

## POLICY BRIEF

### Local Governments of South East Europe Respond to Global Economic Crisis NALAS Recommendations

*(CONCLUSIONS from the panel discussion on "Fiscal Decentralisation in SEE in the context of Global Economic Crisis" held within the NALAS IV GENERAL ASSEMBLY MEETING, on 23-24 November 2008 in Tirana)*

NALAS members, executives of local government associations, distinguished experts in macroeconomics and Mayors from the South East Europe, discussed the possible consequences of the global economic crisis on the local governments in SEE. It was initially assessed that the spill-over effects of the global crisis are not yet strongly felt by most of the local governments in SEE. While the countries with more developed economies are already in recession (unemployment, foreclosures, corporate bankruptcies, falling prices are noted everywhere), other economies might also be dragged in through reduced Foreign Direct Investments, liquidation of local assets, weaker net exports, lower remittances, exchange rates, decline of property value, etc. Hardly any country can escape certain economic and social consequences.

Local governments in SEE should be prepared to cope with the risks but also profit from the opportunities that might come along. The central government will have to rely on local governments to bring policies rapidly to preserve the economy under the difficult conditions. Hence, central and local governments should intensify their dialogue and cooperation. Local governments are there to point out on the most needed capital investment projects which central governments might decide to finance as one of their measures of alleviating the consequences of the economic crisis.

The discussion led to recommendations given on the following pages.

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**The panel discussion was moderated by:**

*Ginka CHAVDAROVA and Gabor PETERI*

**The guest speakers included:**

*Paul Bernd SPAHN, Joze MENCINGER, Arben MALAJ, Mitar MATIJASEVIC and  
Mr Shrafedin SHEHU (Deputy Minister of Finance of Albania)*

**NALAS delegates who participated at the panel:**

*Tarzan MILOSEVIC, Mirko BRULC, Refik RRUGIJA, Artur KURTI, Naim ISMAILI, Uros BREZAN, Rami  
QERIMI, Zdravko KRSMANOVIC, Penka PENKOVA, Alexandru AMBROS, Andrei VACARCIUS, Dusan  
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## Message for central governments in SEE:

*In the new circumstances of global economic crisis, **NALAS urges the central governments in SEE to:***

1. **Intensify the dialogue with local governments through their associations.** The flow of information between central and local government about the overall direction of the economy and early warning indicators should be established and improved. This will in turn:
  - Allow local governments to plan more effectively and specify priorities more accurately,
  - Enable timely identification of emerging problems in specific territories or industries,
  - Ensure joint programming of any countercyclical spending. Namely, central governments should commit to increase public investments as a way to boost economic activity. In order to increase the effectiveness, any national anti-crisis programme must be found and underpinned by a bottom-up approach that takes into account and promotes the needs of the local economy as the primary way to reviving the national one.
2. **Support local government in utilising the available EU programs and funds,** both structural funds for EU member countries and IPA for the candidate countries. Additional funding should be made available to local governments for co-financing EU projects and for bridging any financial gaps during project implementation to maintain liquidity.
3. Become open for and encourage **new, innovative and even informal forms of dialogue in times of crisis.**
4. Finally, in cases where **old municipal debt** is still dragging the overall sector and the economy as a whole, this is the right moment to **help the local governments in clearing their books.**

## Message for Local Governments in SEE:

*In order to prevent and diminish the consequences of global economic crisis in their communities, **NALAS advises the Local Governments in SEE to:***

1. Have a cautious approach with the budget projections for 2009 and 2010 by:
  - using very conservative inflators for GDP growth and inflation rate;
  - making conservative estimations on tax incomes
  - reviewing debt agreements and calculate exposure to exchange rate fluctuations; where possible trying to reduce this exposure
  - making maximum use of grant funds
  - identifying possible budget risks

2. Monitor the large firms/employers (including public enterprises) that may be at risk of lay-offs or plant closures and engage in proactive measures to deal with any serious shifts on the local labour market
3. Prepare catalogue of investments projects that could be implemented rapidly in support of national government (Energy efficiency investments might be appropriate short term projects)
4. Avoid dismissals of staff if possible. Keep your qualified experts. There might also be new opportunities to recruit top qualified personnel who will be available in the labour market during the recession.
5. Connect with citizens and explain what you expect, what you are doing, and why you are doing it. Assure the citizens that in spite of the hard times, you do not plan to raise taxes, but you will, in the name of fairness and equity, be making sure that everybody pays what they are due.

### **Messages for Local Government Associations:**

*NALAS member Local Government Associations are committed to:*

1. Support Local Governments to be faster with procedures, decrease bureaucracy, creating a favorable climate for investors
2. Support Local Governments in reducing costs through better tendering, improve professional capacity, debt monitoring
3. Support Local Governments to increase efficiency of public municipal expenditure by introducing benchmarking system for Local Governments
4. Continue to exchange good practices on addressing the crisis

**Finally**, the participants at the discussion argued and reiterated that central governments in SEE should **proceed with a swift and truthful decentralization**, giving **adequate fiscal autonomy** to the local governments which will make them capable to improve revenue generation and provide better services to citizens.