



# Feasibility Assessment for Trebinje Municipality

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## 1 Introduction

Government of Bosnia and Herzegovina recognizes the importance of the threat posed to the development of the country by climate change and the need of adapting to it in order to avoid or minimize negative consequences. As a party to the United Nations Framework Convention on Climate Change (UNFCCC), Bosnia and Herzegovina (B&H) has undertaken important steps towards understanding and addressing climate change issues. Bosnia and Herzegovina initiated medium- and long-term climate change adaptation planning processes in 2015 together with the support of UNDP under the umbrella of the NAP GSP. In May 2016 Bosnia and Herzegovina officially launched the National Adaptation Plan (NAP) process. The NAP process helps countries conduct comprehensive medium- and long-term climate adaptation planning. It is a flexible process that builds on each country's existing adaptation activities and helps integrate climate change into national decision-making.

Bosnia-Herzegovina's National Adaptation Plan will build on the country's Climate Change Adaptation and Low Emission Development Strategy of 2013. The strategy is based on four specific outcomes: supporting evidence-based policy development for climate change risks, vulnerabilities and opportunities; creating effective institutional and regulatory frameworks; mainstreaming climate change adaptation approaches into decision making; and effectively assigning resources and reaching implementation goals.

Effective adaptation to climate change requires the involvement of local authorities in the NAP process. Understanding the role of municipalities in this process is crucial, as the condition for success is to include the challenge of adaptation to climate change in local development strategies and policies. The project "Advance the National Adaptation Plan (NAP) process for medium-term investment planning in climate sensitive sectors in Bosnia-Herzegovina (B&H)" will support the Government of Bosnia and Herzegovina to advance the National Adaptation Plan (NAP) process and reach goals outlined in the Paris Agreement and 2030 Agenda for Sustainable Development. One of the goals of the Project is to establish a financing framework for climate change adaptation action in Bosnia and Herzegovina from the bottom-up. The Project will support the development of a financing framework at the municipal level, including identification of possible innovative financing solutions for climate change adaptation action.

The involvement of municipalities in the NAP process requires the assessment of their current situation in terms of their capabilities and challenges in the area of adaptation to climate change. As part of the work on the preparation of the Feasibility Assessment, the following activities were carried out:

- analysis of the municipality's current budgetary and extra-budgetary expenses, sources of funding and other financing mechanisms,
- review of the current development strategy in terms of taking into account issues related to climate change,
- review and summary of current mid-term investment plan preparation procedures in relation to climate change adaptation,
- preparation of recommendations for the municipality.

## 2 Trebinje Municipality



Trebinje Municipality is located in the southern part of Republika Srpska, an entity of Bosnia and Herzegovina. It is the southernmost municipality in Bosnia and Herzegovina and is situated on the banks of Trebišnjica river. The municipality of Trebinje covers 904 km<sup>2</sup> and is administratively divided into 18 local communities and 178 settlements. According to the 2013 Census, it had a population of 28 239 inhabitants.

The municipality is located at an important crossroad, 30 km away from Dubrovnik, 115 km from Mostar, 230 km from Sarajevo, 360 km from Banja Luka and 480 km from Belgrade. The international airport Čilipi in Dubrovnik is 40 km away from Trebinje. According to the RS General Spatial Plan until 2025, the municipality of Trebinje represents the primary regional center of energy-agro-tourist region Trebinje-Foča.

Economy of Trebinje is based on small enterprises, in addition to several medium and large companies. Local economy has for many years relied on two main sectors: electric energy industry and manufacturing industry (metal manufacturing and textile industry). In recent years, a significant increase in the number of enterprises has been observed: from 222 registered companies in 2013 to 276 in 2018. Tourism is a fast-growing sector in Trebinje. From 2013 to 2018, a continuous increase in the number of tourist arrivals (+195%) and overnight stays (+210%) was recorded. As of 2016, most of the employees worked in the manufacturing and electric energy industries. According to the 2013 Census, the unemployment rate was 34%. In 2018 there were 8 480 employees and 2 084 unemployed persons actively seeking employment.

Trebinje Municipality offers good business opportunities, especially in tourism sector and industry. Business zone Volujac covers 85 ha and is located about 5 km to the southwest of the city center, about 1 km from the main road M20. In 2014 Local Economic Council was formed. It includes representatives of the public and private sector, academic community, NGOs, international donors community, and the citizens who have an interest or/and role in economic development. In 2009 the municipality founded Business Incubator of Trebinje City. It covers an area of 535 m<sup>2</sup> and is intended for incubation of small and medium-sized enterprises.

### 3 Summary of findings and recommendations

In terms of Capital Investment Planning, Medium-Term Capital Investment Plan for the City of Trebinje is prepared and updated every year in such way that each subsequent Medium-Term Capital Investment Plan is prepared for the following 5 years. A public call for Projects is announced on annual basis by the Coordination Team for the development of the medium-term Capital Investment Plan of the City of Trebinje. Subsequently, Project Proposers can submit their Projects using a standard Project Proposal Form.

The Form is clear and well organized with simple descriptions of information expected from project proposers, although neither climate change impact, nor resilience of the Project is clearly included in the requested information in the form. Some information regarding Climate can possibly be indirectly provided in point 2.5, which considers environmental impact of the Project. **It is recommended to prepare a revised Project Proposal Form that will explicitly include aspects related to the projects' climate change impact and resilience.**

Submitted projects are further scored and evaluated by Coordination Team for the Development of the Capital Investment Plan. Scoring criteria are clear and well organized, although they seem to lack correspondence with Project Proposal Form, especially in case of Risks. As Project Proposers are not expected to provide information related to climate change impact, nor resilience of the Project, those aspects are not scored. Furthermore, Environmental Protection Criterion, which can indirectly consider Climate Change is set at the severity level of 1, on contrary economic development criterion is set at severity of 4, which can possibly lead to projects having a negative environmental impact to be included in the Mid-term CIP. **It is necessary to give a higher priority to environmental aspects in the evaluation criteria, including those related to climate change adaptation and resilience.**

The total capital expenditure planned in the Capital Investment Plan for 2020-2024 is BAM 116,914,300. Projects have been grouped into 8 sectors. City of Trebinje has only a limited influence on the financing of the CIP. The implementation of most of the projects included in the Plan depends on access to other sources of funding. Moreover, projects in the environmental protection sector account for only 10% of total planned investment expenditure and 5% of municipal investment expenses. Furthermore, almost 60% of the costs in this sector are to be financed from unspecified sources ("other" category), and only 9% from municipal funds. **Therefore, it is recommended to prepare more detailed project financing plans, with a precise indication of the sources of funds.**

It shall be noted that capital investment planning process in Trebinje is well organized, with clear division of roles and responsibilities of all involved parties. Procedure is followed on the annual basis, although neither climate change impact, nor resilience of the projects is taken into consideration when preparing the Mid-Term Capital Investment Plan. **It is recommended to include aspects related to Climate Change at every stage of investment planning and implementation.** Project proposers should be obliged to present (along with other information) those aspects that relate to the project's impact on the climate and to adapt the infrastructure to the expected extreme weather events resulting from climate change.

In addition to the Capital Investment Plan, in 2017 City of Trebinje prepared *Development Strategy of Trebinje for the period 2018-2027*. The Strategy defined a new development vision and strategic goals of the municipality. Indicators and expected outcomes for each of these goals were specified in three sectoral plans: economic development plan, social development plan and environment protection plan. Each of the plans includes programmes and investment projects. In total, there are 120 projects in all three plans. It should be noted that projects in the Social Development Plan have

the highest share in the total value of all projects included in the Strategy, whereas Projects from the Environmental Protection Plan make up only 22% of the Plan. The relationship between projects included in the CIP and the Strategy is not entirely clear. **It is important to clearly link projects from the CIP with the plans included in the Strategy in such a way that they are compliant with the strategic goals of the municipality.**

## 4 Budget forecast

The budget forecast was prepared in cooperation with the employees of the city hall in Trebinje. The projection was based on historical data – execution of budgets from 2018-2020 and budget plan for 2021. The presented budget consist of revenues such as: tax revenues, non-tax revenues, current transfers, capital transfers and capital income. Expenditures are divided into: current expenditure transfers between different government units and expenses for non-financial assets.

Table 1: Budget prognosis

| No.       | Item   | 2018              | 2019              | 2020              | 2021              | 2022              | 2023              |
|-----------|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>A</b>  | <b>BUDGET REVENUE</b>  | <b>24 735 818</b> | <b>21 451 098</b> | <b>30 871 480</b> | <b>28 706 845</b> | <b>42 291 103</b> | <b>38 495 705</b> |
| <b>1.</b> | <b>Tax revenues</b>  | <b>10 654 729</b> | <b>11 394 902</b> | <b>10 890 402</b> | <b>10 768 000</b> | <b>10 920 290</b> | <b>11 090 413</b> |
| 1.1       | Taxes on personal income and income from self-employment         | 1 735 565         | 1 281 111         | 1 302 557         | 1 300 000         | 1 341 514         | 1 383 282         |
| 1.2       | Property tax   | 564 999           | 700 354           | 609 968           | 720 000           | 728 424           | 738 185           |
| 1.3       | Sales taxes on products and services                             | 6 852             | 105 849           | 240               | 8 000             | 8 094             | 8 202             |
| 1.4       | Indirect taxes collected through the ITA                         | 8 337 708         | 9 254 244         | 8 892 762         | 8 700 000         | 8 801 790         | 8 919 734         |
| 1.5       | Other taxes  | 9 605             | 53 344            | 84 875            | 40 000            | 40 468            | 41 010            |
| <b>2.</b> | <b>Non-tax revenues</b>  | <b>11 041 162</b> | <b>7 400 316</b>  | <b>10 212 632</b> | <b>13 359 083</b> | <b>13 529 373</b> | <b>13 724 913</b> |
| 2.1       | Income from financial and nef. assets and foreign exchange gains | 1 336 626         | 1 098 115         | 2 122 868         | 2 765 360         | 2 811 703         | 2 863 627         |
| 2.2       | Fees, charges and revenues from the provision of public services | 9 620 697         | 6 163 311         | 8 018 474         | 10 464 545        | 10 586 980        | 10 728 846        |
| 2.2.1.    | Administrative fees and charges                                  | 144 307           | 119 320           | 107 460           | 123 000           | 124 439           | 126 107           |
| 2.2.2.    | Utility fees and charges   | 1 313 647         | 1 404 655         | 1 368 686         | 1 210 000         | 1 224 157         | 1 240 561         |
| 2.2.3.    | Fees on various bases  | 7 453 000         | 3 871 833         | 5 895 721         | 8 368 000         | 8 465 906         | 8 579 349         |
| 2.2.4.    | Revenues from the provision of public                            | 709 743           | 767 503           | 646 607           | 763 545           | 772 478           | 782 830           |
| 2.3.      | Fines  | 21 315            | 19 020            | 6 490             | 10 000            | 10 117            | 10 253            |
| 2.4.      | Other non-tax revenues   | 62 524            | 119 870           | 64 800            | 119 178           | 120 572           | 122 188           |
| <b>3.</b> | <b>Current transfers and donations received</b>                  | <b>562 630</b>    | <b>262 300</b>    | <b>2 830 343</b>  | <b>0</b>          | <b>0</b>          | <b>0</b>          |
| 3.1       | Grants from abroad   | 469 711           | 118 917           | 577 291           | 0                 | 0                 | 0                 |
| 3.2       | Grants from the country  | 92 919            | 143 383           | 2 253 052         | 0                 | 0                 | 0                 |
| <b>4.</b> | <b>Capital transfers</b>   | <b>1 662 547</b>  | <b>1 146 327</b>  | <b>5 728 968</b>  | <b>828 562</b>    | <b>13 340 000</b> | <b>12 590 000</b> |
| <b>5.</b> | <b>Capital income</b>  | <b>814 750</b>    | <b>1 247 253</b>  | <b>1 209 135</b>  | <b>3 751 200</b>  | <b>4 501 440</b>  | <b>1 090 379</b>  |
| <b>B</b>  | <b>EXPENSES</b>  | <b>26 933 888</b> | <b>25 460 086</b> | <b>31 448 709</b> | <b>28 207 300</b> | <b>41 166 290</b> | <b>41 139 666</b> |
| <b>1.</b> | <b>Current expenditure</b>                                       | <b>20 668 964</b> | <b>19 534 409</b> | <b>19 628 473</b> | <b>21 584 800</b> | <b>22 048 623</b> | <b>22 431 226</b> |
| 1.1       | Expenditure on employee personal income                          | 8 240 969         | 8 283 615         | 8 362 721         | 8 974 345         | 9 442 519         | 9 569 048         |
| 1.2       | Expenses based on the use of goods and services                  | 4 103 008         | 3 904 904         | 4 187 932         | 4 577 155         | 4 630 708         | 4 692 759         |
| 1.3       | Other financial expenses   | 418 438           | 377 466           | 419 766           | 423 000           | 320 425           | 462 686           |
| 1.4       | Subsidies  | 796 435           | 858 967           | 676 242           | 755 000           | 763 834           | 774 069           |
| 1.5       | Grants   | 4 301 223         | 3 264 014         | 3 034 553         | 3 792 200         | 3 792 200         | 3 792 200         |
| 1.6       | Remittances in the name of soc. protection paid from the budget  | 2 584 399         | 2 825 415         | 2 915 230         | 3 033 100         | 3 068 587         | 3 109 706         |
| 1.7       | Expenses according to court decisions                            | 224 492           | 20 028            | 32 029            | 30 000            | 30 351            | 30 758            |
| <b>2.</b> | <b>Transfers between different government units</b>              | <b>90 163</b>     | <b>95 510</b>     | <b>36 816</b>     | <b>37 000</b>     | <b>37 433</b>     | <b>37 935</b>     |
| <b>3.</b> | <b>Budget reserve</b>  | <b>0</b>          | <b>0</b>          | <b>0</b>          | <b>20 000</b>     | <b>20 234</b>     | <b>20 505</b>     |
| <b>4.</b> | <b>Expenses for non-financial assets</b>                         | <b>6 174 761</b>  | <b>5 830 167</b>  | <b>11 783 420</b> | <b>6 565 500</b>  | <b>19 060 000</b> | <b>18 650 000</b> |
| <b>C</b>  | <b>FINANCE</b>   | <b>211 775</b>    | <b>1 533 209</b>  | <b>1 955 540</b>  | <b>-1 927 000</b> | <b>-312 527</b>   | <b>2 663 220</b>  |
| <b>1.</b> | <b>Net borrowing</b>   | <b>286 219</b>    | <b>2 473 936</b>  | <b>2 731 348</b>  | <b>-1 744 000</b> | <b>-292 425</b>   | <b>2 683 591</b>  |
| 1.1       | Receipts from financial assets                                   | 0                 | 29 276            | 2 511             | 0                 | 0                 | 0                 |
| 1.2       | Receipts from borrowing  | 1 721 449         | 3 735 729         | 4 141 868         | 0                 | 1 500 000         | 4 300 000         |
| 1.3       | Debt repayment expenditure                                       | 1 435 230         | 1 291 069         | 1 413 031         | 1 744 000         | 1 792 425         | 1 616 409         |
| <b>2.</b> | <b>Other net receipts</b>  | <b>-74 444</b>    | <b>-940 727</b>   | <b>-775 808</b>   | <b>-183 000</b>   | <b>-20 102</b>    | <b>-20 371</b>    |
| 2.1       | Other receipts   | 465 206           | 1 171 196         | 1 007 220         | 663 700           | 836 504           | 847 714           |
| 2.2       | Other expenses   | 539 650           | 2 111 923         | 1 783 028         | 846 700           | 856 606           | 868 085           |
| <b>D</b>  | <b>GROSS BUDGET SURPLUS / DEFICIT (A-B+C)</b>                    | <b>-1 986 295</b> | <b>-2 475 779</b> | <b>1 378 311</b>  | <b>-1 427 455</b> | <b>812 286</b>    | <b>19 260</b>     |

In Trebinje 2020 budget tax revenues mainly consist of 5,60% property tax, 11,96% personal income taxes and income from self-employment activities and 81,66% income from indirect taxes. Non-taxes revenue is 78.52% of revenues such as fees, charges and revenues from the provision of public services. In 2020 capital transfers accounted for 19% of total revenues, while current transfers and donations received accounted for 9% and capital income accounted for 4%. Total budget revenues is 30 871 480 KM.

Figure 1: 2020 Budget execution – structure of revenues

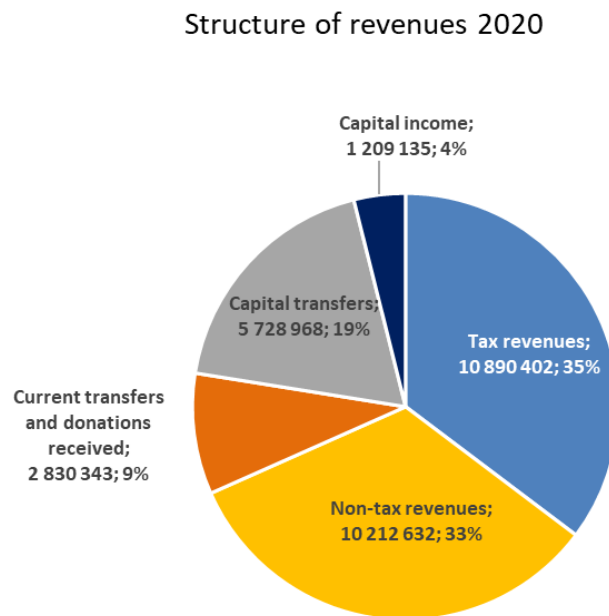


Figure 2: 3Y Budget prognosis - Revenues

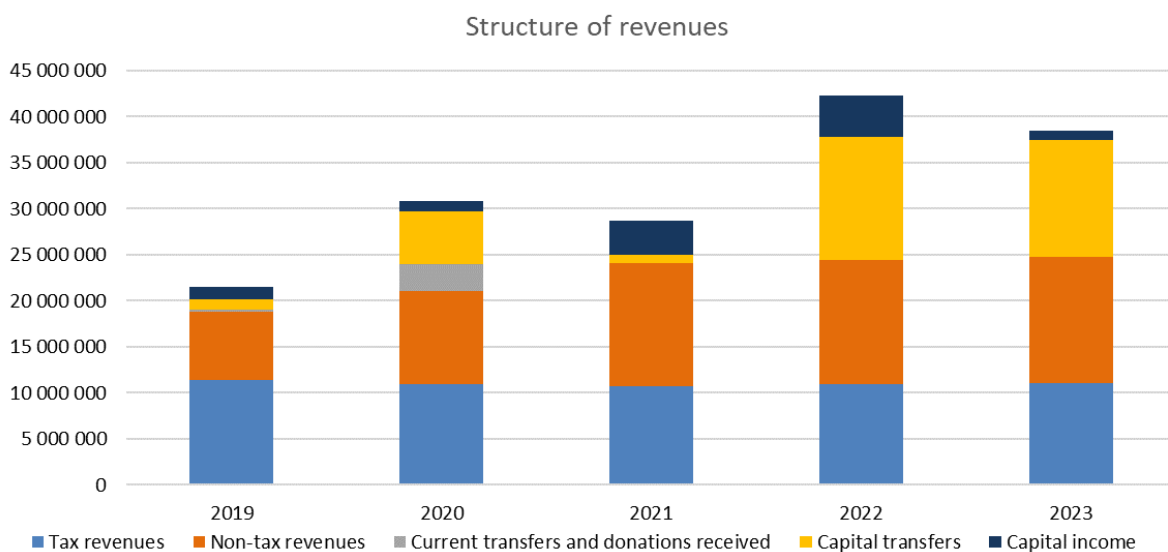




Table 2: Structure of revenues

| No | ITEM                                     | 2018       | 2019       | 2020       | 2021       | 2022       | 2023       |
|----|--|------------|------------|------------|------------|------------|------------|
| 1  | Tax revenues                             | 10 654 729 | 11 394 902 | 10 890 402 | 10 768 000 | 10 920 290 | 11 090 413 |
| 2  | Non-tax revenues                         | 11 041 162 | 7 400 316  | 10 212 632 | 13 359 083 | 13 529 373 | 13 724 913 |
| 3  | Current transfers and donations received | 562 630    | 262 300    | 2 830 343  | 0          | 0          | 0          |
| 4  | Capital transfers                        | 1 662 547  | 1 146 327  | 5 728 968  | 828 562    | 13 340 000 | 12 590 000 |
| 5  | Capital income                           | 814 750    | 1 247 253  | 1 209 135  | 3 751 200  | 4 501 440  | 1 090 379  |

In 2020 expenses in Trebinje consist of current expenses which is included expenditures on employee personal income in 42.61%, expenses based on the use of goods and services 21.34%, grants 15.46%, remittances in the name of social protection paid from the budget 14.85%. Capital expenditures is 11 783 420 KM and accounts for 38% of total expenditures. Total budget expenditures is 31 448 709 KM.

Figure 3: 2020 Budget execution – structure of expenditures

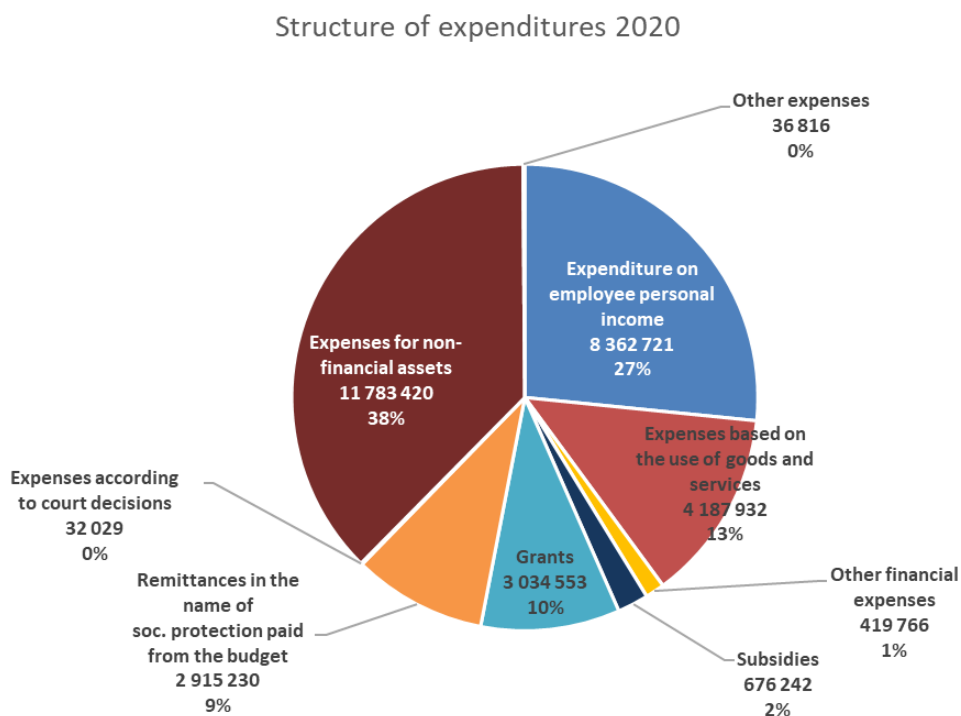


Figure 4: 3Y Budget prognosis – Expenditures

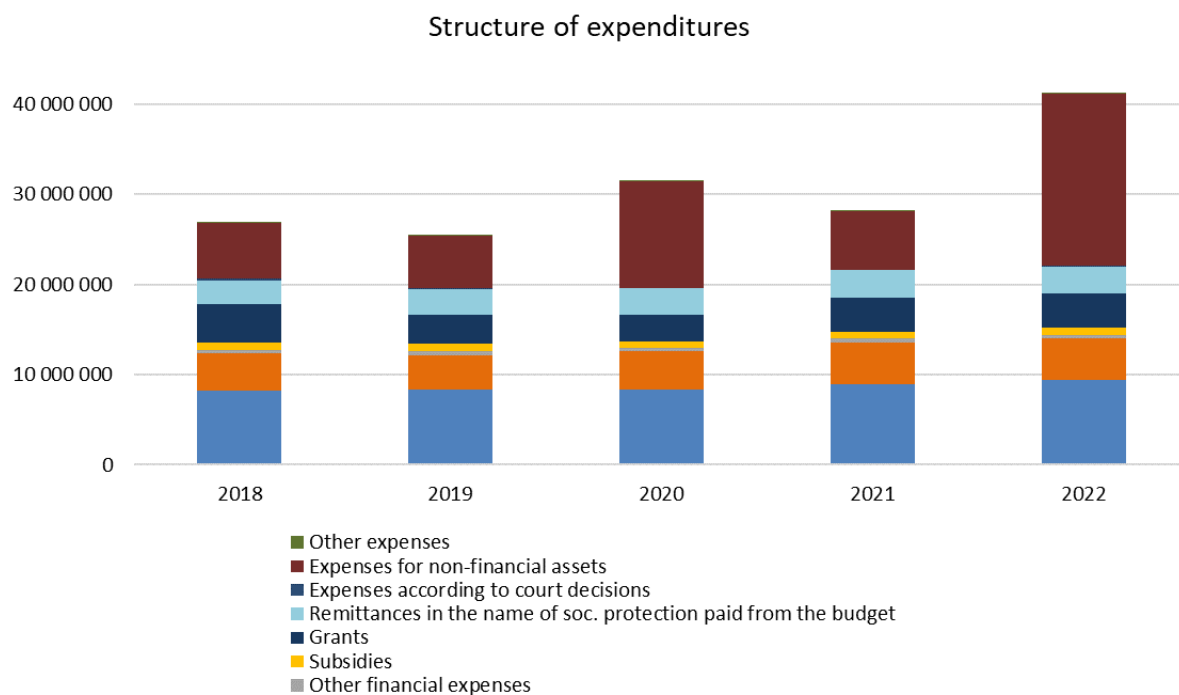


Table 3: Structure of expenditures

| No | ITEM                                       | 2018      | 2019      | 2020       | 2021      | 2022       | 2023       |
|----|--|-----------|-----------|------------|-----------|------------|------------|
| 1  | Expenditure on employee personal income    | 8 240 969 | 8 283 615 | 8 362 721  | 8 974 345 | 9 442 519  | 9 569 048  |
| 2  | Expenses based on the use of goods and se  | 4 103 008 | 3 904 904 | 4 187 932  | 4 577 155 | 4 630 708  | 4 692 759  |
| 3  | Other financial expenses                   | 418 438   | 377 466   | 419 766    | 423 000   | 320 425    | 462 686    |
| 4  | Subsidies                                  | 796 435   | 858 967   | 676 242    | 755 000   | 763 834    | 774 069    |
| 5  | Grants                                     | 4 301 223 | 3 264 014 | 3 034 553  | 3 792 200 | 3 792 200  | 3 792 200  |
| 6  | Remittances in the name of soc. protection | 2 584 399 | 2 825 415 | 2 915 230  | 3 033 100 | 3 068 587  | 3 109 706  |
| 7  | Expenses according to court decisions      | 224 492   | 20 028    | 32 029     | 30 000    | 30 351     | 30 758     |
| 8  | Expenses for non-financial assets          | 6 174 761 | 5 830 167 | 11 783 420 | 6 565 500 | 19 060 000 | 18 650 000 |
| 9  | Other expenses                             | 90 163    | 95 510    | 36 816     | 57 000    | 57 667     | 58 440     |

## 5 Municipal budget evaluation

The idea of budget presentation broken down into current and capital parts results from the different nature of these categories. In the below presented approach, it is necessary to transform the data presented according to budget classification into a form similar to the enterprise's cash flow. Therefore the following terms are crucial for understanding of the approach:

- **CURRENT EXPENDITURES** - means all expenses of the Municipality relating to day-to-day operations, excluding debt service expenses and all capital expenditures in the municipal budget.
- **CURRENT REVENUES** – means, for any period of calculation, all budgetary revenues minus target grants, donations and transfers for capital expenditures. Financing of budgetary deficit namely new loans, sale of municipal assets and privatization are also not considered as current revenues.

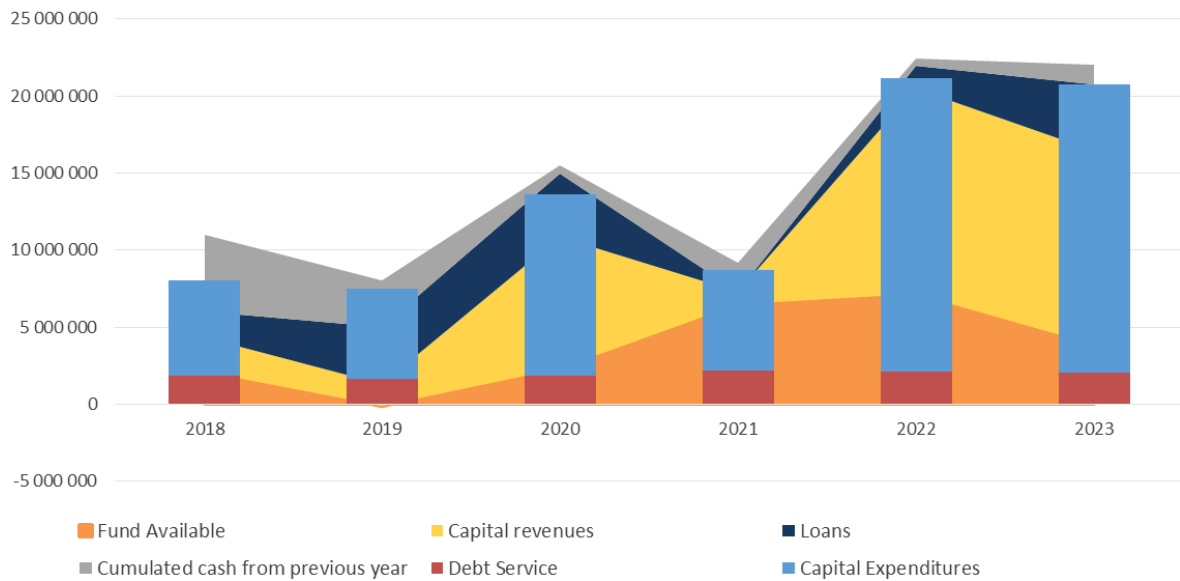
- **CAPITAL EXPENDITURES** - means all expenses resulting in increase of the value of fixed assets (both productive and non-productive).
- **CAPITAL REVENUES** - means all target grants, donations and transfers for capital expenditures, sale of municipal assets as well as proceeds from privatization that are presented normally as a source of financing of the budgetary deficit.
- **OPERATING SURPLUS/ DEFICIT** (Current Budget Balance) – means, for any period of calculation, current revenues minus current expenditures.
- **DEBT SERVICE** - means the aggregate amount of interest, discount, fees, charges and expenses on debt and debt instruments of the Municipality;
- **FUNDS AVAILABLE** - means, for any period of calculation, total revenues minus current expenditures and target grants, transfers and donations for capital expenditures and plus sale of assets and privatization, i.e. the amount of money the Municipality may spend on investments or debt service expenses.

To the presentation of the budget data was applied a new approach, which assumes presenting the budget in the form of cash flow. Essentially, the cash flow statement is concerned with the flow of cash in and out of enterprise. In the case of municipality, it has an application as an analytical tool which provide information on an investment capacity, future cash flows and borrowing needs.

Table 4: 3Y Budget prognosis – new approach

| No          | ITEM   | 2018              | 2019              | 2020             | 2021              | 2022             | 2023             |
|-------------|--|-------------------|-------------------|------------------|-------------------|------------------|------------------|
| I           | Current revenues                                   | 22 161 097        | 19 995 690        | 22 112 765       | 24 790 783        | 25 286 167       | 25 663 040       |
| II          | Current Expenditures                               | 20 880 339        | 21 364 376        | 21 028 551       | 22 065 500        | 22 642 471       | 22 895 065       |
| <b>III</b>  | <b>Operating surplus (I-II)</b>                    | <b>1 280 758</b>  | <b>-1 368 686</b> | <b>1 084 214</b> | <b>2 725 283</b>  | <b>2 643 696</b> | <b>2 767 975</b> |
| IV          | Sale of assets                                     | 814 750           | 1 247 253         | 1 209 135        | 3 751 200         | 4 501 440        | 1 090 379        |
| V           | Privatisation                                      | 0                 | 0                 | 0                | 0                 | 0                | 0                |
| <b>V</b>    | <b>Funds Available (III+IV+V)</b>                  | <b>2 095 508</b>  | <b>-121 433</b>   | <b>2 293 349</b> | <b>6 476 483</b>  | <b>7 145 136</b> | <b>3 858 354</b> |
| VI          | Debt service                                       | 1 853 668         | 1 668 535         | 1 832 797        | 2 167 000         | 2 112 850        | 2 079 094        |
| <b>VII</b>  | <b>Funds available after debt service (VI-VII)</b> | <b>241 840</b>    | <b>-1 789 968</b> | <b>460 552</b>   | <b>4 309 483</b>  | <b>5 032 286</b> | <b>1 779 260</b> |
| VIII        | Capital expenditures                               | 6 174 761         | 5 830 167         | 11 783 420       | 6 565 500         | 19 060 000       | 18 650 000       |
| IX          | Purchase of stocks and shares                      | 0                 | 0                 | 0                | 0                 | 0                | 0                |
| X           | Cash deficit (VIII-IX-X)                           | -5 932 921        | -7 620 135        | -11 322 868      | -2 256 017        | -14 027 714      | -16 870 740      |
| XI          | Financing:   | 3 946 626         | 5 144 356         | 12 701 179       | 828 562           | 14 840 000       | 16 890 000       |
| XI.1        | New loans  | 1 721 449         | 3 735 729         | 4 141 868        | 0                 | 1 500 000        | 4 300 000        |
| XI.2        | Capital grants, donations and transfers            | 2 225 177         | 1 408 627         | 8 559 311        | 828 562           | 13 340 000       | 12 590 000       |
| XI.3        | Other financial operations (eg. loans granted)     | 0                 | 0                 | 0                | 0                 | 0                | 0                |
| <b>XIII</b> | <b>Cashflow</b>                                    | <b>-1 986 295</b> | <b>-2 475 779</b> | <b>1 378 311</b> | <b>-1 427 455</b> | <b>812 286</b>   | <b>19 260</b>    |
| XIV         | Cash at the begining of year                       | 4 980 114         | 2 993 819         | 518 040          | 1 896 351         | 468 896          | 1 281 182        |
| <b>XV</b>   | <b>Cash at the end of year</b>                     | <b>2 993 819</b>  | <b>518 040</b>    | <b>1 896 351</b> | <b>468 896</b>    | <b>1 281 182</b> | <b>1 300 441</b> |

Figure 5: 3Y Budget prognosis - summary



In the forecast period municipal funds available after debt service is on the level of over 4.3 million KM in 2021, 5 million KM in 2022 and 1.8 million KM in 2023. Projected capital revenues in 2021 are 0.83 million KM, in 2022 are 13.3 million KM and in 2023 are 12.6 million KM. In 2022 municipality is planning to take a loan of 1.5 million KM and in 2023 – 4.3 million KM.

Table 5: 3Y Budget prognosis - summary

| No | ITEM                              | 2018      | 2019      | 2020       | 2021      | 2022       | 2023       |
|----|-----------------------------------|-----------|-----------|------------|-----------|------------|------------|
| 1  | Fund Available                    | 2 095 508 | -121 433  | 2 293 349  | 6 476 483 | 7 145 136  | 3 858 354  |
| 2  | Debt Service                      | 1 853 668 | 1 668 535 | 1 832 797  | 2 167 000 | 2 112 850  | 2 079 094  |
| 3  | Capital Expenditures              | 6 174 761 | 5 830 167 | 11 783 420 | 6 565 500 | 19 060 000 | 18 650 000 |
| 4  | Capital revenues                  | 2 225 177 | 1 408 627 | 8 559 311  | 828 562   | 13 340 000 | 12 590 000 |
| 5  | Loans                             | 1 721 449 | 3 735 729 | 4 141 868  | 0         | 1 500 000  | 4 300 000  |
| 6  | Cumulated cash from previous year | 4 980 114 | 2 993 819 | 518 040    | 1 896 351 | 468 896    | 1 281 182  |

Figure 6: 3Y Budget prognosis – main indicators

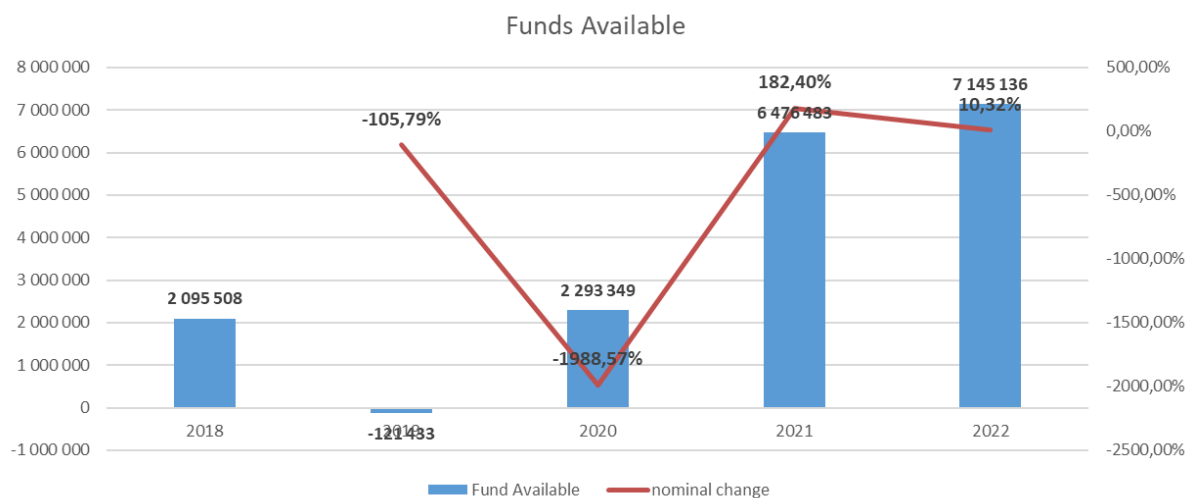


Table 6: 3Y Budget prognosis – main indicators

| No | ITEM                                       | 2018   | 2019    | 2020   | 2021   | 2022   | 2023   |
|----|--|--------|---------|--------|--------|--------|--------|
| 1  | Operating surplus/ Total revenues          | 5,25%  | -6,39%  | 3,53%  | 10,64% | 6,84%  | 7,24%  |
| 2  | Fund Available / Total revenues            | 8,59%  | -0,57%  | 7,48%  | 25,28% | 18,50% | 10,09% |
| 3  | Debt services/ Total revenues              | 7,60%  | 7,80%   | 5,98%  | 8,46%  | 5,47%  | 5,44%  |
| 4  | Funds Available / Debt services            | 1,13   | -0,07   | 1,25   | 2,99   | 3,38   | 1,86   |
| 5  | Capex / Total Revenues                     | 24,96% | 27,18%  | 38,17% | 22,87% | 45,07% | 48,45% |
| 6  | Budget Deficit or Surplus / Total Revenues | -8,03% | -11,54% | 4,46%  | -4,97% | 1,92%  | 0,05%  |

## 6 Municipal debt management

In the forecast period annual debt service is approximately 2 million KM. The municipality has four loans, two of which will be repaid by 2023. In 2022 it is planned to take out a loan in the amount of 1 500 000 KM and in 2023 in the amount 4 300 000. City has capacity to take new loans, what is confirmed by the debt coverage ratio (funds available/debt service). In each year of the prognosis, the value of the indicator is above the required level 1.2. In 2021 it is 2,99 in 2022 – 3.38 and in 2023 – 1.86. The projection does not take into account the EIB loan due to the lack of data and assumptions regarding the loan repayment.

## 7 Municipal budget – findings

The financial situation of Trebinje Municipality can be described as stable. In predicted period funds available after debt service are on a high level. Including capital revenues and loans, the municipality has an investment capacity of over 5.1 million KM per year in 2021, in 2022 19.8 million KM and in 2023 18.7 million KM. The projection has been prepared with consideration of maintaining liquidity of the budget - cash balance at the end of the each year is positive.

## 8 Development Strategy of Trebinje for the period 2018-2027

In 2017 City of Trebinje prepared *Development Strategy of Trebinje for the period 2018-2027*, which includes a thorough diagnosis of the strengths and weaknesses of the City and sets the strategic goals for its development.

Main strengths, identified in the Strategy, include inter alia:

- geographic location;
- growth of the business activities and export of confectionery and essential oils, with the relative stability of tool industry, wine production and production of honey;
- permanent increase of profit in the construction industry, hotel management and catering industry;
- steady and dynamic development of the tourism industry
- intensive development of business infrastructure (business zone, restructuring of the Agency for development of Small and Medium-sized Enterprises, Tourist organization, Agrarian fund; financial support);
- rich water resources.

Weaknesses include inter alia:

- high unemployment rate (34% as of 2013);
- bankruptcy of the textile industry;
- significant number of employees in the public sector;

- undeveloped orientation and capacities for use of external sources of funding (project approach);
- insufficient capacity of the reservoir and main pipelines in the water supply system; an extremely large amount of unaccounted water (72,3%);
- increased consumption of energy-generating products and CO2 emission despite adopted Sustainable Energy Action Plan;
- minimal allocation of own funds and insufficient use of the European funds for energy efficiency projects;
- incomplete data on disasters risk assessment, there are no operational plans for risk reduction.

It should be noted, however, that the strategy does not assess the impact of each strength/weakness on the city's development opportunities or the city's influence on these factors.

Based on the diagnosis, a new development vision has been defined as: *"the most desirable small city in the Western Balkans" by 2030.*

To achieve this general objective, three strategic goals have been defined.

- Permanent increase and compliance of employment with value added in the economic development aims at increasing and harmonizing employment in the economy.
- Prestigious quality of life, along with social vulnerability and higher quality of education guides the social development until 2027.
- More energy efficient, cleaner and more protected environment.

The Strategy presents funding sources for the first 3 years of the implementation phase. The Unit for Development Management, organizationally positioned within Mayor's office, will play a key role in coordinating implementation, monitoring and evaluation of the Development Strategy. This Unit will perform tasks of coordination of strategic planning and implementation, as well as tasks of analysing, monitoring and evaluating the Strategy implementation. Control evaluation of the Development Strategy implementation will be performed upon expiration of the five-time period (2022), and final evaluation upon expiry of the period of the Strategy implementation (2027).

### **Sectoral Development Plans**

Each of the strategic goals defined in the *"Development Strategy of Trebinje for the period 2018-2027"* has its indicators, with specified expected outcomes in three sectoral development plans prepared on the basis of these goals.

#### **Economic Development Plan**

The main goal of the economic development plan is the increase of employment in the manufacturing industry and tourism sector as well as the development of the agricultural sector. Forty potential projects and measures, grouped in 8 programmes, have been proposed for implementation of the Economic Development Plan of Trebinje City. However, some of the projects are very general (e.g., *Support to development of greenhouse*). Moreover, among clearly defined projects some seem very ambitious for a municipality of this size (e.g., *Construction of the indoor Olympic swimming pool*). Municipality expects "large investments of private investors in the amount of several hundred million BAM in the next five-year period". The question arises whether this expectation is realistic.

## Social Development Plan

This plan focuses on four areas:

- improvement of municipal and traffic infrastructure and services;
- lifelong learning;
- cultural-historical heritage, culture, and sport;
- social vulnerability, health care and social protection and services

and covers a very wide range of expected outcomes. 46 projects and measures, grouped in 10 programmes, have been proposed for implementation within the social development plan of Trebinje. Again, some very general (e.g., *More efficient assets management*), some very precise (e.g. Construction of “Palace of Justice, within the programme *Management of assets and improvement of citizens’ safety*). The total expected expenditures for the implementation of the social development sectoral plan in the next five-year period are estimated at around BAM 80.000.000

## Environment Protection Plan

This plan is also very broad and focuses of three main areas:

- preservation of natural heritage and architectural identity of Trebinje;
- provision of healthy and clean environment;
- protection against natural disasters.

32 projects and measures, grouped in 7 programmes, have been proposed for implementation of the Environmental Plan of Trebinje. The list of projects includes e.g., *Creation of a Local Environmental Action Plan (LEAP)* and *Creation of a new Sustainable Energy Action Plan (SEAP)*. Similarly, to the economic and social development plans, some projects are precisely defined, some are rather general. Not all the projects are directly related to environmental issues, e.g., *Rehabilitation of the Old town*. The total expected expenditures in the next five-year period, for the implementation of the Environmental sectoral plan are estimated at around BAM 28.000.000

Environmental plan explicitly states the goal of the reduction of CO<sub>2</sub> emission. Similarly, Sustainable Energy Action Plan adopted in 2011 assumed a reduction of CO<sub>2</sub> emission by at least 22% until 2020 compared with 2001. However, as of 2015, “Consumption of energy-generating products in the area of Trebinje City in 2015 compared to the reference 2001 increased by 13,75% or 16.889 [tCO<sub>2</sub>]. There was an increase in consumption of all energy-generating products, except coal, whose consumption decreased by 25%, which can be explained by changes in heating technologies”.

The strategy identifies the lack of sufficient data on the quality of air, water and soil as well as on the impact of local economy on the environment. It states that “*Appropriate measuring stations for measuring basic parameters for monitoring the quality of air, water and soil should be installed in the key places of City area*” and one of the projects aims at implementing such measures. As for the climate change, the strategy mentions it as a challenge in some areas (e.g. disaster risk), nevertheless it focuses

rather on improving the current conditions than implementing measures minimizing future negative impact of Climate Change.

The following table presents projected expenses with funding sources in sectors according to development plans.

Projects in the Social Development Plan constitute the highest share in the total value of all projects included in the Strategy, whereas Projects from the Environmental Protection Plan make up only 22% of the Plan.

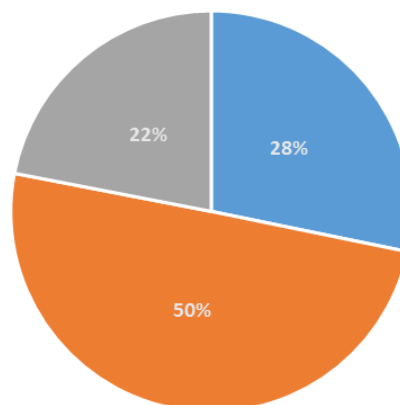


Table 1: Projects' funding in the sectoral development plans

|                           | Total projected expenses<br>(2018-2020) | Funding from budget of<br>the local self-government | Funding from<br>other sources | Number of projects<br>(about to begin) |
|---------------------------|---|---|-------------------------------|--|
| Economic sector           | 22 700 000                              | 2 703 000   | 19 997 000                    | 40                                     |
| Social sector             | 40 076 514                              | 10 120 000  | 29 956 514                    | 48                                     |
| Environment<br>protection | 17 665 000                              | 2 727 000   | 14 938 000                    | 32                                     |

Source: *Development Strategy of Trebinje for the period 2018-2027*, p. 143

### Sustainable Energy Action Plan – SEAP

In 2011 The Municipality of Trebinje adopted Sustainable Energy Action Plan – SEAP. It defines the guidelines of energy efficiency development. The Plan was adopted on the basis of the Covenant of Mayors Initiative on CO<sub>2</sub> reduction by at least 20% until 2020. The Plan envisaged a 22% reduction in CO<sub>2</sub> emissions by 2020 compared to 2001. However, as pointed out in the *Development Strategy of Trebinje for the period 2018-2027*, the consumption of energy-generating products in 2015 was significantly higher than in 2001. For example, the consumption of electricity increased by 19% and fuel oil by 965% (MWh). Total consumption of energy-generating products in the CO<sub>2</sub> equivalent increased by 13,75% or 16.889 tCO<sub>2</sub> compared to 2001. According to the Strategy, the Energy Council of the Municipality of Trebinje has not been established. Its role would be to oversee the implementation of the Plan. The allocation of the municipality's own funds to environmental projects was minimal. In general, the Municipality paid insufficient attention to energy efficiency projects in the analysed period.

## 9 Capital Investment Planning

Medium-Term Capital Investment Plan for the City of Trebinje is prepared and updated every year in such way that each subsequent Medium-Term Capital Investment Plan is prepared for the following 5 years. The document is prepared with the aim of uniting all capital projects of great importance for the Municipality and its community in one place.

Projects included in the Plan are to be financed from different sources:



- budgetary resources;
- public companies - own participation;
- funds of the Government of RS;
- development loans;
- commercial bank loans;
- public-private partnerships;
- grants and donations;
- European Union funds;

and the city administration, public companies, public institutions or individual ministries from the Government of Republika Srpska are responsible for their implementation.

A public call for Projects is announced on annual basis by the Coordination Team for the development of the medium-term Capital Investment Plan of the City of Trebinje. Subsequently, Project Proposers can submit their Projects using a standard Application Form presented below:

**TOWN OF TREBINJE CANDIDATE FORM FOR PROJECTS FOR PREPARATION OF CAPITAL INVESTMENT  
PLAN FOR THE PERIOD 2021 -2025 YEAR**

NAME OF THE APPLICANT (name, contact person, telephone number)

**1. PROJECT DESCRIPTION**

- 1.1. Project Name
- 1.2. Sector
- 1.3. Project objective
- 1.4. Project description
- 1.5. Project location:
- 1.6. Project purpose:

**2. THE NEED FOR A PROJECT**

- 2.1. Who will benefit most from the project ?
- 2.2. What will be the scope of services provided by the project ?
- 2.3. Comment on the needs that this project will meet
- 2.4. How are these needs currently being met?
- 2.5. Describe whether there is an environmental impact of the project (positive or negative) .
- 2.6. Is the project defined in the strategic document or not?
- 2.7. POLICY with other projects

**3. PROJECT PREPAREDNESS AND COSTS**

- 3.1. Degree of project readiness
- 3.2. Total project value
- 3.3. Potential sources of funding; percentage share in the total value of the project:
- 3.4. Proposed expenditure on an annual basis and proposed source of funding source so far invested 2018/2019/2020.

**4. CONSTRUCTION DATA**

- 4.1. Type of investment
- 4.2. Period of construction (in months ) \_\_\_\_\_

**5. ESTIMATED EFFECTS OF THE REALIZED PROJECT**

- 5.1. Financial effects (on the budget)
- 5.2. Economic effects (prepared list)

### 5.3. Raising the quality of services

## 6. PRIORITY

6.1. What priority number do you assign to this project over other requirements?

6.2. What are your reasons for assigning that priority number?

It shall be noted, that Project Proposal Form is clear and well organized with simple descriptions of information expected from project proposers, although neither climate change impact, nor resilience of the Project is clearly included in the requested information in the form. Some information regarding Climate can possibly indirectly be provided in point 2.5, which considers environmental impact of the Project.

Submitted projects are further scored and evaluated by assigned Coordination Team for the Development of the Capital Investment Plan (Team) according to the Decision on Criteria for Project Evaluation (Official Gazette of the City of Trebinje No. 3/16) based on the criteria presented below:

### **CRITERION 1: PROJECT STATUS - Weight of criteria 3**

1. Legal obligation (0 to 5 points)
2. Level of project implementation (0 to 5 points)
3. Impact on the local community (whether it serves part of or as a whole together) (0 to 5 points)
4. Connection with other projects that are accepted or already implemented (0 to 5 points)
5. Sustainability (0 to 3 points)

### **CRITERION 2: FINANCIAL IMPACT - Weighting of criteria 2.5**

1. Impact on the increase of Budget revenues (0 to 5 points)
2. Impact on reducing Budget expenditures (0 to 5 points)
3. Are financial resources provided (0 to 5 points)
4. Impact on the increase of non - tax revenues (0 to 3 points)

### **CRITERION 3: ECONOMIC DEVELOPMENT - Weighting of criteria 4**

1. Impact on employment (0 to 10 points)
2. Impact on investments in the economy (0 to 8 points)
3. Influence on the development of public - private partnership (0 to 6 points)
4. Impact on agricultural development (0 to 10 points)
5. Impact on tourism development (0 to 5 points)

### **CRITERION 4: SOCIAL DEVELOPMENT - Weighting of criteria 3**

1. Contributes to the quality of education and improvement cultural and educational infrastructure (0 to 7 points)
2. Contributes to increasing levels and quality existing public sector services (0 to 6 points)
3. Contributions to the improvement of social protection (0 to 5 points)
4. Contributes to development sports and recreation infrastructure (0 to 5 points)

### **CRITERION 5: ENVIRONMENTAL PROTECTION - Critical weight 1**

1. Improves environmental protection (0 to 5 points)
2. Allows effective use of natural resources, energy efficiency and use renewable energy sources (0-7 p.)
3. Impact on the local community (whether it serves part of or the whole community) (0 to 5 points)

### **CRITERION 6: RISKS - Severity of criteria - 1**

1. Political risks (0 to 5 points)

2. Technical and technological risks (0 to 5 points)
3. Financial risks (0 to 5 points)
4. Implementation of the public procurement process (0 to 5 points)
5. Complexity of collecting documentation basis (0 up to 5 points)
6. Legal and regulatory risks (0 to 5 points)

Scoring Criteria are clear and well organized, although they seem to lack correspondence with Project Proposal Form, especially in case of Risks. As Project Proposers are not expected to provide information related to climate change impact, nor resilience of the Project, those aspects are not scored, therefore final ranking list does not promote such Projects. Furthermore Environmental Protection Criterion, which can indirectly consider Climate Change is set at the severity level of 1, on contrary economic development criterion is set at severity of 4, which can possibly lead to projects having a negative environmental impact to be included in the Mid-term CIP.

The total number of points is obtained by adding the awarded individual points provided they are the smallest and largest the number of points awarded is deleted, and the rest by the principle of obtaining the arithmetic mean are assigned as the total number of points for a particular project.

Capital investments included in the Mid-term CIP are considered investments whose value is higher than 50,000.00 KM, as well as investments in equipment whose lifespan is longer than 10 years.

In 2020 total funds needed for the implementation of investments included in the CIP were estimated for the amount of over KM 117 million.

Calendar of activities on preparation, adoption and updating of the medium-term capital investment plan of the city of Trebinje for 2021 is presented in the table below.

| <b>Date</b>       | <b>Activity</b>   | <b>Responsibility</b>  |
|-------------------|---|--|
| February          | Analysis of criteria and legal framework for the adoption of CIP  | Coordination team  |
| February<br>March | Media campaign and preliminary call for investment proposals  | Mr. Mayor  |
| 25.02.2021        | Public call for investment proposals  | Coordination team  |
| 19.03.2021        | Deadline for submission of investment proposals   |  |
| 01.04.2021        | The Finance Department submits to the Coordination Team projections of financial opportunities for the next planning period             | Head of the Finance Department   |
| 04/01/2021        | The technical support team processes the received applications from the aspect of technical correctness, classification and feasibility | Technical Support Team - Service for Idleness, Investments and Energy Efficiency |
| 15/4/2021         | Project evaluation  | Coordination Team  |
| 20/4/2021         | Final priority list established   | Coordination Team  |
| 25/4/2021         | The coordination team makes a proposal of the Capital Investment Plan and submits it to the City Assembly for adoption                  | Coordination Team  |
| May 2021          | The City Assembly adopts an updated CIP   | Assembly   |

|                |   |       |
|----------------|---|-------|
| September 2021 | Holders of activities for the implementation of the part of CIP that is financed directly from the budget submit budget requests for the next year in accordance with the budget calendar | Mayor |
|----------------|---|-------|

Source: *GUIDELINES FOR DEVELOPING A MEDIUM-TERM CAPITAL INVESTMENT PLAN in Trebinje*

It shall be noted, that capital investment planning process in Trebinje is well organized with clear division of roles and responsibilities of all involved parties. Procedure is followed on the annual basis, although neither climate change impact, nor resilience of the projects is taken into consideration when preparing the Mid-Term Capital Investment Plan.

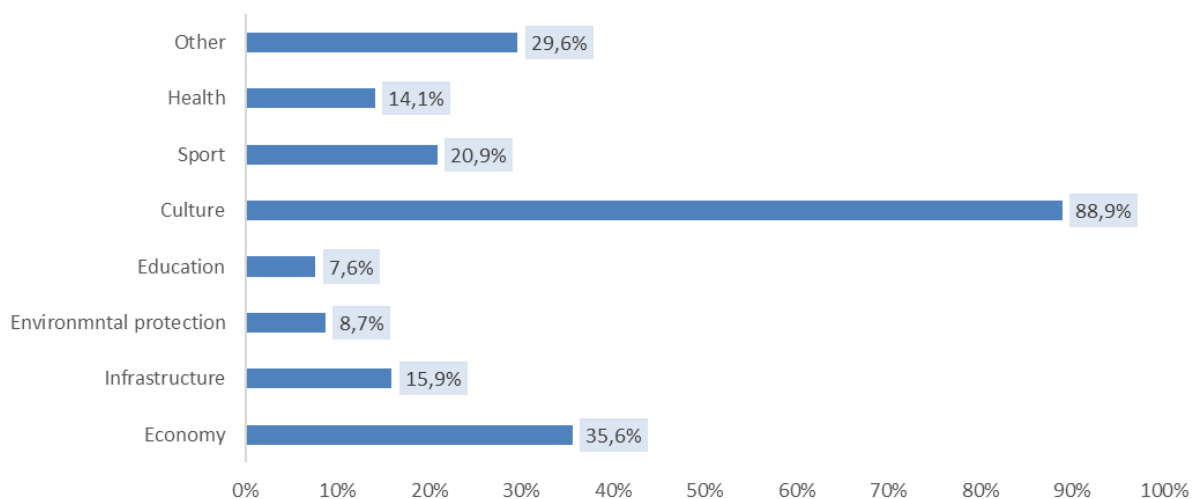
The total capital expenditure planned in the Capital Investment Plan for 2020-2024 is BAM 116,914,300. The following table shows the expenditure and funding sources required of implementation of the Plan.

| All sectors  |                   |                   |                   |                   |                   |                    |
|--------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Funding/year | 2020              | 2021              | 2022              | 2023              | 2024              | Total              |
| Municipal    | 3 132 800         | 3 710 000         | 4 420 000         | 3 810 000         | 4 290 000         | <b>19 362 800</b>  |
| Credit       | 3 506 500         | 0                 | 1 500 000         | 2 500 000         | 2 500 000         | <b>10 006 500</b>  |
| Grant        | 12 530 000        | 7 880 000         | 2 700 000         | 1 900 000         | 3 300 000         | <b>28 310 000</b>  |
| Other        | 10 460 000        | 9 300 000         | 12 165 000        | 13 390 000        | 13 920 000        | <b>59 235 000</b>  |
| <b>Total</b> | <b>29 629 300</b> | <b>20 890 000</b> | <b>20 785 000</b> | <b>21 600 000</b> | <b>24 010 000</b> | <b>116 914 300</b> |

Source: *Capital Investment Plan for 2020-2024*

The municipality will cover almost 90% of the investment expenditure in the cultural sector. It is the only sector where the share of municipal funds is over 50%; however, this sector accounts for only 2% of the municipal investment expenditure. In the environmental protection sector, the municipality will finance only 9% of the total expenses. 51% of the total expenditure envisaged in the Plan is to be financed from sources identified as 'other'. Grants will cover 24%, while municipal funds will account for 17% of the total expenditure. Loans will only have an 8% share in financing of all of the projects.

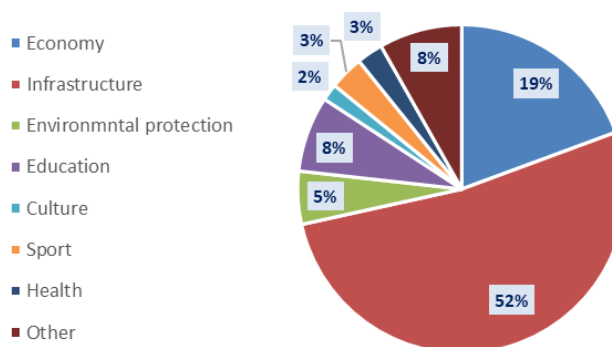
#### Share of municipal funds in investment expenditure by sectors



Source: Capital Investment Plan for 2020-2024

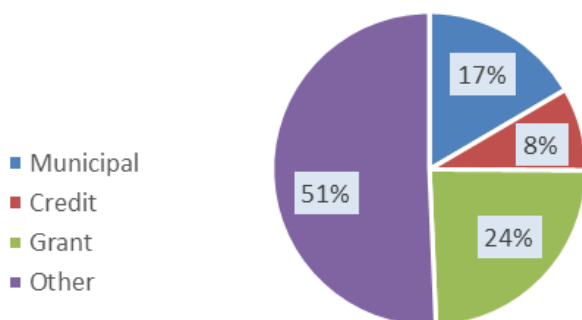
Infrastructure projects account for the largest share of both total and municipal investment expenditure (respectively 54% and 52%). 19% of municipal funds will be allocated to projects in the economic development sector. Only 5% of municipal investment expenditure will be allocated to projects in the environmental protection sector, while the share of these projects in the total expenditure will be 10%.

Share of individual sectors in municipal investment expenditure



The above analysis shows that the City of Trebinje has only a limited influence on the financing of the CIP. The implementation of most of the projects included in the Plan depends on access to other

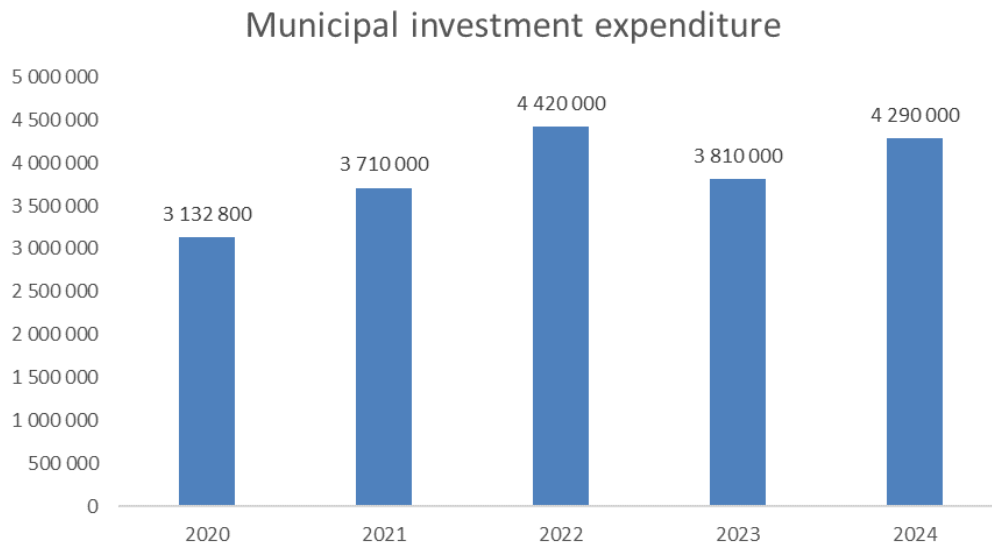
Sources of funding for total investment expenditure



sources of funding. Moreover, it should also be noted that the environmental protection sector is not considered to be a key one. Projects in this sector account for only 10% of total planned investment expenditure and 5% of municipal investment expenses. Moreover, almost 60% of the costs in this sector are to be financed from unspecified sources (“other” category), and only

9% from municipal funds. The municipality will thus have the lowest share in financing environmental projects.

The plan assumes that the municipality will spend about 4 million BAM each year on investment projects. Only for the first year lower expenses have been planned. In total, the municipality's expenses for the implementation of projects included in the Capital Investment Plan will amount to BAM 19,362,800 in 2020-2024.



Source: Capital Investment Plan for 2020-2024