humbje-jete-ne-24-oret-e-fundit/

5. At the beginning of June 2020, most economic activities returned to 'normal', while public transportation and large cultural and public events were still not allowed.

6. Global Outlook, World Bank, 2020

7. Prior to the pandemic, in the MFF 2021 – 2023 the real GDP growth rate was projected at 4.1% for 2020 and at 4% for the next three years, mainly based on the contribution of domestic demand, private consumption, and investments (see Annex 1). External demand was projected to contribute marginally to overall growth due to the counterbalancing effect of intensive growth imports, despite the continuation of positive growth rates of exporting activity (assuming no external shocks in international primary goods prices). As a result, the current account balance deficit was projected to narrow during 2020, registering a level of 7.2% of nominal GDP in 2020 and shrinking further over the next three years. The inflation rate was projected to pick up gradually and, in 2023, to hit the targeted level of 3% in light of the accommodating monetary policy implemented by the Bank of Albania (BoA). Based on these projections, budget revenues were planned to grow annually by 4.5% registering about 28.7% of GDP in 2020 and to stabilize around 27.6% between 2021 and 2023; expenditures were projected to shrink somewhat and account for about 30.9% in 2020 and about 29.3% of GDP (average) between 2021 and 2023; and progressive narrowing of the budget deficit and public debt were projected over the considered period. However, the outbreak of COVID-19 called for adjustments and revisions of macroeconomic projections and underlying assumptions, as included in the Revised MFF 2021-2023. The real GDP growth rate is projected to plunge to -4.3%, widening the budget deficit to -8.4% in 2020 and narrowing it in the 2021-2023 period. Alongside the MoFE's revised projections, international organizations such as the International Monetary Fund (IMF) have revised nominal GDP growth rate projections downward for the period 2020 – 2023.

8. The Revised Fiscal Strategy (RFS) pre-COVID-19 anticipated a real GDP growth rate of 3.8% for 2020. Growth would be primarily driven by consumer spending with an expected real growth of exports by 9.8% and a current account balance of -1.2% of GDP. The inflation rate was projected to be stable at 1.7% and, based on these assumptions, a budget deficit of 2.3% of GDP was anticipated. The budget projections were prepared

in accordance with expectations of global economic growth of 3.4%, and EU GDP growth of 1.9% for the year 2020.

9. Decision of BoA Supervisory Council of March 25th, 2020 available at: https://www.bankofalbania.org/Press/Supervisory_Council_decisions/SC_decisions_on_key_interest_rate/Monetary_Policy_Decisions_25_3_2020.html

10. https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200717_1~f143ca1c56.en.html

11. First package - Normative Act No. 6, dated 21/03/2020 'For some changes and additions to Law No. 88/2019 'On year 2020 Budget', adopted on March 19th included support measures for about ALL 23 billion (1.4 of nominal GDP), combining spending reallocations and increased ones, and sovereign guarantees to support businesses affected by COVID-19 crisis.
Second package - Normative Act No. 15, dated 15/04/2020 'For some changes to Law No. 88/2019 'On year 2020 Budget', amended, was introduced on April 15th and included support measures for about ALL 22 billion (1.4% of nominal GDP) including direct transfers to employees (of small businesses and those laid off from large companies and the tourism sector), as well as a sovereign guarantee for all businesses in the private sector (which were tax compliant and solvent before the pandemic).

12. In Albania: 1st revision with Normative Act No. 6, dated 21/03/2020 'For some changes and additions to Law No. 88/2019 'On year 2020 Budget'; 2nd revision with Normative Act No. 15, dated 15/04/2020 'For some changes to Law No. 88/2019 'On year 2020 Budget', amended; and 3rd revision with Normative Act No. 28, dated 02/07/2020 'For some changes to Law No. 88/2019 'On year 2020 Budget', amended.

13. In RNM: Ministry of Finance of Republic of North Macedonia, Decree with legal force amending the Budget of the Republic of Northern Macedonia for 2020 during the state of emergency, Official Gazette of Republic of North Macedonia, 126/2020, as of 15/5/2020, available athttps://finance.gov.mk/mk/Budget_RSM_2020

14. Fiscal indicators data for the first half of 2020 show that revenues dropped by about 13.8% compared to the same period the previous year. Among tax items, revenues from VAT narrowed by 11.6%, profit tax revenues plunged by about 33%, and revenues from PIT dropped by about 28% in comparison to the first half of 2019.

15. Shared taxes between the two levels of government are: (i) 97% of the property ownership transfer tax imposed on individuals, physical and juridical persons; (ii) 25% of the revenue from the annual used vehicle circulation tax; (iii) 5% of the revenue from mining royalties; and (iv) 2% of personal income tax (PIT) revenue. Despite being in force since January 2018, PIT revenues have never been shared with local governments (municipalities).

16. The data and figures in this paragraph and the following information on Albania are sourced from the Local Public Finances, Status Report 2019 of Co-PLAN, Institute for Habitat Development, 2020.

17. The VAT is shared and distributed based on a Decree for methodology for distribution of revenues from value added tax per municipalities, by the GoNM.

18. National bank of Republic of North Macedonia, https://bit.ly/2U2c0Ut.

19. Balanced: equal distribution per month of 8.3% throughout the twelve months of the year.

20. Block transfers are conditional transfers for education and preschool-kindergarten functions.

21. The Municipalities of Shkodër and Gazi Baba both participated the World Bank

– Austria Urban Partnership Program, which envisaged the application of the Municipal Finances Self-Assessment (MFSA).

22. GAF is part of the Municipal Finances Self-Assessment, which municipalities can use to assess their financial health, identify gaps and design improvement action plans, assess their own management of finances, and apply shadow credit ratings, etc.

23. Data on revenues and expenditures for the period 2016-2019 and planned data for 2020-2022 are based on the documents of Medium-Term Budget Program 2020-2022 and Budget Execution Report of the Year 2019, Budget Execution Report of the Year 2018.

24. The Municipality of Shkodër is composed 11 administrative units namely: Shkodër, Ana e Malit, Bërdicë, Dajç, Guri i Zi, Postribë, Pult, Rrethinat, Shalë, Shosh, Velipojë, divided across one city and 93 villages. It has a population of about 135,612 inhabitants based on Census 2011 data, 55% of whom live in the city of Shkodër. The total municipal surface is about 872.7 km^2 with a population density of about 239.87 inhabitants per km^2.

25. Source: https://drive.google.com/file/d/1pY7px3pASHCiqYp0g_PWj0IVB6vfXOtY/view.

26. http://www.bashkiashkoder.gov.al/web/veshtrim_i_pergjithshem_2871_3148.pdf.

27. According to OECD (2020) about 50,000 jobs have been lost due to the crisis. Source: https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Albania.pdf.

28. Law No. 9869/2008 'On local self-government borrowing.'

29. Earmarked grants for investments, revenues from the infrastructure impact tax, and sales of municipal assets are considered under capital revenues.

30. Municipality of Gazi Baba, Local Economy https://bit.ly/3gIDHLL.

31. East Gate is a planned project for the urban center of the City of Skopje as the biggest shopping and entertainment center in the region and will include a business center and residential area.

32. Scenarios are estimated by the World Bank and Gazi Baba team and use the World Bank Municipal Finance Self-Assessment tool.

33. As presented in the Word Bank Working Paper from May 2020: The potential impact of the COVID-19 pandemic on Local Governments' financial health in North Macedonia: Developing alternative financial scenarios for the Municipality of Gazi Baba – Skopje. The paper is courtesy of the Mayor of Gazi Baba.

34. An example of the classification of services into essential and non-essential can be found in: https://www.publicsafety.gc.ca/cnt/ntnl-scrt/crtcl-nfrstrctr/esf-sfe-en.aspx.

35. Ministry of Finance of Republic of North Macedonia, https://finance.gov.mk/mk/Budget_RSM_2020.

36. IMF Country Report No. 20/113, Republic of North Macedonia, https://bit.ly/ 2MkBdp9.

37. National Bank of the Republic of North Macedonia, https://bit.ly/2U2c0Ut.

38. European Economic Forecast Spring 2020, https://bit.ly/2XPiI1q.

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