

“Fiscal Decentralization in SEE in the Context of the Global Economic Crisis”

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NALAS IV GENERAL ASSEMBLY

Introduction: we have to separate between the global **Financial** crisis and the **Economic** crisis. The first is leading to the second.

The **Financial** crisis has two sides:

If some municipalities had **surpluses** AND invested them in certificates etc. that were devalued (e.g. Lehman Brothers) or in savings banks that went bankrupt (e.g. from Iceland), they lost real money.

However, this will most probably not be the case in our region. (If yes, than one has to look at the reasons why money was invested not safe enough).

The other side of the financial crisis is the global credit crunch. Not only people around the world but also the banks and other financial institutions like insurance companies among themselves have lost the most elementary ingredient of any financial transaction: TRUST. Thus, at the moment, it is hard to get credit – for companies, for citizens, for some public institutions, even for the banks themselves. In the modern world, without credit, the economy cannot function. Therefore, the financial crisis is leading to an economic crisis, since many transactions, trade, and investments rely heavily – perhaps too heavily – on credit that is not coming forth now.

But, the **good news** is: in times like these, the **STATE** is in many cases still the most **trustworthy** client of the banks. He has many assets as security, and steady income from taxes. (Even when in 2009 and 2010, tax income might be less than expected). Of course, the state, every level of government, has to have his house in order. Countries like Iceland (because of its uncontrolled banks) and Hungary (because of too much spending on the base of foreign debt) are having trouble right now. Others, who were more cautious or conservative, are not as hard hit.

So, the outlook is not so bad for state and, in our case, local borrowing.

Towns and municipalities with a sound economic basis and good tax income could even become beneficiaries of the crisis – they could now be seen as better, more creditworthy borrowers than some companies!

By the way, government-owned or at least partly controlled banks are not doing better than private banks; to the contrary, e.g. in Germany they are even hit harder by the financial crisis.

However, municipalities have to do more than just think about borrowing:

become creative how to improve your income situation e.g. by increasing their tax revenue from own sources like **property tax**¹ and secure and in fact expand urgently needed public investments in roads, bridges, buildings, schools, hospitals etc. by way of **Public-Private Partnerships** (in short **PPP**). A new WG on this topic should soon begin its work and could present successful examples quite quickly, based on work already done in the Rep. Srpska in cooperation with Dutch VNG.

Another significant aspect is to **win more affluent taxpayers for your municipality** – be it wealthy **individuals** or successful **companies**. In other words: you are in a competition with your neighboring municipalities and have to become more attractive.

Thus, every municipality has the tasks of attracting

- more people to live within its boundaries, e.g. by enabling house construction in good neighborhoods, and
- existing or new companies, e.g. by reducing bureaucracy for companies willing to invest on their territory and providing sustainable business zones etc.

Another source of a better income situation of any municipality, esp. in times with increasing inflation when nominal budgets are in reality becoming smaller, is to **reduce costs** – are you really managing your town efficiently on all levels according to best practice? Are you purchasing goods and services together with others to get higher discounts? Do you know your SWOTs (strengths, weaknesses, opportunities and threats)? Do you fight corruption efficiently?

The use – and in fact often wasting – of energy is another big item where rather rapidly savings can be made through measures for higher **energy efficiency**.

In many fields, NALAS is therefore working hard to spread more information about best practice and enable personal contacts around the region.

¹ A NALAS working group under the leadership of the Serbian SCTM within the TF on Fiscal Decentralization is right now researching and making proposals how to improve property tax administration, thereby significantly increasing tax and fee income