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## PROJECT FACTS

### LOCATION

Four pilot Governorates in southern Iraq: Basra, Maysan, Al Muthanna and Qadissya,

### DURATION

August 2016 - April 2018

### KEY GOVERNMENT COUNTERPARTS

Ministry of Planning and Governorates, Directorates of Planning and Municipalities of Basra, Maysan, Al Muthanna and Qadissya.

### IMPLEMENTING PARTNERS

UNDP / UN-Habitat

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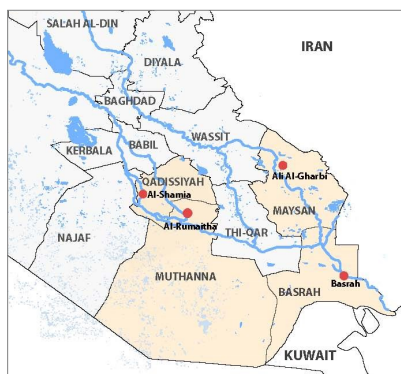
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# MUNICIPAL FINANCE & IMPROVED BUDGET EXECUTION IN URBAN RELATED SECTORS

Brief #2 | Nov 2017

## DETAILED ANALYSIS OF REVENUES AND EXPENSES



**Pilot municipalities of Basra (population:**  
**1,198,328); Al Rumaitha (83,518); Ali Al-**  
**Gharbi (17,162); Al Shamiya (57,311)**

Under the umbrella of the EU-funded Local Area Development Programme (LADP), the UN-Habitat team has been working closely with focal points of four pilot municipalities in the south of Iraq: the city of **Basra** in Basra Governorate; **Al Rumaitha** in Al Muthanna; **Ali Al-Gharbi** in Maysan; and **Al Shamiya** in Qadissiya, to assess their capacity to raise municipal revenues, manage expenditures and execute their budgets for the improvement of key urban services.

Having guided counterparts through the gathering and analysis of data, the team observed the lack of systematic data and found some discrepancies in revenue collection between governorates. Above all, it has identified missed opportunities to leverage municipal property values, and a range of legal bottlenecks and policies that hinder the capacity of the local authorities to locally finance improved service delivery.

The findings of the first assessment phase were summarised in *Brief #1* drafted in October 2017. The Brief, widely shared with counterparts, provides an overview on current municipal finances, municipal revenues and spending, offers a set of pragmatic Recommendations on the general framework of municipal finances — looking into the legal functions of municipalities, their accounting management and auditing setup, modes for revenue collection, the public perception of municipal services, the need for a taxation reform, coordination of public services, banking sector and technology and the need for qualified human resources.

*Brief #2* offers an insight into the income/expenses statements for 2016 of the four selected cities, organized according to the standard classifications of the Iraqi public accounting system.

## SYNOPSIS

The first analyses of the 4 cities income/expenses statements show the following features:

- Total expenses range from 14 (Basra) to 44 US\$ (Ali Gharbi) per inhabitant per year. These low amounts comparatively to international practices reflect the limited functions of the municipalities and the little services they provide.
- Wages and salaries constitute a large share of these expenses, ranging between 60 and 75% of total, except for Al Rumaitha where this share stands at only 31%. The central government transfers cover most of these expenses (73 to 91%).
- The revenues of the studied municipalities show real surplus, except for the case of Al Shamiyah. The surplus reaches 60% of total expenses in Ali Gharbi, 5%

for Al Rumaitha and 11% for Basra. The deficit of Al Shamiyah is of only 1%.

- The income from taxes for all 4 municipalities is far from covering the costs of commodities and services necessary to perform the functions of the municipalities. The amount of taxes and the process of collection are thus major issues for all municipalities.
- The rental of real estate and land assets contribute significantly to the financing of the needs of the municipalities. However, it has been noticed that the municipalities have important difficulties to collect the rental fees.
- The sales of land assets, a non-renewable and non-sustainable resource, contribute largely to reduce the deficit or to create a surplus. In the case of Ali Gharbi, these sales of lands reach the astonishing share of 87% of total expenses.

## ANALYSIS OF REVENUES AND EXPENSES

The income/expenses statements for 2016 of the 4 selected cities (Ali Gharbi, Al Shamiyah, Al Rumaytha and Basra) has been collected and analyzed. They were organized along the standard classifications of the Iraqi public accounting system.

### Ali Gharbi operating accounts

Ali Gharbi is a small city of 17,500 inhabitants (Statistics Office). Its total expenses excluding amortizations reach 972 million Iraqi dinar (around US\$780,000); i.e. approximately **56,000 IQD per inhabitant** (US\$ 44). Most of these expenses are related to salaries and wages (75%). This is while amortizations account for around 34% of expenses.

The revenues of commercial activities constitute 54% of total. These are mainly due to the selling of lands for construction; a non-sustainable revenue. The revenues related to services reach only 4% of total; far from covering the necessary expenses in commodities and services. The transfers from central government account for 40% of total revenues, covering 85% of salaries and wages.

**The operating accounts result in a real surplus of 584 million IQD (US\$ 467,000). However, this surplus is mainly due to the exceptional and non-sustainable activity of land selling.**

### ALI AL GHARBI OPERATING ACCOUNTS 2016

EXPENSES				REVENUES			
31	Salaries and Wages	727,951,862	75%	41	Commodity Production		
32	Commodity Inputs	140,406,705	14%	42	Commercial Activities	845,398,569	54%
33	Service Inputs	103,832,500	11%	43	Services Activities	56,069,649	4%
34	External Contracts & Services			44	Operations for 3rd Parties		
35	Purchase of Goods for Sales			45	Locally Manufactured Assets		
36	Interests of Debts & Land Leases			46	Interest on Loans and Land Rents	19,541,000	1%
37	Amortizations	326,198,127	34%	47	Aids and Subsidies		
38	Transfer Expenses			48	Transfers	618,646,862	40%
39	Other Expenses			49	Other Revenues	16,107,252	1%
Total Expenses		1,298,389,194		Total Income		1,555,763,332	100%
Apparent Deficit				Apparent Surplus		257,374,138	
Total Expenses excluding Amortization		972,191,067	100%	Total Income		1,555,763,332	
Real Deficit				Real Surplus		583,572,265	

## Al Shamiyah operating accounts

Al Shamiyah is a medium size city with 58,000 inhabitants. Its total expenses excluding amortizations reach 2,216 million Iraqi dinar (around US\$ 1.8 million); i.e. approximately **38,000 IQD per inhabitant** (US\$ 31); then less than Ali Gharbi. Most of these expenses are related to salaries and wages (60%). This is while amortizations account for around 43% of expenses.

The revenues of commercial activities constitute 30% of the total; a lower contribution of this non-sustainable resource than in Ali Gharbi. The revenues related to services reach 20% of total — still far from covering the necessary expenses in commodities and services. However, most of these services-related revenues are from properties rental. The transfers from central government account for 43% of total revenues, covering again 85% of salaries and wages.

**The operating accounts result in a real deficit of 30 million IQD (US\$ 24,000). For Al Shamiyah also, the surplus is mainly due to the exceptional and non-sustainable activity of land selling.**



Garbage collection. Courtesy of Al-Rumaiitha Municipality.

AL SHAMIYAH OPERATING ACCOUNTS 2016							
EXPENSES				REVENUES			
31	Salaries and Wages	1,321,278,685	60%	41	Commodity Production		
32	Commodity Inputs	238,100,600	11%	42	Commercial Activities	651,201,459	30%
33	Service Inputs	653,183,459	29%	43	Services Activities	428,850,787	20%
34	External Contracts & Services			44	Operations for 3rd Parties		
35	Purchase of Goods for Sales			45	Locally Manufactured Assets		
36	Interests of Debts & Land Leases			46	Interest on Loans and Land Rents	0	0%
37	Amortizations	957,193,325	43%	47	Aids and Subsidies		
38	Transfer Expenses	3,663,340	0%	48	Transfers	1,105,835,435	51%
39	Other Expenses			49	Other Revenues	0	0%
Total Expenses		3,173,419,409		Total Income		2,185,887,681	100%
Apparent Deficit		987,531,728		Apparent Surplus			
Total Expenses excluding Amortization		2,216,226,084	100%	Total Income		2,185,887,681	
Real Deficit		30,338,403		Real Surplus			

## Al Rumaiitha operating accounts

Al Rumaiitha is also a medium size city with 85,000 inhabitants. Its total expenses excluding amortizations reach 3 507 million Iraqi dinar (around US\$ 2.8 million); i.e. around **41,000 IQD per inhabitant** (US\$ 33); similar to Al Shamiyah. However, the expenses related to salaries and wages account for only 31% of total (half of that for Al Shamiyah). This is while amortizations account for around 37% of expenses.

The revenues of commercial activities constitute 53% of total; a high contribution of this non-sustainable resource similar to Ali Gharbi. The revenues related to services reach

20% of total; still far from covering the necessary expenses in commodities and services. And again most of these services related revenues are due to the renting of properties. The transfers from central government account for only 27% of total revenues, covering however 91% of salaries and wages.

**The operating accounts result in a real surplus of 163 million IQD (US\$ 131 thousands). This surplus is mainly due to the exceptional and non-sustainable activity of land selling.**

AL RUMAITHA OPERATING ACCOUNTS 2016							
EXPENSES				REVENUES			
31	Salaries and Wages	1,086,034,501	31%	41	Commodity Production		
32	Commodity Inputs	350,168,668	10%	42	Commercial Activities	1,936,002,269	53%
33	Service Inputs	2,070,498,050	59%	43	Services Activities	718,627,604	20%
34	External Contracts & Services			44	Operations for 3rd Parties		
35	Purchase of Goods for Sales			45	Locally Manufactured Assets		
36	Interests of Debts & Land Leases			46	Interests on Loans and Land Rents	125,475	0%
37	Amortizations	1,281,452,656	37%	47	Aids and Subsidies		
38	Transfer Expenses			48	Transfers	986,810,537	27%
39	Other Expenses			49	Other Revenues	29,920,259	1%
Total Expenses		4,788,153,875		Total Income		3,670,486,144	100%
Apparent Deficit		1,117,667,731		Apparent Surplus			
Total Expenses excluding Amortization		3,506,701,219	100%	Total Income		3,670,486,144	
Real Deficit				Real Surplus		163,784,925	

### Basra operating accounts

Basra is the third largest metropole of Iraq, with 1.2 million inhabitants; so much larger than the other 3 cities. Its total expenses excluding amortizations reach 21 billion Iraqi dinar (around 16.9 million US\$); i.e. approximately **17,000 IQD per inhabitant** (only 14 US\$); much less than all other cities. The expenses related to salaries and wages account for 73% of total (similar to Ali Gharbi). This is while amortizations account for around 29% of expenses.

The revenues of commercial activities constitute only 12% of total. The sales of land seem limited for such a large

city. The revenues related to services reach 31% of total, mostly constituted of rents revenues of real estate assets. Again they are still far from covering the necessary expenses in commodities and services. The transfers from central government account for 48% of total revenues, covering however 73% of salaries and wages.

**The operating accounts result in a real surplus of 2,395 million IQD (US\$ 1.9 million) — around 10% of total revenues.**

BASRA OPERATING ACCOUNTS 2016							
EXPENSES				REVENUES			
31	Salaries and Wages	15,462,906,250	73%	41	Commodity Production		
32	Commodity Inputs	2,656,062,721	13%	42	Commercial Activities	2,814,870,543	12%
33	Service Inputs	2,596,833,195	12%	43	Services Activities	7,223,270,201	31%
34	External Contracts & Services			44	Operations for 3rd Parties		
35	Purchase of Goods for Sales			45	Locally Manufactured Assets		
36	Interests of Debts & Land Leases			46	Interests on Loans and Land Rents	0	0%
37	Amortizations	6,124,316,014	29%	47	Aids and Subsidies		
38	Transfer Expenses	347,597,894	2%	48	Transfers	11,334,404,706	48%
39	Other Expenses			49	Other Revenues	2,085,943,896	9%
Total Expenses		27,187,716,074		Total Income		23,458,489,346	100%
Apparent Deficit		3,729,226,728		Apparent Surplus			
Total Expenses excluding Amortization		21,063,400,060	100%	Total Income		23,458,489,346	
Real Deficit				Real Surplus		2,395,089,286	