International Conference
"The Future of Fiscal Decentralisation in South Eastern Europe"
Budva 1-2 November 2012

Budva Declaration on the Future of the Fiscal Decentralisation in South Eastern Europe

We, the participants at the conference "The Future of Fiscal Decentralisation in South Eastern Europe" held in Budva, Montenegro on 1-2 November 2012,

We, mayors, representatives of the ministries of finance, representatives of the local governments associations, representatives of the international financial institutions, experts in municipal and intergovernmental finances, leaders of South Eastern Europe,

Recognizing the importance of the local governments in representing citizens' interests, in providing the services needed and caring for citizen's wellbeing and the wellbeing of many generations to come,

Acknowledging the progress in the fiscal decentralisation achieved with the efforts of all levels of governments,

Conscious of the strong need for renewed and new infrastructure in our communities,

Aware of the responsibility for local investments at the local level,

Taking in consideration the lower fiscal power of the local governments in South Eastern Europe compared with the EU,

All taking full account of the European standards, namely the Council of Europe acquis including the European Charter of Local Self-Government,

Declare to join our efforts for:

1. Expanding the scope of the dialog between the Ministries of finance and the national associations and improving its results

The topics for discussion, besides the regular/typical one on the annual intergovernmental transfers, should include other important issues such as review of the municipal revenue base, local governments' borrowing capacity, improvement of the regulatory framework for PPPs, policy options for mitigating the impact of the economic crisis etc.

The dialog should become results-oriented, based on preliminary objective assessment of the policy options, instead of a formal one. In parallel both the central and the local governments should establish stable mechanisms for monitoring and evaluation of the results. The problems of the FD should be constant part of the dialog. The dialog could be facilitated by donor programs, international financial institutions, partner research institutions which can provide in-depth rationale and justification about the national specifics.

The economic crisis is often used as an excuse/reason for undermining and postponement of important FD measures. We need to look and the impact of crisis as an opportunity to intensify and institutionalize the dialogue.

2. Increasing the municipal investment capacity in order to overcome the continuing underfunding of the municipal infrastructure

Municipal investments are universally among the worst affected by the crisis. In centering the focus on protecting the social safety net, local governments' investment capability sharply deteriorated; the municipal infrastructure in the countries from SEE is in a poor shape and needs long-term solutions. Focused efforts are needed in at least three key impact areas: building the administrative capacity at local level for long-term capital investment planning, facilitating the use of various funding sources (own revenues, grants, debt financing and PPPs) and implementation of tangible local policies for greater transparency and accountability towards the citizens.

3. Facilitating the access of the local government to the EU Pre-accession. Structural/Agricultural funds and other EU national funds

For an increasing number of local governments the EU funds are the only source for investments. The national policies should encourage the use of these funds by removing the regulatory obstacles and by assisting local governments in stabilizing their revenue base , capacity building support and other implementing innovative credit mechanisms/intermediaries. The co-funding requirements should take into account the revenue generation capabilities of the local authorities.

4. Facilitating the access to the credit market

In many cases the good and widespread practices for local borrowing work well only for large and financially stable local governments. A right combination of regulatory changes and the implementation of innovative pooling mechanisms can facilitate the smaller local authorities to access the local and international credit markets.

NALAS, the national associations and their members commit to:

1. Meet growing need to increase the capacity to develop, implement and disseminate good local practices; to become resource centers of advanced knowledge

2. Focus on increasing the efficiency of the municipal services - benchmarking methodologies for proper costing, comparative studies for specific service etc. which can lead to substantial efficiency gains

3. Support the least performing local governments and regions; develop analytical tools for objective assessment of the economic, financial and social situation and design of targeted measures for poor and/or badly hit by the crisis.

4. Increase transparency and efficiency in local financial management. The difficult decisions require more transparency and accountability in all areas of local governance - procurement, expansion/reduction of the scope of services, analyses of full costs before setting the fee and user charges, detailed justification and impact assessment of tax reliefs etc. A special emphasis should be given to efforts for improving the revenue collection systems thus achieving greater collection rates.

5. Prepare and propose improved intergovernmental mechanisms

Development of a system of transfers aimed at increasing the volume and share of the unconditional grants and, at the same time, introducing safeguards against provision of unjustifiably expensive services. Development of stable equalizing mechanisms. Consolidation of the various sources for capital transfers scattered among the different ministries.

The Ministries of Finance will concentrate the efforts in the following areas:

1. Tax policy

In defining the national tax policy, will gradually expand the scope and share of the local taxes and fees mainly at the expense of currently central revenues and by not increasing the tax burden. According the national specifics should encourage greater local government authority on tax collection, rate setting, tax base periodic assessment. Constant monitoring and forecast of affordable overall fiscal price (taxes, fees, charges etc.) while deciding on policy choices, with special focus on future economic, environmental and social requirements of the EU.

2. Regulatory framework of the transfers

A common weakness of the transfers systems is the lack of predictability from one year to another which, at local level, leads to increased uncertainty over the provision of recurrent services and especially to inability to plan multi-annual investments. The framework should be stable and predictable for at least a 3-year time horizon. Both the state and the local governments will benefit of having clear mid-term rules for the types of the transfers, volume determination and allocation on the basis of objective criteria.

3. Unfunded mandates

Proposed tax policy changes should be discussed with local self-government units through their associations. Will require from the state agencies financial justification and adequate compensation while proposing to transfer additional service responsibilities to local units.

4. Support for inter-municipal cooperation

Will develop and implement appropriate financial mechanisms to support inter-municipal investments in public infrastructure - especially in services, covering the needs of several local governments, such as water and sewer and waste disposal (both traditionally organized on regional basis).

Financial and other institutions will share and promote:

1. Key findings

Spreading the knowledge in sensitive areas such as financial risks management will positively affect the behavior of local governments in new areas like bond issuing and financial engineering.

2. Methodologies for long-term investment planning

In many countries the regulatory and budget frameworks have constrained the long-term investment prospective at local level. The crisis put an additional burden by increasing the level of uncertainty. At the same time the successful planning and implementation of investment projects require the use of specific knowledge and techniques, without which the investment community neglects the municipalities as credible partners. Intensive efforts are needed in building local capacity in forecasting cash flows, calculating net operating surplus, prudent assessment of the creditworthiness, prioritizing the investment needs etc.

3. Impact assessment techniques

This is a typical "grey" area in local capacity which can be overcome by training in using methodologies for assessing the full/future costs of a specific investment after completion - debt service, future operating costs, transferring the costs into the user fees/charges, scheduling the general repairs, and alike.

4. Creative and innovative investments tools

The best of the worldwide knowledge should be locally adapted in order to promote local investment in a sustainable and accountable way.

Budva, 02.11.2012