



Network of Associations of Local
Authorities of South-East Europe



Local Government Finance Reform in South-East Europe

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Administration Research

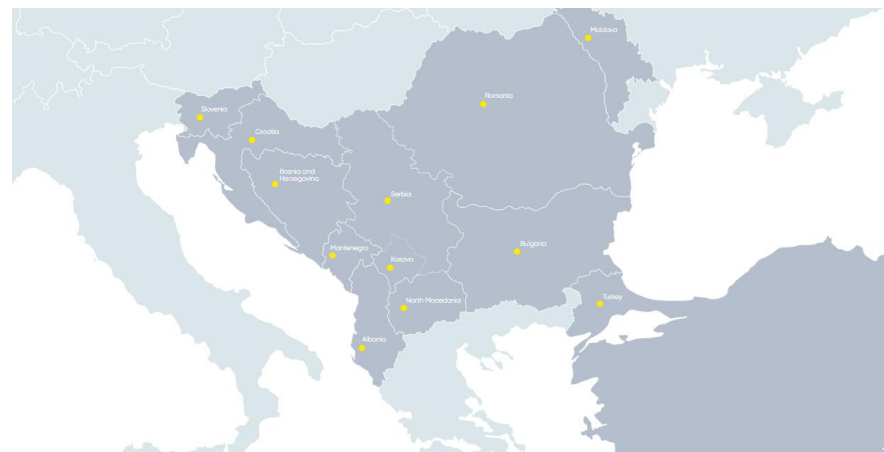
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Associations of Local Authorities of South-East Europe

CEMR Expert Group on Local Finances Meeting
30-31 January 2024, Brussels





Local Government Finance in South-East Europe: Key Data
3rd Edition



What is NALAS?

14 member LGAs

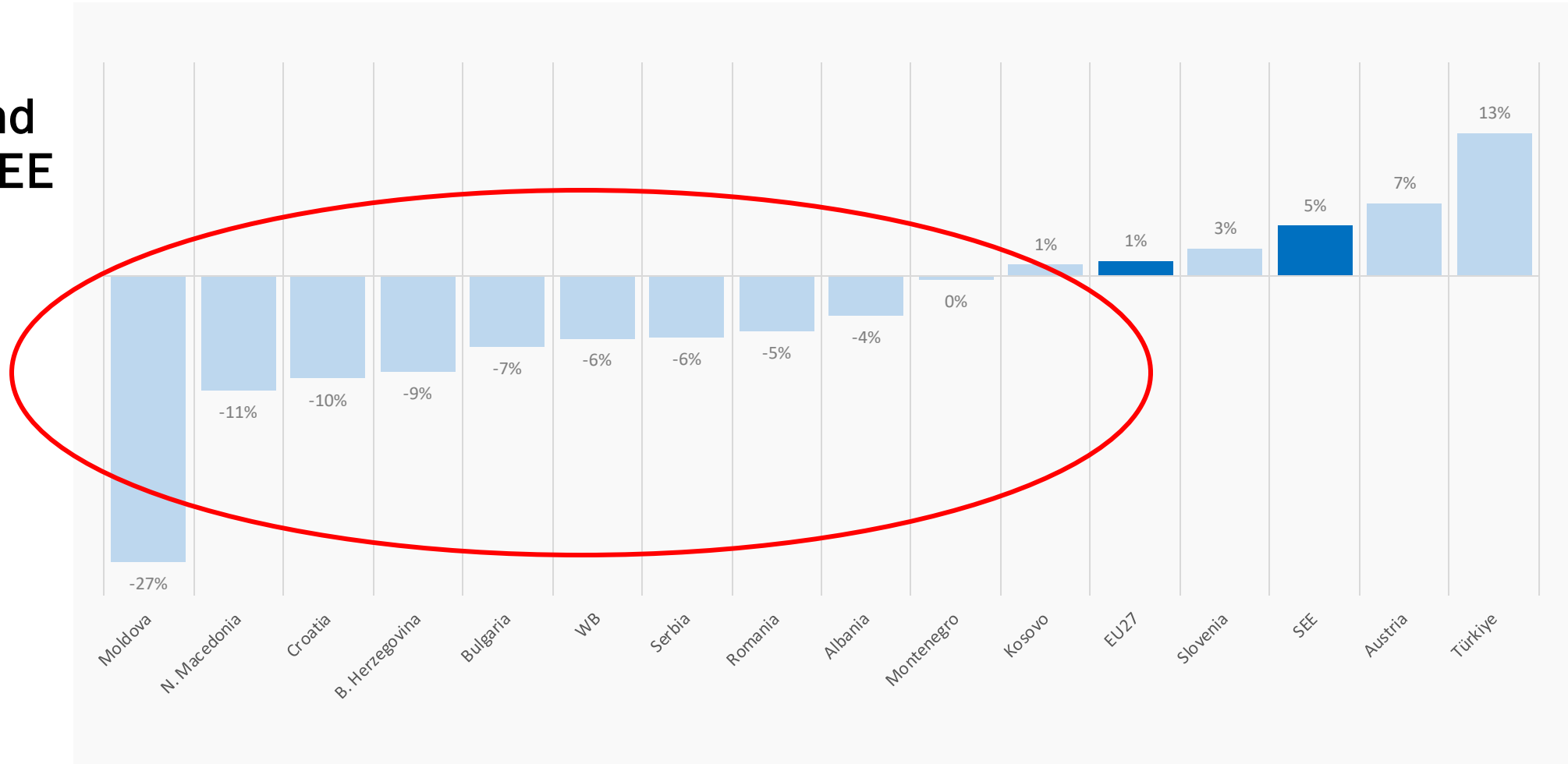
9000 local authorities



Comparative overview of fiscal decentralization and intergovernmental fiscal relations in South-East Europe

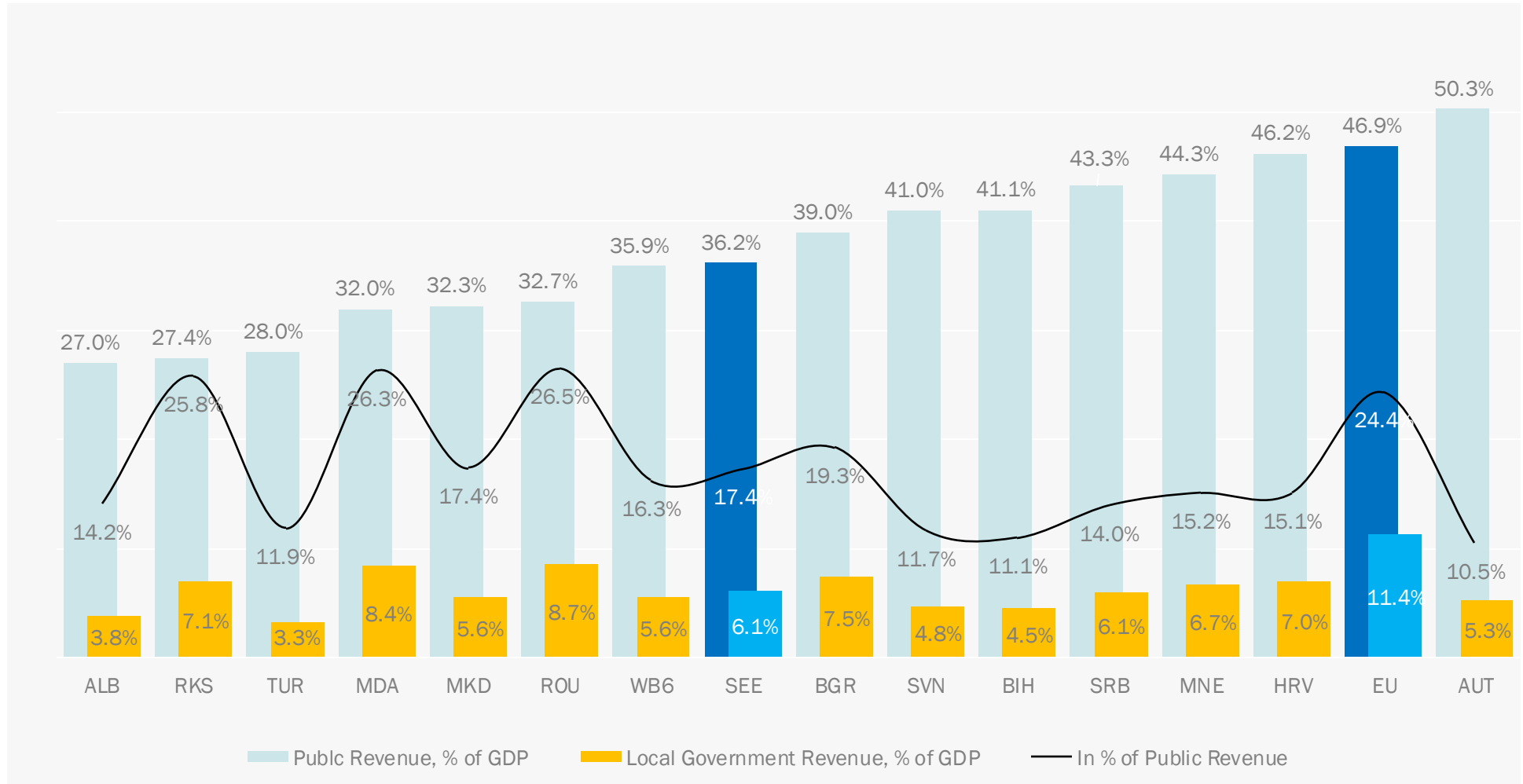
9th Edition

➔ Migration and brain drain in SEE



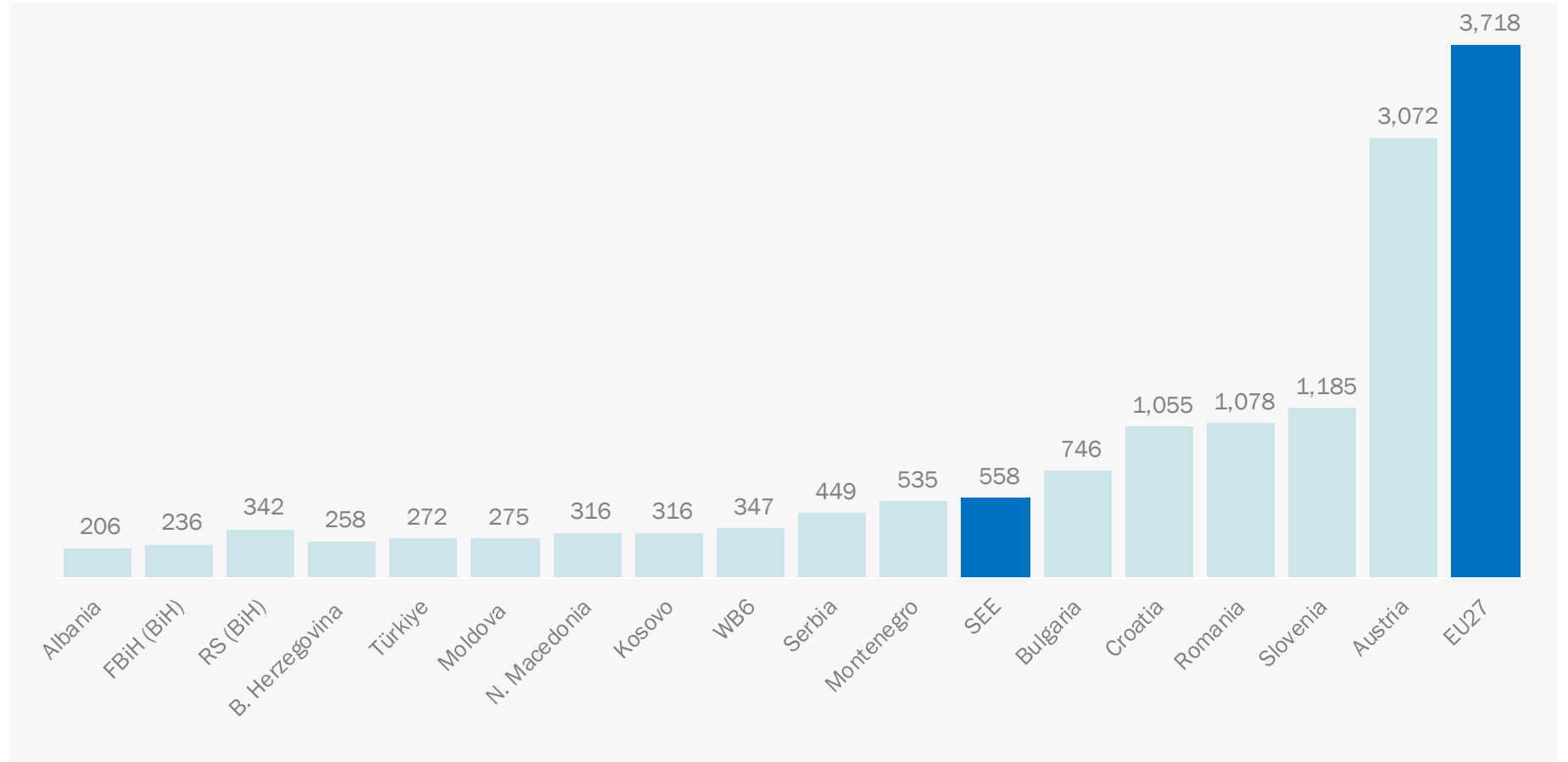
Percent change in population in SEE, 2012-2021

➔ Larger public sectors and more decentralized revenues in EU



Total public and local government revenue in South-East Europe, 2021

→ **WB6 has 10 % of EU27 LG Revenues**

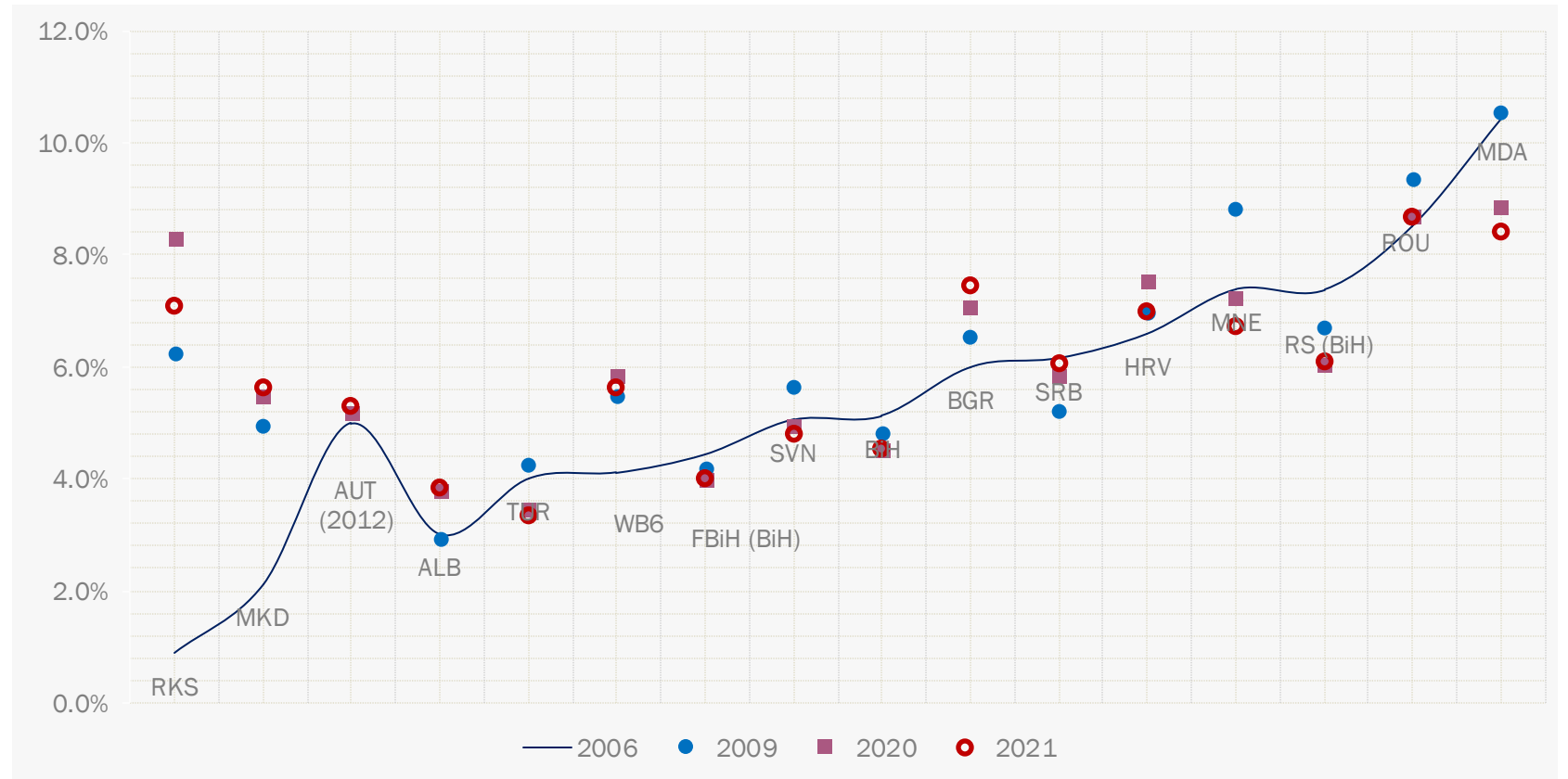


Local Government Revenue in SEE

Euro per capita, 2021

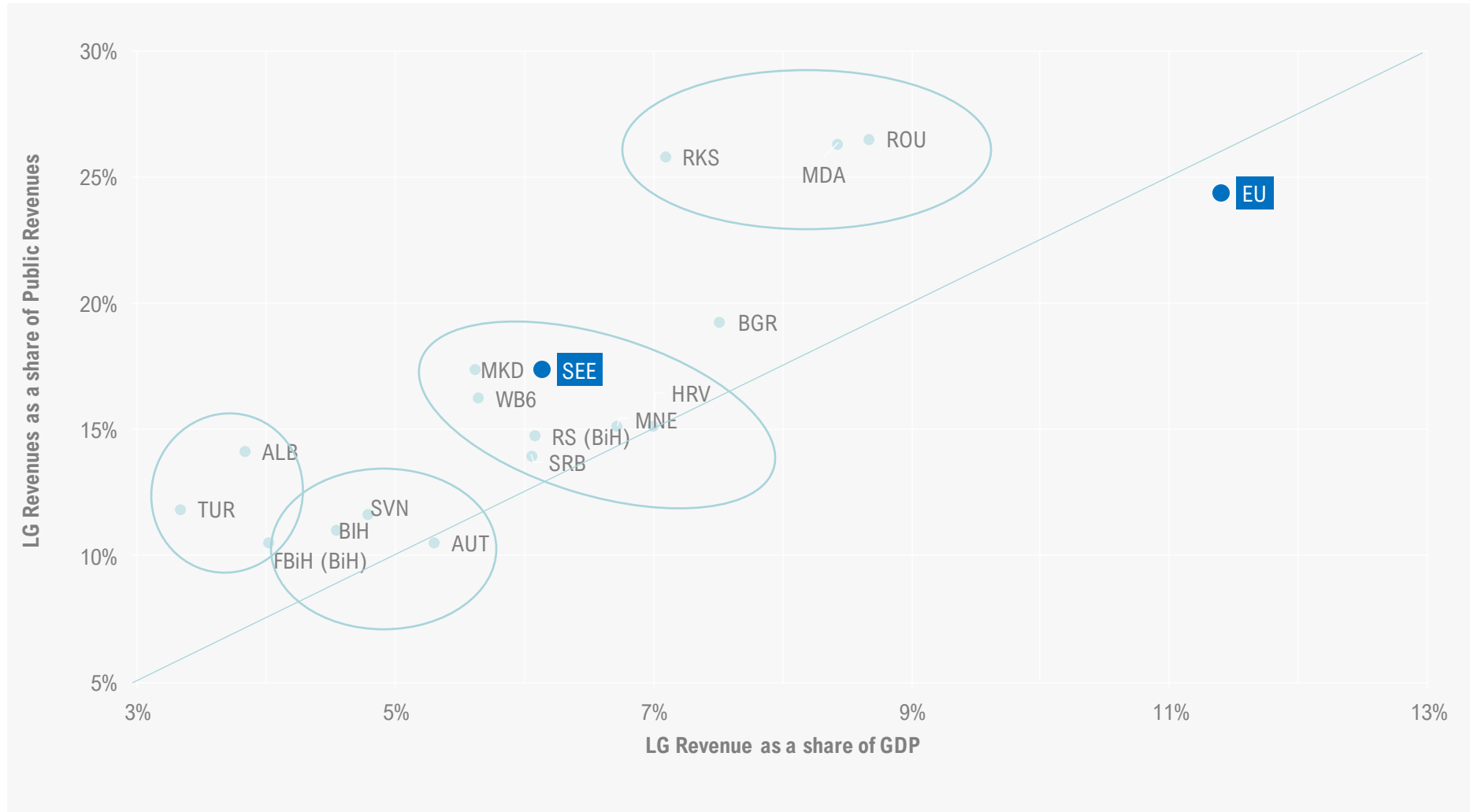


→ LG revenues have improved in half of SEE countries



Local Government Revenue in SEE Percent of GDP, select years

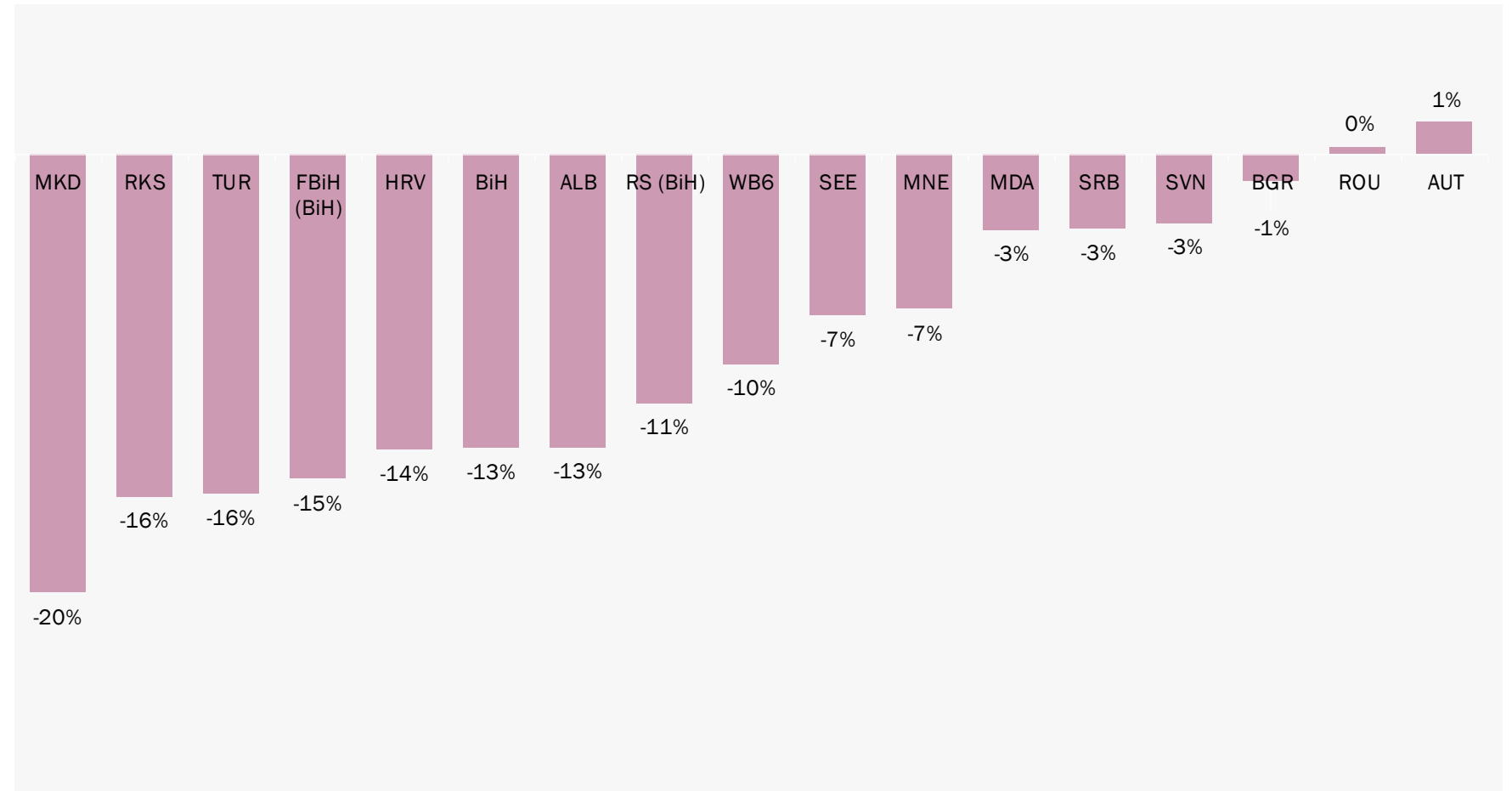
- LGs in Kosovo, Moldova and Romania receive 26-27% of all public revenues.
- LGs in Albania and Turkey have smallest shares to the GDP.



Local Government Revenue in SEE, Share of GDP & Public Revenue, 2021

→ COVID-19 brought major declines in the LG Own Revenues

→ It interrupted a five-year sequence growth in LG revenues of on average 5% per annum in SEE (excluding Türkiye) and 7% per annum in the WB6.

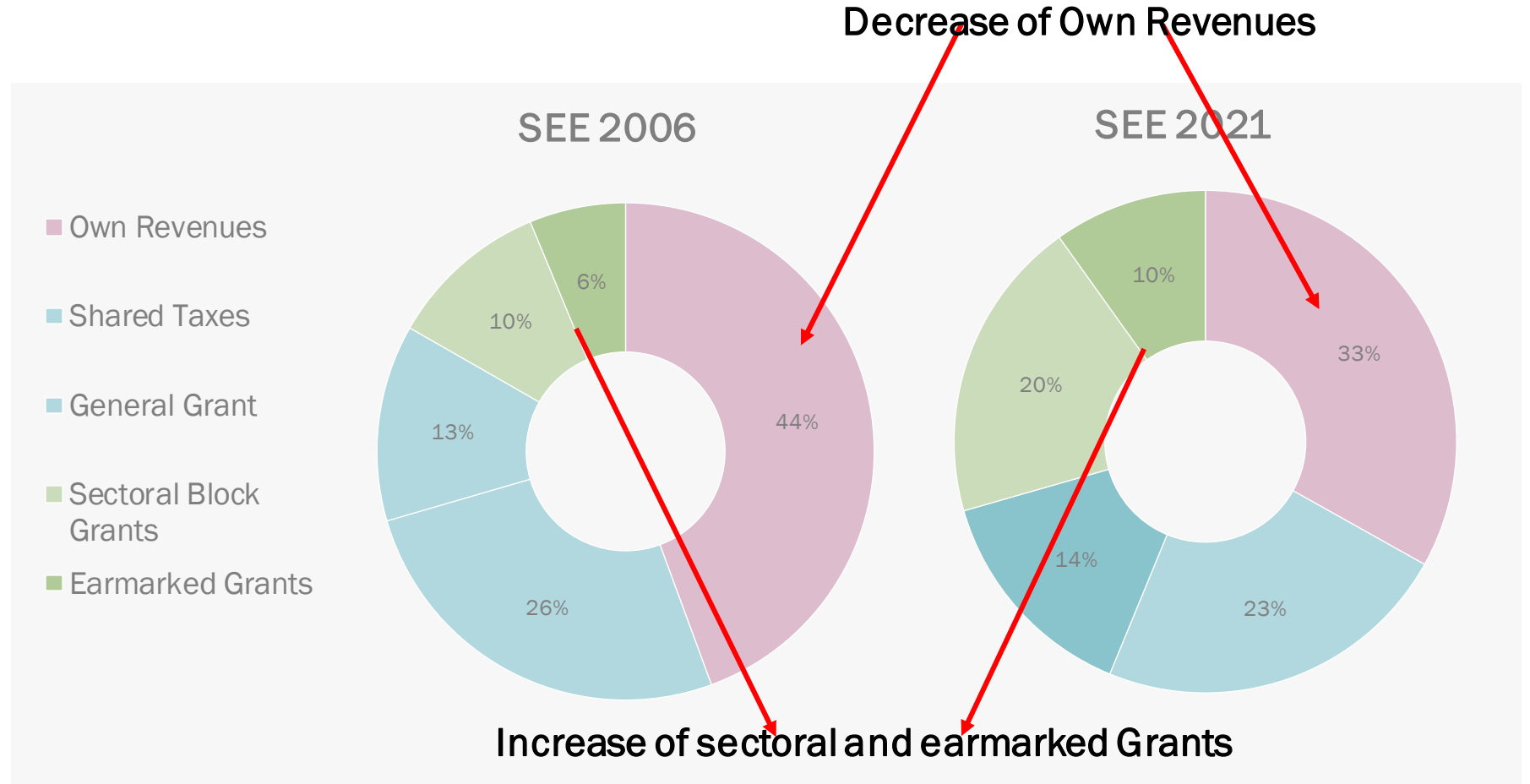


COVID: Annual Change in Own LG Revenues

In percent, annual change 2019-2020

→ Decrease of own revenues = increase of dependency

→ The share of sectoral and earmarked grants doubled



Composition of LG Revenue in SEE

Percent of total, 2006,2021

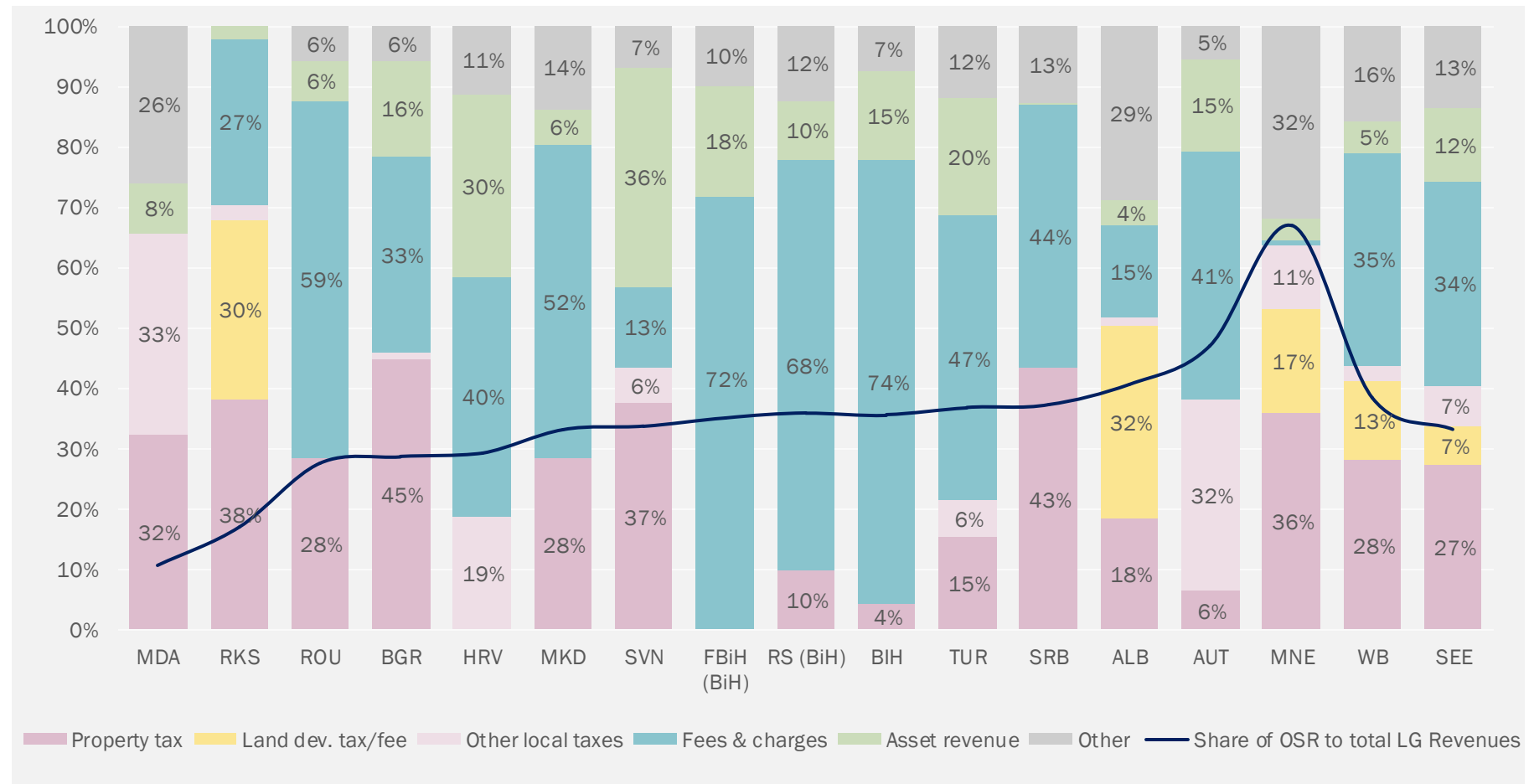


→ Limited LG tax powers

→ Property tax is lead local tax

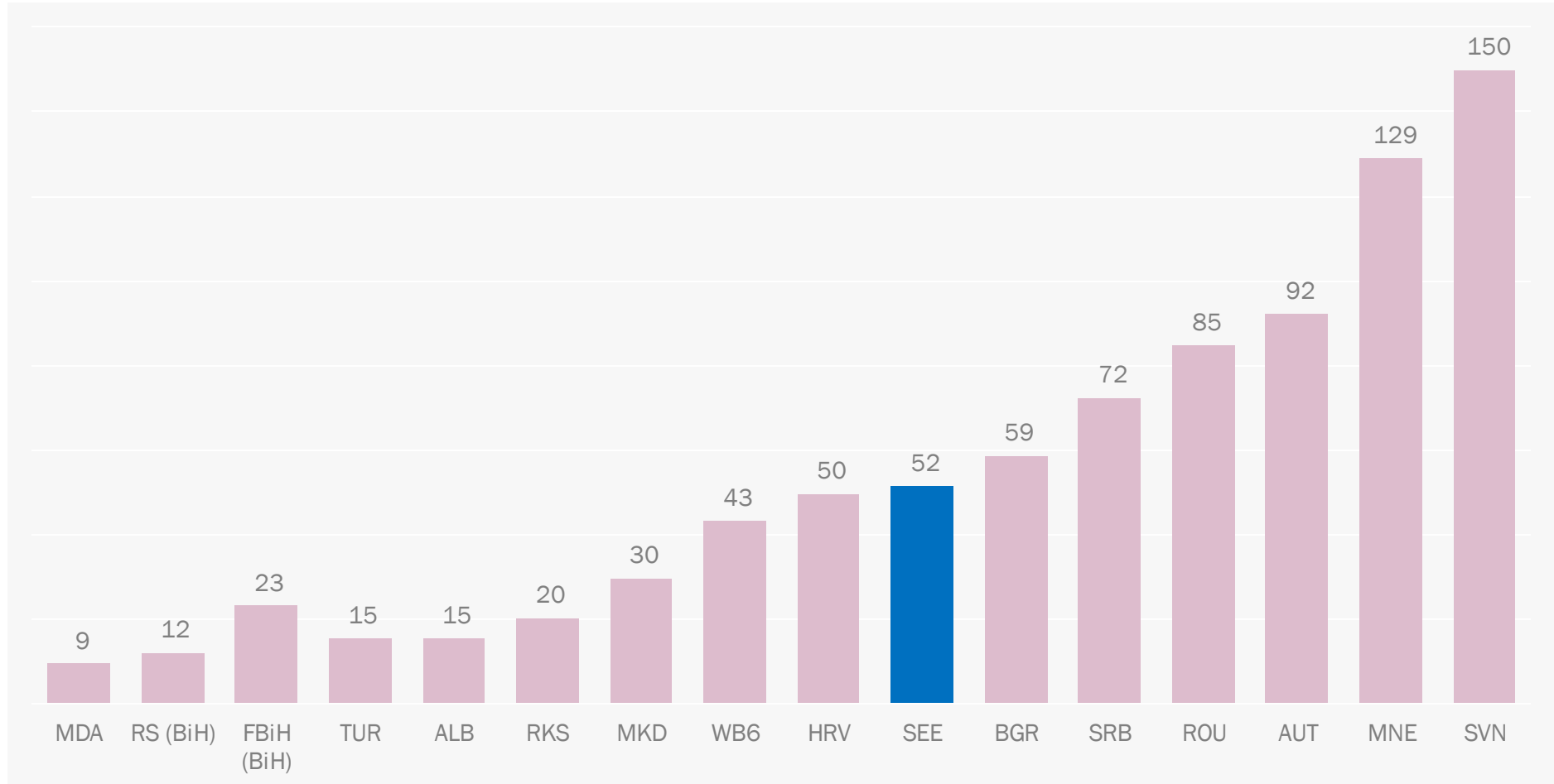
→ Other local taxes needed?

→ Importance of fees?



Composition of LG Own-Source Revenue Percent of total, 2021

→ Wide disparities in the property tax revenues



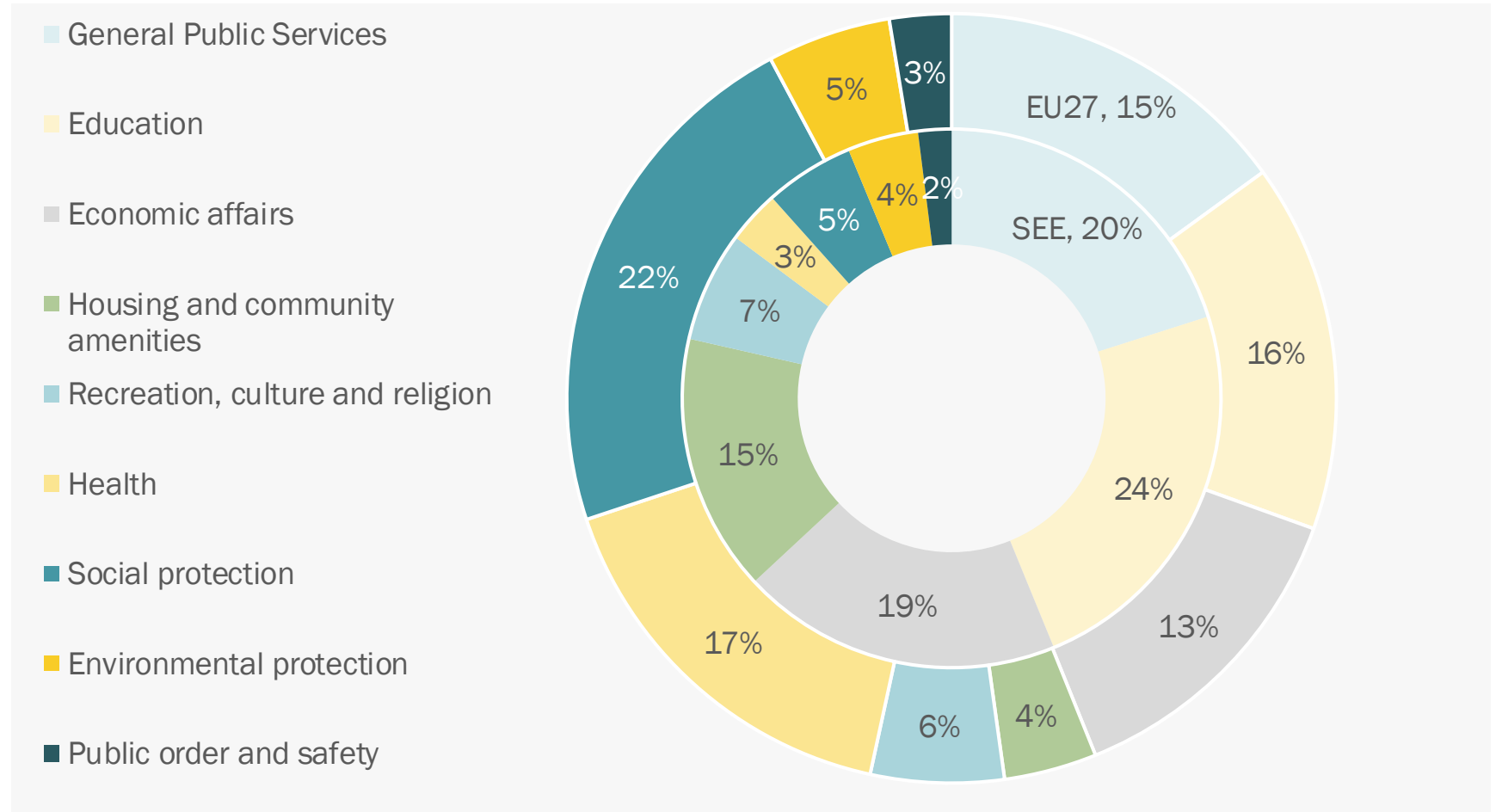
Property Tax Revenues

EUR per capita, 2021



➔ SEE LGs spend more on education (24%) than EU (16%)

➔ EU LGs spend 22 % of their budgets for social protection (5% in SEE)

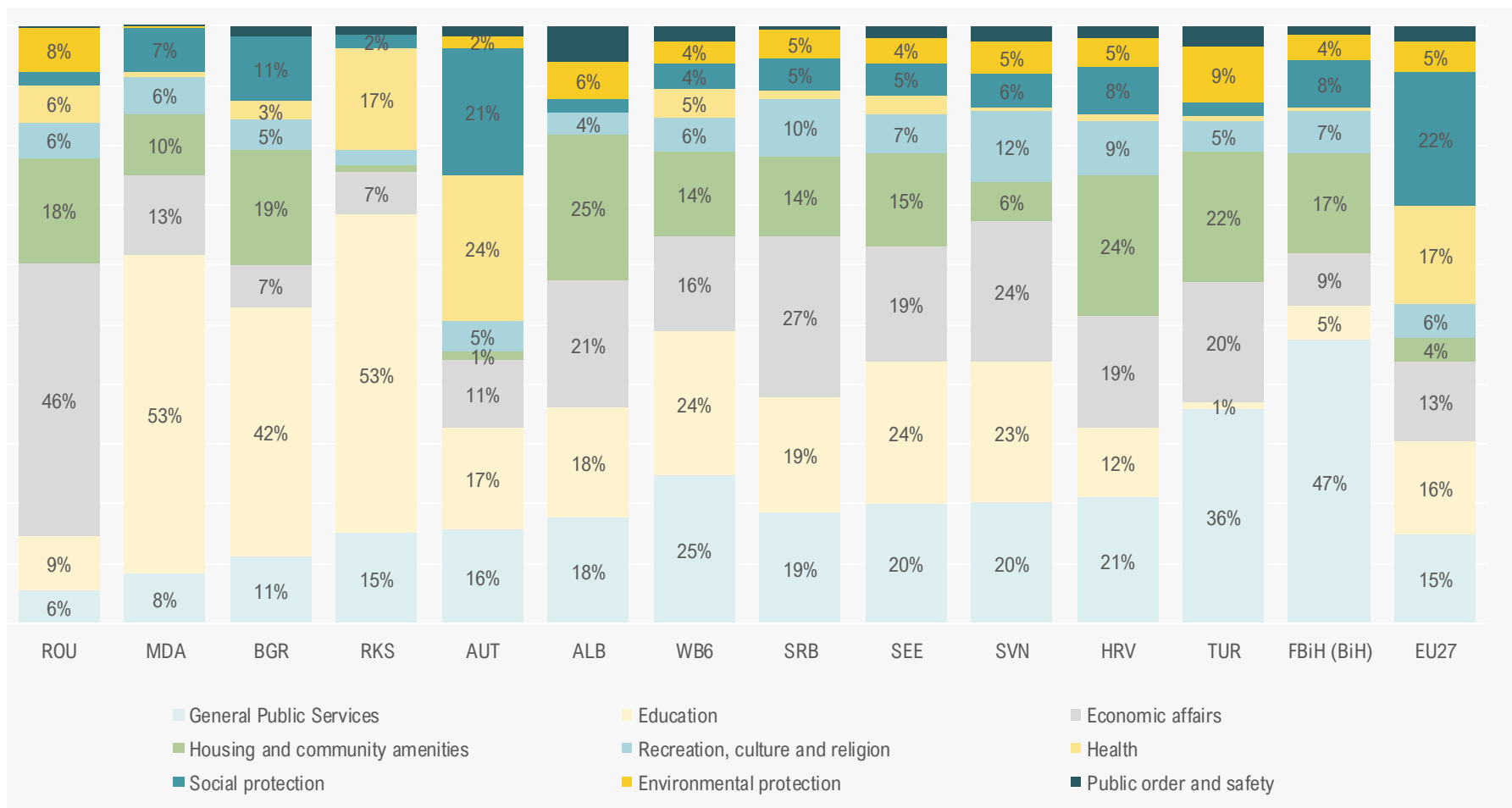


Local Government Expenditure In percent of total, functional classification 2021

→ High differences in education

→ Low shares in social protection (4% versus 22% in EU)

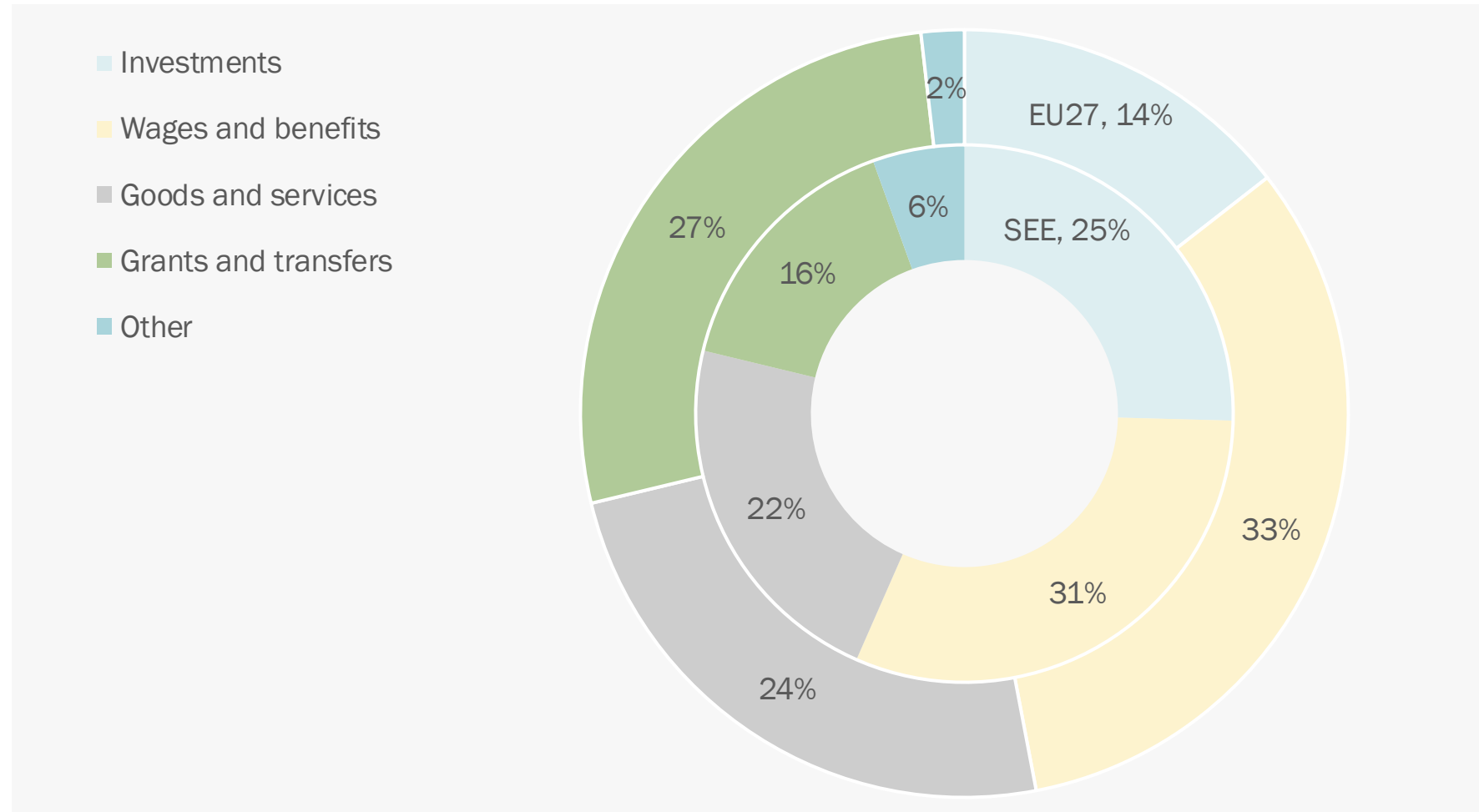
→ COFOG data often not available



Local Government Expenditure in SEE

In percent of total, functional classification. 2021

→ LGs in SEE spend more on capital investments and less on salaries than EU

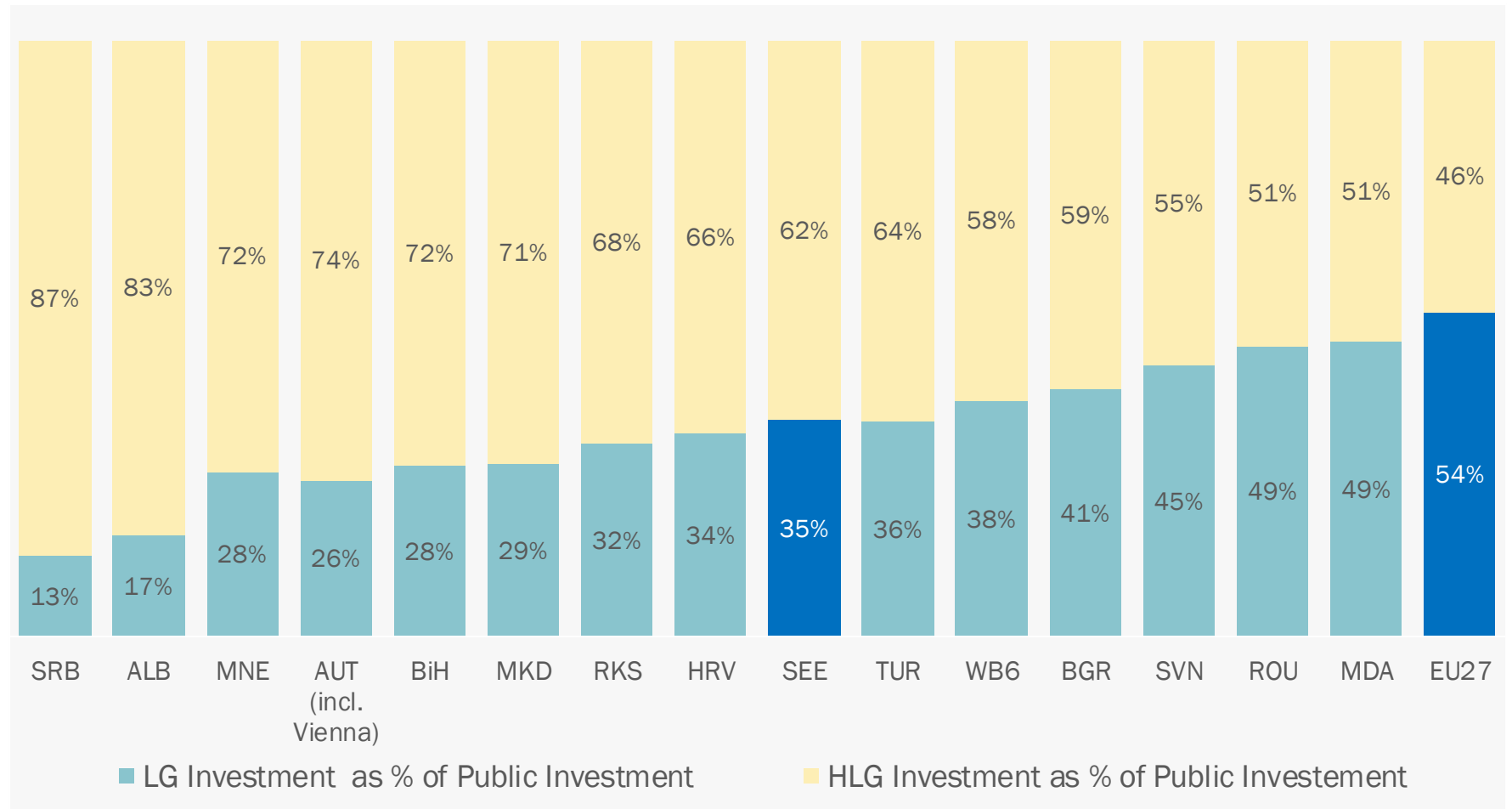


Local Government Expenditure In percent of total, economic classification 2021

→ 35% in SEE
versus 54% of
Public
Investment in EU

→ LG investments
make up to:

- 1.5% of the GDP
- 25% of local expenditure
- 35% of public expenditure



Composition of Public Investment in SEE In percent of total, 2021

Intergovernmental Transfers

Determination of **size** of general-purpose / unconditional(equalization) grants

- **Albania:** no less than 1% of GDP + no less than amount allocated the year before
- **Bulgaria:** 10% of Local OSRs collected in previous year at national level
- **North Macedonia:** 5.5% of VAT
- **Kosovo:** 10% of the central gov's budget
- **Romania:** 6% of shared PIT
- **Slovenia:** 30% of shared PIT
- **Montenegro:** Pool of national taxes (11% PIT, 20% Property Transfer Tax, 100% Vehicle Tax)
- **Bosnia and Herzegovina:** 8.42% of indirect taxes in FBiH and 24% in RS
- **Serbia:** Eq. Grant defined as residual after the allocation of PIT shares to LGs + **Gen. Grant** (as remainder)
- **Croatia:** Fiscal Eq. Fund and Eq. Fund for Decentralized Functions
- **Moldova:** balancing fund, financed by remainder of PIT revenues shared with LGs

Intergovernmental Transfers

The allocation criteria of general-purpose grants

Principles:

- **Equity:** is the allocation based on **objective allocation criteria** taking into account differences across municipalities?
- **Efficiency:** (as much as possible) **neutral to local political choices**. In some countries seems more neutral than in others.

Common criteria for **spending needs**:

- population (and its structure, in particular children, students, elderly)
- population density; surface area; no. of settlements;
- no. of classes in elementary and primary/secondary schools; no. of school buildings;
- length of municipal roads;
- ethnic minorities;
- development index;
- fixed percentage (lump sum)
- Specific rules for capital cities;

Common criteria for **fiscal capacity**:

- **own source revenues** collected compared to own plan or average (MKD, BGR)
- **shared tax revenue** allocations by jurisdictions compared to national averages serve as primary basis for horizontal equalization (MKD, HRV, SRB, ALB, etc.)

CONCLUSIONS

CHALLENGES



- Low Local Government Revenues in WB (5,6% versus 11,4% of GDP in EU)
- Decreasing Own Revenues: 44% 2006 to 33% 2021 of total Local Revenues
- Increase of sectoral and earmarked grants (from 16% 2006 to 30% 2021)
- Low investments from Local Level (35% in SEE versus 54% of Public Investment in EU)
- No social protection competences and expenditures
- High reliance on Property Tax

- Ensuring comparability – COFOG
- Overview of grants – conditional, unconditional, sectoral... in EU
- Experiences with Fees, Charges and other local taxes (in EU) Insights in equalisation systems of EU countries
- Insights in equalisation systems of EU countries
- CEMR Local Finances Report?
- Links to ComPact (European Administrative Space) and Technical Support Instrument
- LoGPACK



TO BE CONSIDERED – NEXT STEPS





NALAS Regional Decentralization Index



Thank you

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