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Municipal Finance Assessment of Northern Corridor Municipalities

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Purpose & Objectives of Assessment

Purpose

- Assess the capacity of 15 northern corridor municipalities to increase own source revenue through an in-depth review of success factors, constraints, and failures
- Provide recommendations to improve local economic development
- Examine gender, youth, and public safety issues facing each municipality

Objectives

- Inform local authorities, the Government of Honduras, and the donor community of challenges faced by municipalities in their local revenue systems
- Provide local governments with alternatives for raising own source revenue and reducing the level of dependence on national government transfers
- Highlight potential areas for intervention across municipal finance, economic development, and public safety

Approach/Methodology

Desk Study & Selection

- Selection Criteria



- Preference given to municipalities with:
 - High capacity for PFM
 - High crime rates
 - Developed infrastructure
- Final 15 chosen with Mission concurrence

Field Assessment

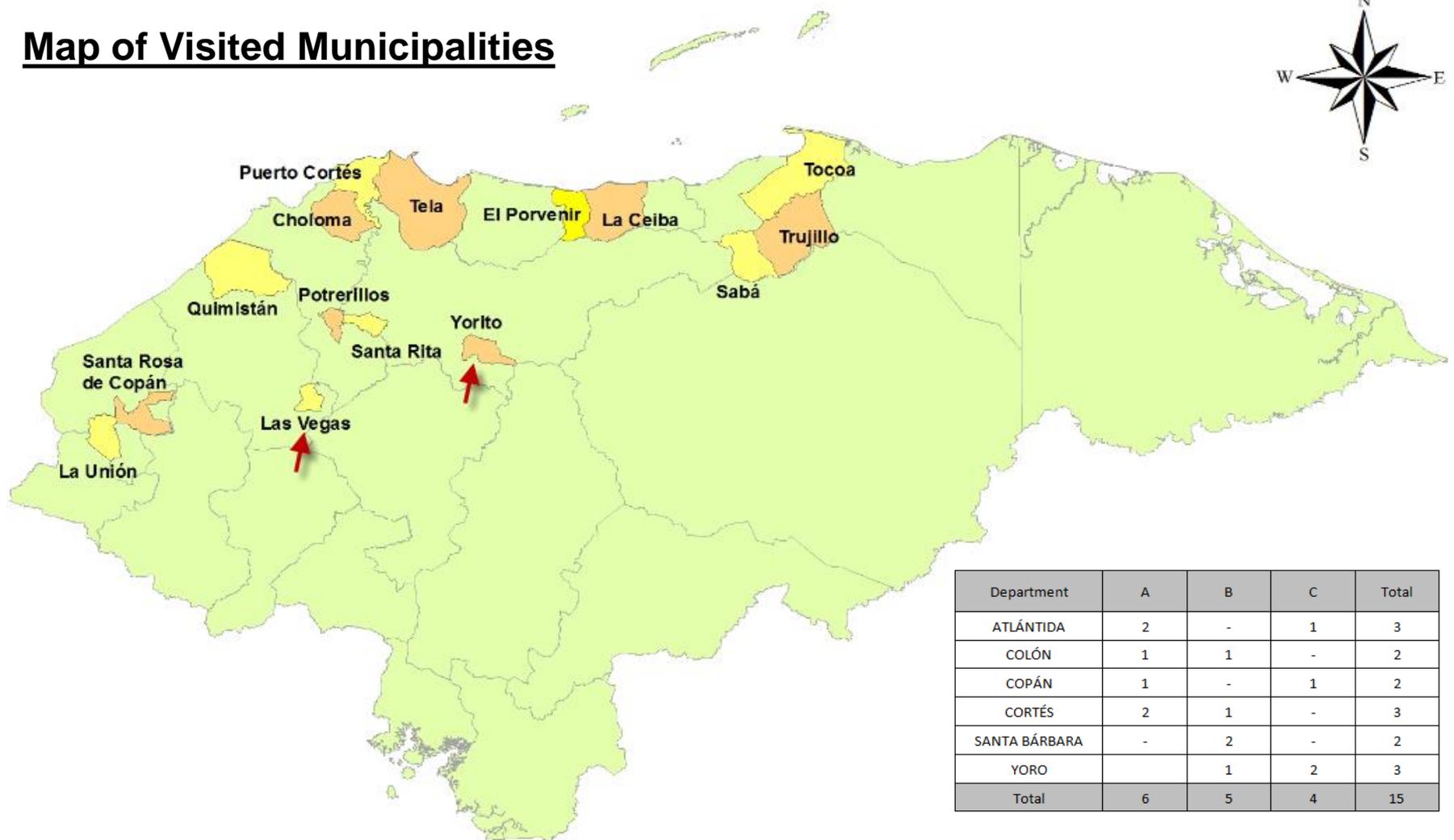
- Conducted interviews with Mayor and senior staff
- Held diagnostic workshops with stakeholders and municipal staff
- Data collection included a review and verification of historical data and inclusion of 2011 figures

Analysis & Reporting

- Overall assessment report in development (draft due Aug 17th)
- Report will provide individual municipality profiles for each municipality visited

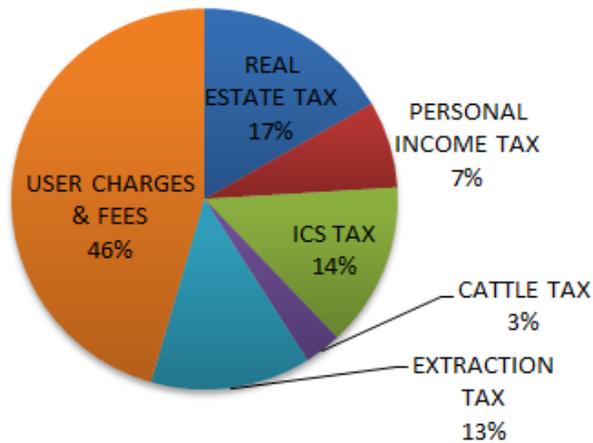
Approach/Methodology (continued)

Map of Visited Municipalities

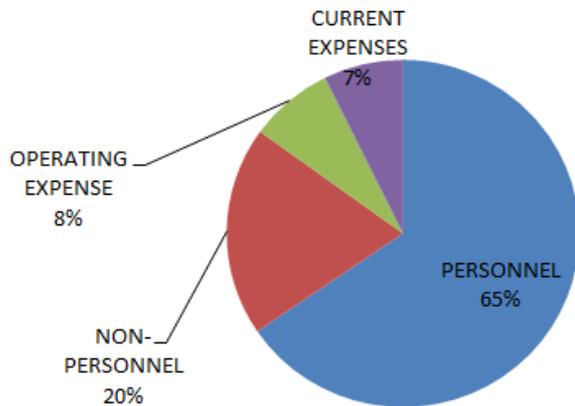


Municipal Profile Example - Yorito

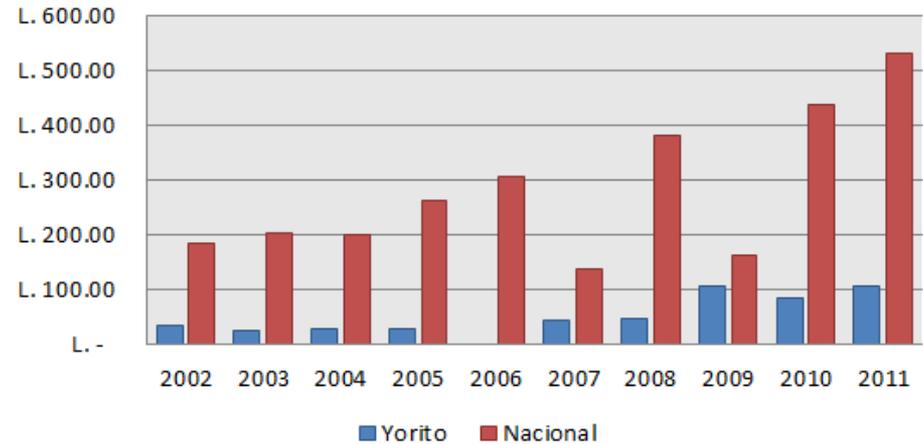
Yorito



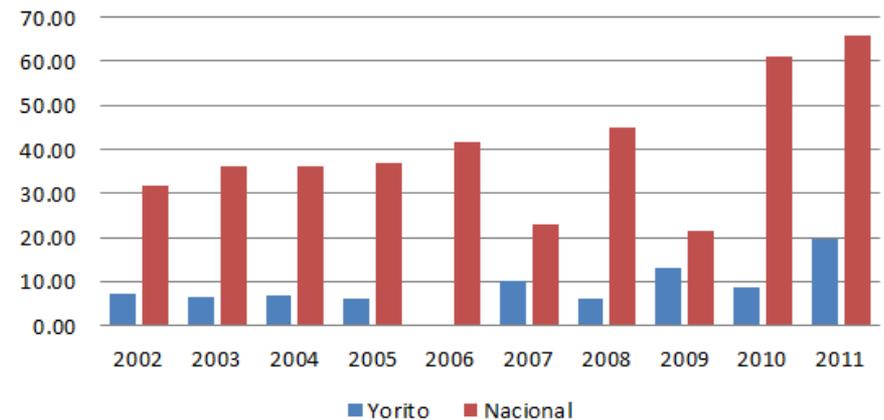
MUNICIPAL EXPENSES



Tax Revenue (per capita)



Real Estate Taxes (per capita)



Major Findings & Recommendations

Municipal Finance

Results/Challenges

1. The municipal tax law is overly complicated
2. The tax administration systems are poorly organized and understaffed
3. Registration & compliance is low and not well organized
4. No coherent system of collections and monitoring
5. Tax administrators are unable to gauge correct tax liability for taxpayers, resulting in a high voluntary component to tax payment
6. Little to no coordination with National level (DEI) of tax administration

Recommendations

- Modernize the revenue administration system, focus on registration & collections
- Reorganize the revenue department & add staff & training
- Conduct registration, non-filer & stop-filer campaigns
- Establish clear workable policies and procedures appropriate to Honduras' municipalities
- Risk-driven compliance focus (large taxpayers)
- Revise internal controls & audit
- Legislation

Economic Development

Results/Challenges

1. No clear link between regional development initiatives with municipal development activities
2. Mayor's office generally has a clear picture of economic potential and vision for each municipality, however this message is often lost with stakeholders & municipal staff
3. Many types of strategic development plans exist, but have limited follow up and evaluation processes in place
4. Private sector has limited organization and representation in municipal decisions, thus minimal interest in local development & local infrastructure

Recommendations

- Require coordination and cohesion among existing strategic plans, aligned to municipal development goals
- Develop realistic and integrated development plans with monitoring and evaluation steps
- Promote private sector involvement and new business investment through outreach campaigns
- Encourage investment in small and medium business development

Public Safety

Results/Challenges

1. Significant security problems exist among the 15 municipalities:
 - Gang activity, domestic violence, narcotics, campesino movement
2. Municipal security initiatives suffer from insufficient financing
3. Newly established National Security Tax has limited the ability of the municipality to collect funds towards public safety and preventative activities
4. Lack of clear definition on the role of the municipality towards public safety and security for its citizens

Recommendations

- Establish municipal security financing through higher levels of own source revenue and create a dedicated budget for public safety initiatives
- Emulate successful experiences and best practices among municipalities who have combated insecurity issues through focus on preventative security measures

Question & Answer