



Les répercussions de la crise économique sur les collectivités locales en Europe

Qu'en est-il exactement et
que peut-on faire ?

Recueil de textes du Conseil de l'Europe
accompagné du commentaire de Kenneth Davey

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Sous la direction de Tom Bass

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Ce recueil de textes contient des versions actualisées des documents présentés et/ou adoptés à la 16e session de la Conférence du Conseil de l'Europe des ministres responsables des collectivités locales et régionales, qui s'est tenue à Utrecht les 16 et 17 novembre 2009. Il est basé sur les données définitives recueillies dans les États membres du Conseil de l'Europe pour l'année 2009.

Le présent rapport a été préparé dans le cadre d'un projet commun du Conseil de l'Europe et de l'Initiative de réforme des collectivités et des services publics locaux de l'Open Society Foundations.

Avant-propos

Ce document rassemble les textes¹ relatifs aux répercussions de la crise économique sur les collectivités locales en Europe, présentés ou adoptés à la 16e session de la Conférence du Conseil de l'Europe des ministres responsables des collectivités locales et régionales, qui s'est tenue à Utrecht (Pays-Bas) les 16 et 17 novembre 2009. Cette conférence était consacrée au thème général de « la bonne gouvernance locale et régionale en période difficile : le défi du changement. »

Les ministres ont estimé d'un commun accord qu'il incombe aux gouvernements de limiter, de contrer et de surmonter l'impact de la crise économique, d'autant plus qu'elle est susceptible d'avoir des effets destructeurs sur la cohésion sociale et qu'elle risque d'exacerber les tensions sociales. Toute action entreprise en réponse à la crise devra être pleinement conforme aux obligations contractées par les États membres en vertu de la Charte européenne de l'autonomie locale. Il est largement admis que la gouvernance et la gestion des dépenses publiques doivent être améliorées pour une plus grande efficacité du secteur public et pour une collaboration plus étroite entre toutes les parties prenantes – gouvernement central, collectivités locales et régionales et leurs associations.

La Déclaration d'Utrecht adoptée par les ministres comprend deux parties principales sur cette question, reproduites dans le présent recueil aux points I i) et ii) respectivement.

- i) Déclaration sur l'impact de la crise financière / économique sur les collectivités locales et régionales
- ii) Lignes directrices relatives à l'action des pouvoirs publics face à l'impact de la crise économique sur les collectivités locales

¹ Les textes ont été mis à jour pour refléter les données financières de 2009.

Le présent recueil contient également la version actualisée du rapport adopté par le Comité européen sur la démocratie locale et régionale (CDLR), qui a servi de document officiel pour la conférence ministérielle (MCL-16(2009)6a), et la version actualisée du rapport présenté par la LGI/OSI au Conseil de l'Europe (MCL-16(2009)Inf 1), dont le premier chapitre correspond au rapport précité.

En application de la Déclaration d'Utrecht, le travail dans ce domaine se poursuit dans le cadre de l'Agenda d'Utrecht. La conférence d'examen se tiendra les 11 et 12 octobre 2010 à Strasbourg.

Jean-Louis Laurens
*Directeur général de la
démocratie et des affaires politiques*

Rober Ebel
*Président du Conseil d'administration
de LGI*

Septembre 2010

Résumé

Quelles ont été les répercussions de la récession sur les budgets locaux ? Et, plus important, comment les collectivités locales européennes font-elles face à l'actuelle crise budgétaire ? Que peut-on faire, le cas échéant, pour atténuer l'impact de la crise sur les services publics que les collectivités locales assurent ?

Toutes ces questions sont examinées dans cette version actualisée d'un rapport soumis aux ministres responsables des collectivités locales et régionales lors de la 16e session de la Conférence du Conseil de l'Europe, qui s'est tenue à Utrecht en novembre 2009. Elles appellent un suivi continu et un examen en 2010.

La présente analyse a été préparée par une équipe réunie par la LGI (Initiative de l'Open Society Foundations pour la réforme des collectivités et des services publics locaux) et le Comité européen sur la démocratie locale et régionale (CDLR) du Conseil de l'Europe dans le cadre de leur collaboration existante.² Elle est fondée sur les données définitives pour 2009 et sur une étude des réponses politiques réalisée par des observateurs dans les pays membres.

La crise a débuté fin 2007 après l'effondrement des marchés de l'immobilier en surchauffe, ce qui a fragilisé le secteur bancaire. L'année 2008 a été essentiellement marquée par des faillites bancaires et par les plans de sauvetage mis en place par les autorités nationales. En 2009, la plupart des économies européennes avaient plongé dans la récession sous l'effet de ces phénomènes. Même si 2010 a montré les signes d'une timide reprise, les coûts des programmes de relance budgétaire, les plans de sauvetage et la baisse des recettes ont lourdement grevé les budgets nationaux, dont les déficits sont passés de 2,3 % du PIB en 2008 à 6,85 % en 2009.

² Les observateurs de 32 pays ont offert une assistance conséquente, en fournissant les données financières relatives aux performances des collectivités locales en 2009 et leurs commentaires sur la pertinence pour leurs pays des réponses politiques examinées ci-dessous.

Face à la baisse des recettes, au risque d'une diminution des aides de l'État et à la hausse du coût du service de la dette et des prestations d'aide sociale aux ménages victimes de la crise, les collectivités locales ont été inévitablement contraintes à des contractions budgétaires.

Ceci dit, l'étendue de ces contractions a énormément varié en fonction de différents facteurs, dont :

- l'ampleur du ralentissement économique national et le moment où il est intervenu ;
- les mesures politiques prises dans les pays en réponse à la crise ; de nombreux gouvernements ont compensé les pertes de recettes des collectivités locales, au moins temporairement, pour limiter les effets dévastateurs dans les domaines de l'emploi, du BTP et de la demande générale. D'autres ont été contraints, dans le cadre de leurs propres plans d'austérité, de réduire les transferts au profit des collectivités locales ;
- la fragilité de la base des recettes locales à l'égard du ralentissement économique dans la plupart des pays observés ; dans l'ensemble, les impôts fonciers se sont révélés les plus stables, alors que, comme on pouvait s'y attendre, les parts des impôts sur les bénéficiaires des sociétés et de la taxe sur la valeur ajoutée ont été les plus volatiles. Dans la majorité des pays, la part des impôts sur le revenu des personnes physiques, qui constituent la source de recettes la plus importante pour les collectivités locales, elle aussi, forcément reflété les réductions intervenues au niveau des emplois, des salaires ou du temps de travail ;
- les retards de paiement des impôts ou de leur transfert aux budgets locaux ;
- la mesure dans laquelle la hausse du coût des prestations d'aide sociale est prise en charge par les budgets locaux.

Compte tenu de l'inflation, nos données pour 2009 montrent que, dans 16 pays, les recettes des collectivités locales ont reculé en termes absolus (par rapport à 2008). Ailleurs, ces recettes progressent tout simplement beaucoup moins vite que par le passé.

Rien ne permet de prévoir dans quelle mesure et à quel rythme la situation va s'améliorer. Les craintes d'une récession à double creux s'estompent et, à ce jour, la crise de la dette souveraine n'a touché que la Grèce. Toutefois, l'expérience a montré que les effets les plus négatifs des précédentes récessions ne se sont répercutés sur les budgets locaux que deux à trois ans après la reprise générale de l'économie, au moment où les gouvernements nationaux tentent de rétablir leur situation budgétaire et diminuent leurs transferts vers les collectivités. Ces dernières peuvent craindre que ce scénario se reproduise en 2011 ou en 2012. De même, une hausse à long terme des dépenses due au fait du vieillissement de la population européenne et des mesures prises pour lutter contre le changement climatique est à redouter.

A ce jour, la structure des recettes et des dépenses locales n'a que peu, voire pas évolué, subissant simplement certains ajustements ad hoc temporaires. (La Roumanie, où le transfert des compétences vers les collectivités locales s'est accéléré, fait exception à cette tendance). Dans une perspective à plus long terme, la récente expérience remet en question la forte dépendance de certaines collectivités locales d'Europe du Sud-Est à l'égard de certaines taxes particulièrement volatiles, telles que la TVA. Dans certains pays, les autorités ont fixé des limites à l'augmentation des taxes locales, mais dans la plupart des cas, les restrictions imposées à l'autonomie financière ont été assouplies.

Les pays ont accordé une plus grande attention à la réduction des coûts, même s'ils ont procédé de manière plutôt aléatoire et à court terme. Les gels des rémunérations et même les réductions des rémunérations se sont multipliés. De nombreux postes vacants ont été gelés ; la Serbie a ordonné des compressions de personnel et la Hongrie n'a pas renouvelé le mandat d'un très grand nombre de conseillers élus.

L'efficacité n'a pas fait l'objet de contrôles plus systématiques, bien que le Label européen d'excellence en matière de gouvernance du Conseil de l'Europe le préconise. Cependant, la publication sur Internet de certaines dépenses des budgets locaux est de plus en plus fréquente dans certains pays en tant que gage de transparence et de responsabilité.

La crise a stimulé encore un peu plus le processus de regroupement de communes déjà engagé dans cinq pays. Par suite d'initiatives locales, la coopération s'est largement renforcée entre les collectivités locales dans les domaines de la prestation de services et du partage des ressources et procédures administratives.

Des réductions des services n'ont été que rarement signalées. Par contre, certaines institutions sous-utilisées, telles que des petites écoles primaires, ont été fermées. Dans certains pays, les économies ont subi les répercussions de normes de services irréalistes, imposées par les ministères de tutelle.

Les dépenses d'investissement sont généralement la première victime des restrictions budgétaires. Cette situation a été évitée dans les nouveaux États membres de l'Union européenne, dont le droit à bénéficier des fonds structurels a été renforcé ces deux dernières années. Dans les États membres de longue date, les collectivités locales ont en général bénéficié de programmes de « relance budgétaire » et de projets de financement « prêts pour le premier coup de pioche » – de types et de durée très limités – destinés à soutenir les secteurs de l'emploi et du BTP. Les gouvernements ont considérablement assoupli les restrictions appliquées aux prêts de trésorerie ou d'investissement.

La hausse des coûts d'assistance sociale, liée à la mauvaise situation économique et aux changements démographiques exige de mieux cibler le versement des prestations sociales aux plus nécessiteux. Cette évolution, qui a déjà été prise en compte dans certains États ou villes, mais pas encore à grande échelle, doit impérativement faire l'objet d'une plus grande attention, car les taux de dépendance augmentent.

La crise budgétaire, soudaine et grave, a été un choc, car elle a interrompu une longue période de croissance continue des ressources budgétaires locales. Elle remet en question la capacité présumée de l'État, au niveau central et local, à garantir une amélioration illimitée de la gamme et du niveau des services publics. Maintenir la dynamique antérieure nécessitera sûrement d'augmenter la taxation ou de renforcer la coopération avec la société civile, en particulier dans le secteur social.

I.
Extraits de
la Déclaration d'Utrecht
adoptée par
la conférence ministérielle

i) Déclaration sur l'impact de la crise financière / économique sur les collectivités locales et régionales

Nous, Ministres européens responsables des collectivités locales et régionales, réunis à Utrecht les 16 et 17 novembre 2009 pour la 16e session de notre Conférence,

Préoccupés par la crise économique mondiale, dont l'onde de choc se propage dans tous les États membres, entraînant des répercussions à tous les niveaux et dans tous les secteurs ;

Ayant étudié l'impact de la crise économique sur les collectivités locales dans nos États membres en nous fondant sur nos expériences individuelles et sur le rapport élaboré par le Comité européen sur la démocratie locale et régionale en coopération avec l'Initiative de réforme des collectivités et des services publics locaux de l'Open Society Foundations ;

Considérant

1. que la crise économique a déjà un impact mesurable sur les collectivités locales de nos États membres, avec une contraction budgétaire due à la réduction des recettes et à l'augmentation des dépenses ;
2. que l'ampleur et la chronologie de cet impact ont jusqu'à présent été très variables tant à l'intérieur d'un même pays que d'un pays à l'autre ;
3. que ces différences ont des causes diverses, notamment le degré de dégradation de l'économie, la diversité des situations nationales et des réponses apportées par les gouvernements, la nature des recettes des collectivités locales et leur vulnérabilité au changement économique ainsi que les délais d'adaptation des systèmes fiscaux ;
4. que malheureusement, malgré des signes de reprise dans certains secteurs, la contraction des budgets des collectivités locales risque dans bien des cas de s'accroître encore avant que l'on n'observe une amélioration, du fait que les effets amortisseurs vont s'estomper et que le coût pour les populations qui sera à la charge des collectivités locales n'apparaîtra dans toute son étendue que dans les mois et les années à venir ; de plus, les augmentations des dépenses sociales résultant de la récession seront accentuées dans le long terme par le vieillissement des populations européennes ;

Convenons

5. que nous, ministres européens responsables des collectivités locales et régionales, devons assumer la responsabilité, dans nos domaines de compétence, de limiter, de contrer et de surmonter l'impact de la crise économique surtout si l'on considère ses effets destructeurs potentiels sur la cohésion sociale et le risque d'extrémismes qui peuvent résulter de l'exacerbation des tensions sociales ;

Affirmons

6. que la pression qui s'exerce sur les ressources disponibles à tous les niveaux souligne encore davantage l'importance de notre objectif commun de bonne gouvernance locale et régionale ;
7. qu'à cette fin, les pouvoirs locaux et les gouvernements centraux ont chacun leur rôle à jouer pour faire face à la crise économique, en partager le fardeau et en venir à bout ;
8. que les gouvernements centraux ont clairement la responsabilité de garantir des ressources aux collectivités locales, tout en soulignant que tous les niveaux de gouvernement ont le devoir de maximiser leur efficacité ;
9. qu'en raison de leur connaissance des populations et des entreprises aux niveaux local et régional, les pouvoirs locaux et régionaux peuvent être des partenaires extrêmement puissants dans l'action visant à satisfaire les besoins des citoyens et à favoriser l'action des entreprises pour surmonter la dégradation de l'économie ;
10. que les moyens à déployer différeront au cours du temps et selon les lieux, mais qu'il sera dans tous les cas nécessaire d'établir une collaboration efficace et efficiente entre toutes les parties prenantes – gouvernement central, pouvoirs locaux et régionaux et leurs associations – afin de transformer la menace de la crise économique en une chance à saisir pour apporter des améliorations ;
11. que l'échange et la mise en commun d'informations et d'expériences aux niveaux local, régional, national et international, ainsi que le recensement des bonnes pratiques qui peut être effectué dans ce cadre, seront essentiels pour réussir dans les meilleurs délais ;
12. que toute action entreprise devra être pleinement conforme aux obligations contractées par les États membres en vertu de la Charte européenne de l'autonomie locale ;

Nous engageons

Concernant nos situations internes respectives :

13. à assurer une collaboration efficiente et efficace entre toutes les parties prenantes – gouvernement central, pouvoirs locaux et régionaux et leurs associations ;
14. à nous inspirer des lignes directrices relatives à l'action des pouvoirs publics face à l'impact de la crise économique sur les collectivités locales, annexées à la présente déclaration, dans nos interventions pour contrer, atténuer et surmonter cet impact ;

Concernant notre coopération :

15. à tirer le meilleur parti de notre appartenance au Conseil de l'Europe pour échanger et mettre en commun des informations et des expériences et pour recenser les bonnes pratiques ;
16. à contribuer à la collecte permanente de données sur les finances et les politiques et à assurer une participation adéquate à une conférence d'examen qui sera organisée au second semestre 2010 ;
17. à tirer parti et à contribuer au développement de la capacité du Conseil de l'Europe à organiser des évaluations par les pairs, à apporter une assistance en matière de législations et de politiques et à proposer des programmes de renforcement des capacités ;
18. à œuvrer ensemble à la mise en œuvre de l'Agenda d'Utrecht figurant ci-après ;
19. à réexaminer lors de notre 17^e session la situation globale concernant l'impact de la crise économique sur les collectivités locales et les réponses apportées ;

Invitons

20. le Congrès et l'Assemblée parlementaire à participer aux activités susmentionnées.

Compte tenu de l'ampleur de l'impact que la crise économique a sur le tissu social et l'organisation de la société de nos États membres et donc sur les droits de l'homme, la démocratie et l'État de droit,

Recommandons en outre

21. au Conseil de l'Europe dans son ensemble et au Comité des Ministres en particulier d'accorder une attention particulière à la qualité de la gouvernance (bonne gouvernance démocratique) et de faire de cette question une dimension transversale guidant toutes les activités intergouvernementales.

ii) Lignes directrices relatives à l'action des pouvoirs publics face à l'impact de la crise économique sur les collectivités locales

I. Généralités

1. Toute action entreprise par le gouvernement central face à l'impact de la crise économique sur les collectivités locales doit être pleinement conforme à ses obligations au titre de la Charte européenne de l'autonomie locale (STCE 122), qui reconnaît que les questions relatives aux ressources financières des collectivités locales doivent être réglées dans le cadre de la politique économique nationale de la Partie.
2. Les deux recommandations du Comité des Ministres aux États membres dans le domaine des finances locales, la Rec(2004)1 sur la gestion financière et budgétaire aux niveaux local et régional et la Rec(2005)1 relative aux ressources financières des collectivités locales et régionales, offrent un ensemble de lignes directrices pertinentes et cohérentes, dont la majeure partie est encore plus utile dans le contexte de la crise économique, en vue d'assurer un système solide de finances locales.
3. La crise économique a engendré une large reconnaissance de la nécessité d'apporter des améliorations radicales à la gouvernance et à la gestion des dépenses publiques. Les moyens à déployer différeront au cours du temps et selon les lieux, mais il sera dans tous les cas nécessaire d'accroître l'efficacité de tout le secteur public et dès lors d'établir une meilleure collaboration entre toutes les parties prenantes – gouvernement central, pouvoirs locaux et régionaux et leurs associations. L'objectif devrait être d'éviter les doublons et de réduire les coûts liés à une coordination, une intégration et une souplesse insuffisantes dans la fourniture de services publics, non seulement pour satisfaire aux exigences de la situation budgétaire actuelle, mais aussi afin d'être en mesure de mieux affronter les changements sociaux et économiques à plus long terme.
4. L'échange et la mise en commun d'informations et d'expériences aux niveaux local, régional, national et international, ainsi que le recensement des bonnes pratiques qui peut être réalisé dans ce cadre, seront essentiels pour atteindre ce but dans les meilleurs délais.

II. Réponses politiques possibles identifiées à ce jour

Lors de l'enquête menée auprès des États membres en préparation de la 16^e session de la Conférence du Conseil de l'Europe des ministres responsables des collectivités locales et régionales, cinq réponses politiques principales possibles ont été identifiées ; elles sont présentées ci-après. Il doit être souligné que la faisabilité et l'opportunité de ces réponses varient d'un pays à l'autre ; dès lors, il est préférable de voir en elles un choix d'options politiques plutôt qu'une série de mesures à prendre.

Les cinq options principales identifiées sont les suivantes :

1. Réformer les relations financières entre les différents échelons de l'État
2. Renforcer la responsabilité et l'efficacité
3. Mieux cibler le versement des prestations sociales
4. Redessiner de façon novatrice les services publics
5. Renforcer la flexibilité et la marge de manœuvre au niveau local

Réformer les relations financières entre les différents échelons de l'État

Il est peu probable que des changements radicaux interviennent dans la répartition des responsabilités et des ressources entre les divers niveaux de gouvernement car dans la plupart des pays étudiés, les budgets nationaux ont davantage souffert que ceux des collectivités locales. Par ailleurs, les collectivités locales doivent préserver et développer de façon novatrice leurs compétences pour relever les défis économiques et sociaux.

Bases des recettes locales

Les gouvernements et les associations des collectivités locales peuvent envisager de modifier les bases de recettes locales qui reposent pour l'essentiel sur des parts de taxes hautement volatiles, telles que l'impôt sur les bénéfices des entreprises ou la taxe sur la valeur ajoutée, car elles sont mal adaptées à la couverture d'un fort pourcentage d'engagements fixes récurrents, tels que les traitements des fonctionnaires et le maintien des services.

Le revenu des personnes physiques est la seule base fiscale qui soit à la fois techniquement susceptible de modification par décision des autorités locales et capable de financer une part importante des dépenses afférentes à des services importants tels l'éducation, les services sociaux et la santé publique. En réformant les bases des recettes locales, les gouvernements peuvent souhaiter continuer à élargir le partage ou la sur-

taxation de l'impôt sur le revenu des personnes physiques (IRPP), une tendance récente dans toute l'Europe. Cet élargissement devrait se poursuivre si l'on entend accomplir des avancées majeures dans l'autonomie fiscale, mais devra être accompagnée d'un système approprié pour compenser les différences de base fiscale et éviter des taux d'imposition excessivement élevés de façon à minimiser tout effet néfaste sur l'offre de travail dans un monde de plus en plus globalisé.

Fixation discrétionnaire des taux des redevances et impôts locaux

Quelle que soit l'opportunité à brève échéance de cette modération, la période à plus long terme de la reprise nécessitera probablement de relever les redevances et impôts locaux, et les obligations de la Charte de l'autonomie locale en la matière devraient être respectées. La marge de manœuvre des collectivités locales pour fixer le taux des redevances et impôts locaux devrait être renforcée dans les pays où elle reste soumise à de fortes restrictions. Il en va ainsi notamment de la fiscalité de la propriété foncière. En Europe, l'expérience a montré que les augmentations prudentes, mais régulières des taux d'imposition, alignées sur le taux général de l'inflation, sinon légèrement supérieures, sont une condition nécessaire pour préserver la pertinence de cette imposition.

Contrôle de la pression fiscale

Les précédentes récessions ont montré que la pression pour relever les taxes et redevances augmentait à mesure que la reprise économique s'installait. Deux facteurs, toutefois, plaident en faveur d'une certaine retenue. Pour certains types d'impôts – en particulier pour l'impôt sur le revenu des personnes physiques (IRPP) – des taux d'imposition élevés peuvent avoir des effets à long terme sur l'offre de travail. Le second est qu'un certain nombre de lois et mesures nationales imposent des restrictions pour empêcher que l'imposition locale opère une discrimination entre les contribuables, particuliers et entreprises.

Indicateurs de référence pour évaluer les actions en matière de finances locales

Il conviendrait de prêter attention à la série d'indicateurs de référence élaborée par le Centre d'expertise sur la réforme de l'administration locale du Conseil de l'Europe et la LGI/OSI pour évaluer les relations financières entre les différents échelons de l'État et la qualité de la gestion financière des collectivités locales. Un large usage est déjà fait des indicateurs concernant la gestion financière ; ces indicateurs ainsi que d'autres qu'il appartiendrait aux États de développer – pourraient se révéler très utiles pour les

gouvernements cherchant à comprendre quelles sont leurs forces et leurs faiblesses et à réformer les relations financières entre les différents échelons de l'État pour répondre à la crise et au-delà.

Renforcer la responsabilité et l'efficacité

Maîtrise des coûts

La plupart des efforts entrepris cette année ont porté sur des coupes dans les frais généraux. Bien qu'elles puissent être parfaitement justifiées, il ne s'agit là que d'un des domaines où des économies à des fins d'efficacité peuvent être réalisées. En outre, certaines de ces économies pourraient n'être que des gels temporaires sans conséquences sur l'efficacité à plus long terme. Les gouvernements et les collectivités locales devraient procéder à un examen plus fondamental de la manière dont les services sont gérés dans la pratique et repenser la fourniture de services, en ayant recours, lorsque c'est approprié, à des partenaires des secteurs tant public que privé. A cette fin, les techniques d'étalonnage et d'évaluation du rapport qualité-prix, développées dans certains pays mais également par le Conseil de l'Europe et l'Open Society Institute pourraient servir. Les informations budgétaires devraient être facilement compréhensibles et soumises au contrôle de l'opinion publique.

Les efforts d'amélioration de l'efficacité peuvent être associés à la mise en œuvre de l'ambitieuse Stratégie pour l'innovation et la bonne gouvernance au niveau local, lancée par le Conseil de l'Europe. Les municipalités devraient être encouragées à concourir pour le label européen d'excellence en matière de gouvernance (ELOGE), décerné à celles qui atteignent un certain niveau de qualité dans leur gouvernance globale.³

Audit des performances

Les gouvernements nationaux et les collectivités locales devraient s'efforcer d'employer et de former un personnel suffisant pour appliquer l'audit des performances, tant interne qu'externe, à toutes les collectivités locales et à leurs administrations prestataires, et inciter le public à s'intéresser à leurs conclusions.

³ Le label est basé notamment sur un outil d'étalonnage/évaluation adapté aux besoins des collectivités locales et sera lancé après un test grandeur nature qui a débuté fin 2009.

Suppression des incitations à des prestations de services coûteuses

Les gouvernements nationaux et les collectivités locales devraient réformer les dispositions administratives et financières incitant à fournir des services, de santé ou sociaux, inutilement coûteux. Les normes de financement, par exemple, devraient être basées sur le nombre de personnes âgées plutôt que sur celui des personnes prises en charge en établissement.

Révision des normes de prestation non viables à long terme

Les gouvernements nationaux (et notamment les ministères de tutelle) ne devraient pas réglementer les responsabilités déléguées aux collectivités locales d'une manière qui fasse obstacle aux initiatives locales visant à améliorer l'efficacité des services. Ces réglementations s'appliquent généralement aux services les plus coûteux, tels que l'éducation et les soins de santé, fixant les types et niveaux d'intervention plutôt que les résultats à atteindre. Les signataires de la Charte européenne devraient veiller à ce que les ministères nationaux n'assurent pas une micro-gestion des services confiés aux collectivités locales, qu'il s'agisse ou non de délégations techniques.

Délégation de la gestion institutionnelle

De même, les collectivités locales devraient, dans toute la mesure du possible, déléguer les budgets et leur gestion à leurs administrations prestataires, afin d'inciter leurs responsables à optimiser l'emploi de leurs ressources. Ce faisant, elles devraient prendre pleinement en compte les facteurs exogènes de variation des coûts, tels que la densité démographique et le contexte social, lors des allocations budgétaires entre les administrations. Les audits et autres obligations relatives aux comptes à rendre devraient également correspondre au degré de délégation financière. Les capacités de pilotage politique et la responsabilité politique des organes des collectivités locales devraient être maintenues.

Redécoupage et coopération territoriales

Les gouvernements nationaux et les collectivités locales pourraient envisager des redécoupages territoriaux susceptibles de réduire les frais généraux, d'augmenter les économies d'échelle, notamment dans les systèmes d'administration locale très fragmentés, et d'ouvrir la voie à un remodelage de la fourniture de services publics, en réduisant les coûts et en améliorant leur qualité. De tels redécoupages pourraient comprendre les types de regroupements récemment entrepris au Danemark, en Lettonie ainsi qu'en Turquie et actuellement en cours en Finlande ou bien le type de réaménagement mis

en œuvre cette année dans certaines zones géographiques du Royaume-Uni. Des économies accompagnées d'une amélioration de la qualité pourraient être réalisées, comme c'est le cas en Autriche, en France et en Hongrie, en encourageant, y compris par des incitations appropriées, une meilleure coopération entre les collectivités locales, tant dans le fonctionnement des services que dans les tâches administratives.

Mieux cibler le versement des prestations sociales

Les gouvernements pourraient pratiquer l'assujettissement des prestations sociales à des conditions de ressources, afin de garantir que ces fonds permettent bien de maintenir ou d'augmenter l'aide apportée à ceux qui sont en situation réelle de pauvreté. Les gouvernements nationaux et les collectivités locales devraient réviser leurs procédures liées aux prestations sociales pour s'assurer qu'aucun obstacle juridique ou bureaucratique n'en entrave l'accès aux personnes dans le dénuement.

Redessiner de façon novatrice les services publics

Compte tenu des effets immédiats de la crise fiscale et à plus long terme du vieillissement de la population européenne, les gouvernements devraient envisager de redessiner les services publics locaux afin de renforcer les partenariats entre les secteurs public et privé (à but lucratif et sans but lucratif), y compris avec les organisations non gouvernementales et de proposer un soutien plus pratique aux familles et aux proches qui s'occupent de personnes âgées et infirmes. Cette façon novatrice de redessiner les services pourrait faire partie du redécoupage territorial ou d'un programme de coopération intercommunale.

Renforcer la flexibilité et la marge de manœuvre au niveau local

La récession a montré combien la situation des finances locales était fonction des politiques nationales. Il ne faudrait pas amplifier le phénomène par un réflexe délibéré ou instinctif de recentralisation du pouvoir. Les gains en efficacité et la modernisation des services publics évoqués ci-dessus passeront par plus – et non pas par moins – de souplesse et plus de pouvoir discrétionnaire à l'échelon local. Il sera important que les gouvernements créent les conditions pour que cette souplesse et ce pouvoir discrétionnaire s'expriment, y compris en supprimant les obstacles administratifs et juridiques et en s'assurant que les tâches incombant légalement aux collectivités locales demeurent proportionnelles aux ressources disponibles.

II.

Rapports présentés
sur l'impact de
la crise économique

i) L'impact de la crise économique sur les collectivités locales en Europe : Quelles sont les réponses politiques des gouvernements⁴

1. Vue d'ensemble

1.1. Introduction

Entre les faillites bancaires et les dettes publiques galopantes, les budgets locaux n'ont pas fait les gros titres. Mais, quelles ont été les répercussions de la récession sur ces budgets ? Et, plus important, comment les collectivités locales d'Europe font-elles face à l'actuelle crise budgétaire ? Que peut-on faire, le cas échéant, pour atténuer l'impact de la crise sur les services publics que les collectivités locales assurent ?

Telles sont les questions que les ministres responsables des collectivités locales et régionales ont posées lors de leur 16^e Conférence du Conseil de l'Europe à Utrecht, en novembre 2009. A cette occasion, ils ont examiné une version précédente de la présente analyse, préparée par une équipe réunie par la LGI (Initiative de l'Open Society Foundations pour la réforme des collectivités et des services publics locaux) et le Comité européen sur la démocratie locale et régionale (CDLR) du Conseil de l'Europe, dans le cadre de leur collaboration.⁵

Dans la Déclaration d'Utrecht, les ministres ont désigné l'impact de la crise financière comme la question sur laquelle ils doivent se pencher en toute priorité au sein du

⁴ Le chapitre II.i. « vue d'ensemble » a été adopté par le Comité européen sur la démocratie locale et régionale (CDLR) et présenté lors de la Conférence du Conseil de l'Europe des Ministres responsables des collectivités locales et régionales. Le chapitre entier correspond au premier chapitre du document MCL16(2009)Inf 1. Les autres chapitres de MCL16(2009)Inf 1 se trouvent à partir de la page 39. Le rapport entier a été mis à jour en août 2010 avec de nouveaux chiffres et un nouvel examen de la situation jusqu'à fin 2009.

⁵ L'équipe a été considérablement assistée par des observateurs dans 32 pays qui ont fourni des données sur les performances financières de collectivités locales en 2009 et qui ont commenté la pertinence pour leurs pays des options politiques discutées ci-après.

Conseil de l'Europe. Ils se sont prononcés en faveur d'un suivi continu et, en réponse à un questionnaire transmis par la suite, les membres du CDLR ont mis tout particulièrement l'accent sur la nécessité de comparer les réponses pratiques des différents États et collectivités locales.

Cette analyse a été préparée par l'équipe LGI/CDLR à partir des données définitives pour 2009 et d'une analyse des réponses politiques, réalisée par des observateurs dans les pays membres.

1.2. Les effets

1.2.1. La crise

D'après les données de l'OCDE, le PIB de la zone euro a enregistré un recul de 4,1 % en 2009 et le taux de chômage a atteint 10 %.

Tout a commencé avec l'effondrement des marchés de l'immobilier en surchauffe, d'abord aux États-Unis fin 2007, puis au Royaume-Uni et dans d'autres États membres de l'UE, ce qui a fragilisé les banques qui avaient été trop généreuses dans l'attribution de prêts immobiliers ; là aussi, le phénomène s'est d'abord déclaré aux États-Unis, avant de gagner très rapidement les banques européennes qui avaient investi sur les marchés des prêts immobiliers à risque (les sub-prime). L'année 2008 a été marquée par des faillites bancaires et par les mesures de sauvetage des autorités nationales. Les banques qui n'ont pas fait faillite ont été appelées à redoubler de prudence, ce qui les a conduites à réduire, voire à refuser, le soutien qu'elles accordaient précédemment aux entreprises sous forme de prêts pour les fonds de roulement, de lettres de crédit ou de prêts d'investissement.

La crise bancaire a frappé directement les collectivités locales de différentes façons :

- par un manque à gagner sur les dividendes versés par les banques détenues partiellement par des collectivités locales, comme Dexia et Austrian Kommunalkredit. Les communes flamandes ont ainsi perdu 52,7 millions d'euros ;
- par une perte de réserves et la dépréciation des fonds de pension (14 communes néerlandaises ont perdu 85 millions d'euros et la défaillance des banques islandaises a coûté plus d'un milliard d'euros aux collectivités locales britanniques) ;
- par la difficulté à obtenir ou à renouveler des prêts d'investissement (notamment auprès des bailleurs de fonds étrangers jusque-là actifs dans le pays, à l'image des banques scandinaves dans les États baltes ou des banques autrichiennes en Europe centrale et orientale) ;
- par un accroissement du coût du service de la dette libellée en euros dans les pays où la monnaie nationale s'est dépréciée.

L'effondrement des marchés de l'immobilier a eu des effets dévastateurs sur le secteur du BTP dans toute l'Europe (et sur l'emploi de nombreux travailleurs migrants envoyant des fonds dans leur pays d'origine). La contraction du crédit dans les banques commerciales n'a fait qu'amplifier les effets de la crise sur l'activité des entreprises, avec pour corollaires :

- une hausse du chômage (20 % en Lettonie début 2010, 19 % en Espagne) ;
- un recul de la production industrielle (- 19,4 % dans l'Union européenne en avril 2009 en production lissée sur douze mois ; la production de l'industrie automobile slovaque a chuté de 50 % sur la même période) ;
- un recul du commerce extérieur (les exportations bosniaques ont reculé de 19 % entre mars 2008 et mars 2009, les importations de 25 %) ;
- un recul dramatique du revenu issu des fonds envoyés par les travailleurs expatriés dans les pays exportateurs de main-d'œuvre, dont on estime qu'il constitue 30 % du PIB en Moldova et 15 % en Bosnie-Herzégovine.

Après avoir causé d'énormes ravages sur les marchés de l'immobilier et dans le secteur bancaire, la crise frappe désormais sa dernière victime en date, les budgets publics. Les déficits publics des États membres de l'UE sont passés de 2,3 % du PIB en 2008 à 6,85 % en 2009, sous l'effet des pertes de recettes fiscales, des dépenses liées aux programmes de « relance budgétaire » et des faillites bancaires. Ce déficit dépasse la barre des 10 % du PIB dans quatre pays : l'Irlande, la Grèce, le Royaume-Uni et l'Espagne. Ironiquement, ce sont précisément les agences de notation qui avaient été discréditées pour leur incapacité à déceler la faiblesse des banques qui ont menacé la capacité des pouvoirs publics à refinancer la dette souveraine. A commencer par la Grèce, les autorités nationales se sont hâtées d'adopter des politiques d'austérité budgétaire en 2010, ce que les keynésiens jugent prématuré.

Dans ces conditions, les collectivités locales ont été inévitablement soumises à des contractions budgétaires résultant de la baisse des recettes, du risque de diminution des aides de l'État et de la hausse du coût du service de la dette et des prestations d'aide sociale aux ménages victimes de la crise. Toutefois, le moment et l'ampleur de ces contractions sont fonction à la fois de la base d'imposition, des procédures fiscales et des politiques nationales. Les forces en jeu sont examinées dans les paragraphes qui suivent.

1.2.2. Recettes courantes : impôts, taxes et redevances

L'impact de la crise sur les recettes courantes des collectivités locales a grandement varié selon :

- la gravité de la récession,

- la diversité des situations nationales et des réponses apportées par les gouvernements,
- la nature de l'assiette d'imposition et sa vulnérabilité aux changements économiques,
- les décalages dans le temps liés aux régimes d'imposition : en Hongrie, par exemple, les recettes sur la part de l'impôt sur le revenu des personnes physiques (IRPP) qui revient aux collectivités locales en 2010 reposent sur les revenus de l'année 2008 (la Belgique connaît le même décalage), alors que le paiement de l'impôt sur les sociétés est établi sur le chiffre d'affaires de 2009, la crise faisant donc sentir pleinement ses effets sur les budgets locaux avec une année de retard. Au Danemark et en Suède, l'IRPP est recouvré par l'État, lequel reverse ensuite aux collectivités locales les sommes qu'elles ont votées dans leur budget, ces montants étant rapprochés de l'impôt effectivement recouvré deux ans plus tard.

Une analyse de l'OCDE concernant ses États membres révèle que les effets des précédentes récessions ont été minimes sur les recettes générées par l'impôt foncier, modérés sur les impôts sur le revenu des personnes physiques et fortement marqués sur l'impôt sur le chiffre d'affaires des sociétés et sur l'impôt sur les bénéfices des sociétés. Ces statistiques corroborent ce que l'on peut logiquement attendre et l'expérience que l'on a de la récession actuelle va dans le même sens.

On aurait pu s'attendre à ce que la chute dramatique des valeurs de l'immobilier affecte les recettes de la *fiscalité foncière locale*, source de recettes locales la plus commune en Europe. Des chutes brutales ont été enregistrées dans les villes américaines (20 % à Washington DC) où l'évaluation des biens est indexée automatiquement sur l'évolution des valeurs du marché. Toutefois, il n'en va pas de même dans la plupart des pays européens où les impôts fonciers reposent en général sur une formule de valorisation rarement actualisée, quand toutefois elle l'est. Cette pratique prive les collectivités d'une fiscalité dynamique en période faste, mais apporte une stabilité salubre autant que bienvenue en période de récession économique.

Au Royaume-Uni, les recettes des impôts fonciers prélevés sur l'immobilier résidentiel ont continué d'augmenter d'un milliard de livres par an au cours des quatre dernières années. La plupart des pays signalent une hausse du produit de l'impôt foncier, forte pour certains (25 % en Ukraine en 2009, 28 % en Russie, 23 % en République tchèque, par exemple). Il est probable que les collectivités locales confrontées à une baisse des recettes provenant d'impôts plus rémunérateurs ou des transferts ont tout simplement davantage axé leur action sur l'amélioration de l'assiette et de la collecte des impôts fonciers. A Sofia, par exemple, des décisions judiciaires ont été rendues imposant le gel des comptes des contribuables défaillants. 20 millions d'euros d'arriérés ont ainsi pu être collectés en 2009.

Cependant, en période de récession, les recettes de la fiscalité foncière sont exposées à des risques croissants de défaut de paiement et à des pressions, en particulier de la part des propriétaires d'entreprises, qui réclament des exonérations et des réductions. En France, la taxe professionnelle, qui est calculée sur la valeur locative des actifs de l'entreprise, a été remplacée en réponse à la pression exercée par les entreprises. En Grèce, les défauts de paiement ont réduit le produit de l'impôt de 19,5 % en 2009. Quant aux communes rurales de Pologne, elles ont accordé 32 % en plus d'allègements individuels en 2009. En France comme au Royaume-Uni, les autorités compensent l'incapacité des contribuables à s'acquitter de l'impôt, ce qui constitue une subvention déguisée de plus en plus courante en ces temps ou lieux de ralentissement économique.

En revanche, *les taxes locales sur les ventes de biens* ont chuté instantanément et ce, de manière dramatique. D'un montant qui s'établissait avant à plus de 8 milliards d'euros par an en France, leur recul a porté un coup sérieux aux départements (qui doivent également faire face à des dépenses importantes en prestations d'aide sociale). En Bulgarie, les recettes fiscales prélevées sur la vente de biens ont baissé de plus de 30 % en 2009. En Espagne, les recettes de 2008 étaient inférieures de 40 % à celles de 2007.

Le droit des collectivités locales à une partie des recettes de *l'imposition sur le revenu des personnes physiques* est variable en Europe, de même que la méthode appliquée – qu'il s'agisse de partage des recettes avec l'État ou de surtaxe locale, de répartition en fonction de l'origine (lieu de résidence ou d'emploi) ou d'une clé de répartition. Cependant, quelle que soit la méthode appliquée, partout où ce droit existe, les recettes ainsi collectées sont de la plus haute importance pour les budgets locaux (70 % des recettes locales totales en Ukraine, 50 % en Estonie) et dynamiques (augmentation de 47 % de ces recettes en Slovaquie durant les quatre années ayant précédé la crise). L'IRPP constitue également une source de recettes majeure pour les grandes collectivités locales des pays scandinaves, d'Europe centrale et de Suisse.

Il est évident que la hausse du chômage ampute les recettes de l'IRPP et les personnes qui ont encore un travail gagnent parfois moins, à cause d'une réduction de leurs horaires, de leurs primes, voire d'une baisse de leur salaire (de 15 % pour les salariés du secteur public en Lettonie, hors enseignants et salariés les plus modestes). Certains pays ont également abaissé les barèmes d'imposition pour essayer de relancer la consommation (les tranches supérieures ont vu leur imposition ramenée de 40 % à 32 % en Pologne, tandis que les seuils de revenu imposable ont été relevés en Hongrie). La situation est plus dramatique encore en Ukraine, où l'IRPP va intégralement aux oblast (provinces), aux municipalités et aux districts (*rayony*) ; les recettes ont chuté l'an dernier de plus de 20 % en termes réels en grande partie à cause d'arriérés de paiement des salaires.

Les taxes locales sur les *bénéfices des sociétés ou sur le chiffre d'affaires* sont distinctes et de nature idiosyncrasique, et souvent accusées de distorsion de concurrence sur un marché mondialisé. Elles sont également très vulnérables à toute récession économique. Les collectivités locales allemandes font état d'une diminution importante

de la taxe locale prélevée sur les bénéfices des sociétés (Gewerbesteuer) – pertes qui se traduisent par de fortes augmentations des découverts des communes auprès des caisses d'épargne locales. De même, les effets de la récession sur la taxe sur les sociétés en Hongrie, prélevée rétrospectivement sur le chiffre d'affaires, seront surtout visibles en 2010. Néanmoins, les municipalités tchèques ont enregistré une baisse de 27 % de leur part de la taxe sur les bénéfices des sociétés en 2009, tandis que les municipalités finlandaises prévoient pour 2009 une réduction de 24 % de leur part de 22,3 % sur cette même taxe. Les régions polonaises quant à elles ont perçu 14,3 % en moins sur la part qui leur revient en 2009. Le Portugal fait état d'une diminution de la surtaxe locale sur les bénéfices des sociétés. Les régions russes ont enregistré la plus forte baisse (70 %) des recettes générées par la taxe sur les bénéfices des sociétés.

Les recettes de *la taxe sur la valeur ajoutée* sont largement partagées avec les collectivités locales dans les pays du Sud-Est de l'Europe, à titre de compensation pour la suppression des taxes locales sur les ventes qui avaient cours dans l'ex-Yougoslavie. Le rendement de cette taxe est lié directement au volume et à la valeur de la production industrielle et du commerce et donc, il est hautement sensible à leur recul. Ces recettes constituent la moitié des recettes des collectivités locales de Bosnie ; en Republika Srpska, leur produit a baissé de 17,5 % en 2009.

Les effets de la crise sur les recettes des *droits et redevances* sont moins évidents car répartis entre les budgets des collectivités locales et leurs entreprises de services d'utilité publique. Les répondants font largement état d'une diminution des recettes sur les permis de construire et autres droits et taxes d'urbanisme, en particulier au Royaume-Uni. La Lettonie signale une diminution des taxes perçues sur l'approvisionnement en eau, l'assainissement, le chauffage et la collecte des ordures ménagères, tandis qu'en Ukraine, 60 % seulement des ménages s'acquittent de leurs redevances sur les services d'utilité publique.

1.2.3. Recettes : transferts de l'État

L'analyse menée par l'OCDE sur les récessions précédentes indique que les transferts de l'État ont de tout temps été la source de recettes la plus volatile dans les budgets locaux. L'histoire se répète cette fois encore.

Les réponses des pouvoirs publics nationaux à la baisse des recettes des municipalités sont radicalement différentes. En 2009, les autorités albanaises, britanniques, danoises, finlandaises, norvégiennes, polonaises, slovaques et suédoises ont compensé la baisse des recettes et l'augmentation des dépenses des collectivités locales en partie, par des mesures contre-cycliques raisonnées et en partie, par le jeu automatique des formules de péréquation. Les règles budgétaires au Danemark imposent que les dotations globales soient contre-cycliques. Les aides norvégiennes ont augmenté de 1,2 milliard de couronnes. Les autorités ukrainiennes ont ajouté 10 % du produit de l'impôt sur les

bénéfices des sociétés au fonds de péréquation. Enfin, le budget fédéral russe 2009 incluait une augmentation de 36 % des transferts aux collectivités régionales.

En revanche, la Bulgarie a réduit ses subventions aux services obligatoires (éducation, prestations sociales, santé, etc.) de 10 % en 2009. De même, en 2009, la Serbie a diminué ses dotations de 15 milliards de dinars (soit 8,5 % des recettes totales), l'Estonie a réduit son fonds de péréquation de 20 % et la Lettonie a supprimé ses dotations à l'éducation préscolaire et à la maintenance du réseau routier. Les autorités irlandaises ont réduit leurs subventions globales de 9,6 %. Malgré une progression des financements de l'État fédéral, un certain nombre de régions russes ont réduit leurs aides de péréquation aux municipalités parce que le produit de l'impôt sur les bénéfices des sociétés a diminué. Dans un certain nombre de cas, comme la Serbie, les accords de crédit stand-by passés avec le Fonds monétaire international (FMI) ont contraint les autorités à pratiquer ces coupes.

1.2.4. Dépenses courantes

On a évoqué plus haut l'accroissement du coût du service de la dette, imputable aux faillites bancaires mais aussi au relèvement des taux d'intérêt bancaires et à la dévaluation des monnaies nationales vis-à-vis de l'euro, devise dans laquelle de nombreux prêts aux collectivités locales avaient été libellés. Le coût du service de la dette pour les collectivités locales serbes, par exemple, a progressé de 26 % en 2009. Cette charge pèse particulièrement sur les collectivités qui étaient déjà lourdement endettées avant la crise.

L'impact de l'augmentation des dépenses sociales sur les budgets municipaux est très variable en raison de différences entre les pays et les régions quant à la gravité de la crise, mais aussi du fait de la grande variabilité des compétences conférées aux collectivités locales en matière d'aide sociale. La durée de versement des allocations de chômage après un licenciement, qui diffère dans le temps l'ouverture des droits aux prestations sociales, constitue une autre variable à prendre en compte.

En principe, les États ou leurs caisses d'assurance sont compétents pour le versement des prestations de base telles que les allocations de chômage et les pensions de vieillesse et d'invalidité. Toutefois, selon les régimes mis en place, les collectivités locales de certains pays peuvent avoir à supporter des charges supplémentaires afférentes :

- aux allocations destinées au logement et aux services d'utilité publique (versées aux ménages en cas de perte de revenu ou d'un remboursement plus tardif de l'État) ;
- au filet de sécurité versé aux chômeurs de longue durée et à d'autres ayant-droits afin de leur garantir un revenu minimum ;
- aux aides d'urgence versées aux familles dans l'attente du versement des aides de l'État.

Les collectivités locales peuvent également administrer le versement des aides de l'État, sous réserve de leur remboursement.

Les dépenses d'aide sociale et d'initiatives d'emploi des communes danoises ont augmenté de 8 %. La Croatie et la Russie font également état d'une augmentation des dépenses de prestations sociales, alors que les autorités locales britanniques et italiennes doivent faire face à une plus forte demande d'allocations logement et au problème des sans-abris. Étant donné le décalage dans le temps entre la récession et la montée du chômage (et entre la reprise économique et la relance de l'emploi), les dépenses d'aide sociale devraient augmenter encore en 2010 ; les municipalités hongroises enregistrent un accroissement des dépenses de prestations sociales de 22 % depuis début 2010, qui s'ajoute à une hausse de 14 % en 2009. Du fait d'une période de versement courte des allocations de chômage, on ne ressent pas encore pleinement les effets de la crise.

1.2.5. Budgets d'investissement

En règle générale, les dépenses d'investissement des collectivités locales constituent une part importante de l'investissement public global, soit 55,6 % dans l'UE en 2008. Or, la crise a provoqué un épuisement des sources de financement habituelles de ces investissements :

- les tensions qui pèsent actuellement sur les budgets ont réduit, voire éliminé les excédents d'exploitation ;
- les banques ne sont pas en mesure ou pas désireuses de fournir des crédits ou d'investir dans des titres obligataires (même si les banques centrales européennes se révèlent en mesure de préfinancer à court terme les financements structurels de l'UE) ;
- la pénurie du crédit a également diminué l'attrait des partenariats public-privé (PPP) pour les entreprises privées. (Les PPP ont progressivement disparu en Slovaquie en 2008 ; en Pologne, aucun projet de ce type n'a vu le jour, alors que le cadre juridique correspondant est en place depuis 2005) ;
- la valeur potentielle et le marché des ventes d'actifs se sont également contractés.

Néanmoins, les gouvernements ont réagi vigoureusement et massivement à cet aspect de la récession. L'accélération des dépenses d'équipement occupe une place de choix dans les mesures contre-cycliques adoptées, qui protègent l'emploi, en particulier dans le secteur du bâtiment fortement touché, et stimulent la consommation en général.

En conséquence, les pouvoirs publics ont massivement mis des fonds supplémentaires à disposition des collectivités locales pour des projets d'investissement :

- l'Autriche a adopté un train de mesures de 3 milliards d'euros en faveur des infrastructures locales, financé par l'emprunt, les administrations fédérales et régionales assurant toutefois 75 % du coût du service de la dette ;
- la France fait une avance des remboursements de TVA sur les dépenses de construction des collectivités locales ;
- le budget fédéral allemand a alloué 10 milliards d'euros aux investissements régionaux et locaux (dont 25 % sont cofinancés par les bénéficiaires) ;
- la Grèce a mis en place un fonds pour l'investissement local, doté de 2,3 milliards d'euros, abondé conjointement par le gouvernement, l'Union européenne et les collectivités locales ;
- la Norvège a consacré 4 milliards de couronnes à de petits projets d'investissements locaux en 2009.

Des fonds comparables ont été mis en place au Portugal, en Espagne (8 milliards d'euros), en Suède et en Ukraine (financement de 371 projets portant sur des travaux de réparation dans des écoles, des hôpitaux, des stades, etc., pour un investissement global de 20 milliards de hryvnia).

Ces fonds présentent souvent deux caractéristiques. D'une part, ils sont destinés à financer des projets prêts pour le «premier coup de pioche», c'est-à-dire susceptibles d'une réalisation immédiate. D'autre part, ils comportent fréquemment une forte dimension environnementale : économies d'énergie dans les édifices publics (et à l'occasion, dans les logements sociaux), remplacement des éclairages urbains (Pays-Bas), isolation des logements (Royaume-Uni). En Espagne, pour être éligibles aux financements du Fonds d'investissement local 2010, les projets doivent être des projets de recherche, de développement et d'innovation en rapport avec le développement durable.

Parallèlement aux initiatives déployées par les gouvernements nationaux, on observe une accélération dans le décaissement des ressources des Fonds structurels de l'Union européenne dans les nouveaux États membres. Heureusement, la forte augmentation des fonds alloués à ces pays au titre du budget 2007–2013 est intervenue alors que la crise s'intensifiait et s'est accompagnée d'un assouplissement des règles de fonctionnement des Fonds. Cette évolution s'est vue facilitée par les initiatives prises dans certains pays comme la Bulgarie, l'Estonie et la Hongrie pour fournir des financements-relais aux municipalités confrontées à des coûts de préfinancement élevés ou à des dépenses non admissibles. En Hongrie, plus de 80 % des aides au titre des Fonds structurels, financées sur le budget de l'UE pour la période 2007–2013, sont d'ores et déjà absorbées par des contrats de construction.

A certains égards, le relâchement brutal de la pression sur l'offre exercée par les banques sur les prêts se révèle bénéfique. Les flux de crédit bancaire aux collectivités locales sont désormais bien régulés dans la plupart des pays par des ratios d'endettement

ou de service de la dette corrects et des procédures juridiques qui régissent la défaillance des pouvoirs locaux. Le financement bancaire à court terme des contreparties, du préfinancement et des charges non remboursables vient désormais appuyer une bonne partie de ce flux accéléré de financements communautaires.

1.2.6. Impact global

Les effets de la crise sur les budgets locaux ont été très spécifiques en fonction des pays et de leurs collectivités. La diminution des recettes et les règles imposant d'équilibrer les budgets rendent le phénomène de contraction quasi universel, mais son ampleur et le moment où il survient varient.

Compte tenu de l'inflation, nos données pour 2009 révèlent que, dans 16 pays, les recettes des collectivités locales ont reculé en termes absolu (par rapport à 2008). La Republika Srpska, la Lettonie, la Serbie, la Russie, l'Ukraine et l'Islande ont enregistré les replis les plus marqués (plus de 10 % en termes réels). L'Arménie, la Bulgarie, la Croatie, la République tchèque, l'Estonie, l'Allemagne, la Hongrie, la Lituanie, le Portugal et la Roumanie affichent des replis plus modérés. Ailleurs, ces recettes progressent tout simplement beaucoup moins vite que par le passé.

Cela peut paraître moins catastrophique que prévu, dans tous les pays sauf trois, et moins grave que la crise que connaissent les budgets nationaux. Mais, dans plusieurs pays comme la Hongrie, les effets de la crise ont été différés jusqu'à 2010 par les décalages dans le temps liés aux régimes d'imposition. Ces effets ont aussi été amortis lorsque, confronté à une forte chute des recettes fiscales propres, le gouvernement est à la fois soucieux et capable de soutenir le niveau des dépenses locales par des subventions ou de faciliter le recours à l'emprunt dans le cadre d'une politique de relance – situation typique en Europe occidentale.

Dans les États baltes, la récession s'est propagée rapidement au début de l'année 2008 et l'impact sur les finances locales s'est déjà fait durement sentir. Ailleurs, la crise a été également soudaine, mais plus récente, plusieurs pays ayant enregistré un recul de leurs recettes au premier trimestre ou semestre 2009, en dépit d'une augmentation de ces recettes jusqu'en 2008.

1.3. Les réponses

1.3.1. La nécessité de réponses politiques

Les collectivités locales en Europe ont toutes été plus ou moins confrontées à une crise financière, qui peut, dans certains pays, prendre la forme d'un simple ralentissement

de la croissance, mais dans d'autres, il s'agit d'une contraction réelle. Cette crise a fait l'effet d'un choc, après une période de croissance soutenue.

La gravité de la crise est très variable et sa durée demeure une inconnue. Les données pour le premier semestre 2010 semblent indiquer une lente reprise du PIB ; l'OCDE prévoit pour cette année une croissance de 1,2 % dans la zone euro (contre 4,6 % au niveau mondial) et un taux de chômage de 8,5 %. Le renflouement de la dette publique grecque par l'UE/le FMI et l'adoption généralisée de mesures d'austérité budgétaire ont permis jusqu'à présent d'endiguer l'effondrement des marchés obligataires face aux prévisions relatives à la dette souveraine de l'Italie, du Portugal et de l'Espagne annoncées pendant la crise provoquée par la dette publique de la Grèce. La situation économique en Europe est meilleure que prévue fin 2009, mais toujours suffisamment volatile pour qu'un risque de récession à double creux, aggravée par les mesures de restrictions des autorités, ne puisse être complètement écarté.

Ainsi qu'il a été vu plus haut, la situation actuelle n'aura un impact sur les recettes de certaines collectivités locales que d'ici un an ou deux. L'inflation affichait un taux zéro en mai 2009 et les coûts de la construction ont généralement diminué, mais désormais, l'inflation s'établit à nouveau à 1,5 % et la récente volatilité du prix du pétrole accentue le risque de résurgence de l'inflation, avec ses effets sur les dépenses locales. A quelle échéance les budgets des collectivités locales vont-ils pouvoir bénéficier de cette reprise et dans quelle mesure : telles sont les questions pour l'instant sans réponse.

Par ailleurs, la contraction des finances locales observée par l'OCDE, non pas pendant mais après les récessions précédentes, n'incite guère à l'optimisme. C'est lorsque la reprise économique est en cours que les pouvoirs publics cherchent à réduire leur endettement tout récemment gonflé en pratiquant des coupes claires dans les transferts et en incitant à des augmentations d'impôt par la même occasion. Malgré la demande instantane des États-Unis, le Sommet du G20 de 2010 n'a pas convenu de la nécessité de soutenir les politiques de relance budgétaire, mais reste à savoir combien de temps les marchés permettront aux gouvernements de dépenser plus que leurs budgets. Dans les pays du G20, ces déficits sont passés de 1,1 % du PNB en 2007 à 8,1 % en 2009. Le FMI a calculé que tous les gouvernements européens, à l'exception de la Norvège, devront en fin de compte resserrer leurs budgets pour payer les intérêts de la dette accumulée. Quant aux collectivités locales, elles ne peuvent espérer échapper aux conséquences qui en découleront.

Pour ajouter aux tensions qui pèsent sur les budgets locaux, la plupart des pays européens sont confrontés aux conséquences à long terme du changement démographique et associent les collectivités locales à la prise en charge d'une population de plus en plus âgée (mais pas nécessairement malade). Il est prévu que le pourcentage de la population de plus de 60 ans dans le monde développé passera d'un niveau actuel de 22,5 % à 35 % d'ici 2050. Le FMI a calculé que l'impact de l'augmentation des dépenses de retraite, de santé et de prestations sociales sur les budgets publics sera neuf fois supérieur au coût

du service de la dette supplémentaire encouru pendant la crise budgétaire actuelle. Sans compter que des mesures sérieuses pour ralentir le rythme du réchauffement planétaire viendront probablement ajouter aux difficultés.

Le désarroi économique et social pourrait aussi constituer une menace plus générale à l'ordre public avec ses effets propres sur les budgets publics, à tous les échelons de gouvernement. Inversement, la reprise exigera des investissements locaux dans les infrastructures, le développement des qualifications et des améliorations environnementales, qui seront déterminants pour la reprise de l'emploi et de l'activité économique au niveau local.

Aussi les pouvoirs publics nationaux et locaux ne doivent-ils pas assimiler les difficultés actuelles des collectivités locales à une simple péripétie, avec un retour à la croissance antérieure pour demain. Il leur faut envisager des mesures à plus long terme pour faire face aux tensions budgétaires et tirer le meilleur parti de ressources plus rares. Les lignes qui suivent esquissent quelques-unes des options possibles. Elles ne sont pas nécessairement toutes réalisables et souhaitables dans tous les pays, lesquels feront leur choix dans ce « menu à la carte ».

1.3.2. Réforme des relations financières entre les différents échelons de l'État

Sur le plan conceptuel, l'un des moyens pour relâcher les tensions exercées sur les budgets locaux est de modifier le schéma des relations financières entre les administrations pour :

- réduire les compétences attribuées aux collectivités locales, ou
- augmenter leurs recettes.

Une telle réforme est-elle envisageable, ou souhaitable ?

Ainsi qu'on l'a vu plus haut, certains gouvernements européens ont compensé la diminution des recettes des collectivités locales et/ou l'augmentation de leurs dépenses, mais ces mesures n'ont pas entraîné de réforme fondamentale, juste l'application des régimes de péréquation existants. La seule réforme de fond a été opérée en Ukraine, où 10 % des recettes de l'impôt sur les bénéfices des sociétés (ce qui n'a rien d'un trésor de guerre dans les circonstances actuelles) ont été versées au fonds de péréquation dont le bénéfice a été étendu à l'échelon le plus bas des pouvoirs locaux et aux dépenses de santé et de services municipaux ; il faut y voir probablement moins une augmentation des ressources locales que leur redistribution. En Croatie, les autorités ont apporté des ajustements mineurs à l'attribution des parts de l'impôt sur les bénéfices des sociétés et ont annoncé leur intention d'augmenter le niveau de l'impôt foncier.

Quels que soient les effets néfastes de la récession sur les budgets locaux, son impact sur les finances nationales est généralement pire. Les rapports nationaux montrent que les budgets nationaux se contractent davantage que les budgets locaux dans tous

les pays, sauf trois (Allemagne, Hongrie et Estonie, où seul le doublement des subventions de l'UE et les ventes de biens ont en partie compensé la diminution des impôts nationaux). Les gouvernements nationaux sont plus tributaires des sources de recettes plus fragiles que sont les bénéfices des sociétés, les droits de douane, la TVA, etc., et doivent financer les allocations de chômage et les mesures de relance budgétaire. Ils ne sont généralement pas en bonne posture pour alléger les collectivités locales de leurs dépenses ou leur transférer des recettes.

La plupart se démènent pour accroître le financement par l'emprunt et se démèneront pour le rembourser.

Les observateurs ne font état que d'un seul cas d'allègement de compétences : les autorités roumaines ont pris en charge l'intégralité du coût du revenu minimum garanti (co-financé auparavant par les municipalités). La mesure est rationnelle étant donné que les disparités criantes entre les bases de recettes locales rejaillissaient sur la prestation des services sociaux de base, une conséquence évidemment fâcheuse. En tout état de cause, cette situation a été compensée par le transfert des hôpitaux et des systèmes de transport public aux collectivités locales. En règle générale toutefois, diminuer les compétences des collectivités locales ne constitue pas une réponse à la crise budgétaire de nature à conférer une importance accrue aux vertus potentielles de l'initiative et de la réactivité au plan local.

Aussi est-il peu probable que des changements majeurs interviennent dans les transferts de l'État. Toutefois, deux questions demeurent. La première concerne la part des recettes sur des impôts volatils comme la TVA et l'impôt sur les bénéfices des sociétés qui revient aux collectivités locales, dans les pays relativement peu nombreux où ce partage se pratique. Il semble logique que les échelons administratifs impliquant un fort pourcentage d'engagements fixes récurrents, tels que les rémunérations des fonctionnaires et le maintien des services, ne dépendent pas outre mesure de recettes volatiles. À l'inverse, on pourra soutenir que les services publics locaux doivent bénéficier d'une part équitable de l'augmentation des recettes publiques et partager tout aussi équitablement les conséquences de leur diminution. La question reste ouverte, la réponse dépendant à la fois de la gravité de la crise et des services qui sont assurés par les collectivités locales : généralement, la priorité politique va à la protection du système d'éducation et de santé, plus qu'au maintien des infrastructures matérielles.

Le partage ou la surtaxation de l'IRPP constitue la source de recettes locales la plus lucrative dans toute l'Europe. C'est la seule base fiscale qui soit à la fois techniquement susceptible de modification par décision des autorités locales et capable de financer une part importante des dépenses afférentes aux principaux services éducatifs et sociaux. La liberté des collectivités locales de pouvoir en déterminer l'incidence a gagné du terrain ces dernières années, depuis les pays qui y étaient traditionnellement attachés comme les pays scandinaves et la Suisse jusqu'aux régions d'Espagne, aux régions et municipalités d'Italie et aux comtés et municipalités de Croatie. Cette expansion devrait se poursuivre

si l'on entend accomplir des avancées majeures dans l'autonomie fiscale, mais devra être accompagnée d'un système approprié pour compenser les différences de base fiscale, ainsi que d'un plafonnement des taux d'imposition, de façon à éviter tout effet néfaste sur l'offre de travail dans un monde de plus en plus globalisé.

La propriété foncière est la base d'imposition locale *autonome* la plus courante (les taux étant fixés par les collectivités locales), mais elle constitue une part relativement faible des recettes locales globales. Il est peu probable que des changements radicaux interviennent dans les méthodes de calcul, mais les résistances politiques qui s'opposent à un accroissement de son incidence pourraient bien être vaincues s'il l'on établissait davantage un lien entre la facture fiscale à payer et le revenu du ménage. L'expérience a montré en Europe de l'Est que la liberté des collectivités locales d'appliquer aux taux d'imposition des hausses prudentes, mais régulières, alignées sur le taux général de l'inflation, sinon légèrement supérieures, est une condition nécessaire pour préserver la pertinence de cette imposition.

Notre analyse des données fournies livre une conclusion intéressante : les bases de recettes les plus fragiles sont celles qui sont tributaires d'une seule source, qu'il s'agisse de recettes propres ou de transferts de l'État. Les bases les plus robustes sont celles qui, comme en Pologne, combinent plusieurs sources de recettes et un régime de redistribution rationnel.

La seconde question concerne le pouvoir des collectivités locales de fixer les taux des redevances et impôts locaux, prôné par la Charte européenne de l'autonomie locale, ce pouvoir demeurant toutefois très restreint dans plusieurs pays d'Europe de l'Est et du Sud-Est.

La hausse des impôts et redevances peut relâcher les tensions budgétaires et accroître l'efficacité des services d'utilité publique, mais (contrairement aux aides contre-cycliques) elle peut freiner la consommation et amplifier la récession. Tel est le dilemme auquel sont déjà confrontées les collectivités locales. Les municipalités polonaises adoptent une stratégie contraire, modulant tantôt à la hausse, tantôt à la baisse les taux d'imposition foncière. Les municipalités danoises désireuses de relever la surtaxation de l'IRPP sont en conflit avec l'État. Les autorités irlandaises ont convaincu les collectivités locales de réduire à 1,15 % le taux d'augmentation annuel global de l'impôt foncier. Le nouveau gouvernement britannique a gelé les taux de la taxe d'habitation pour deux ans. Par contre, en France, les départements et les communes ont relevé la fiscalité foncière d'un taux moyen de 5-6 % en 2009, sans modération au niveau de l'État.

Quelle que soit l'opportunité à brève échéance de cette modération, la période à plus long terme de la reprise nécessitera probablement de relever les redevances et impôts locaux, et les obligations de la Charte de l'autonomie locale en la matière devraient être respectées par tous. Deux facteurs, toutefois, plaident en faveur d'une certaine retenue. Pour certains types d'impôts – en particulier pour l'IRPP – des taux d'imposition élevés peuvent avoir des effets à long terme sur l'offre de travail. Le second est qu'un

certain nombre de lois et mesures nationales imposent des restrictions pour empêcher que l'imposition locale opère une discrimination inéquitable entre les contribuables, particuliers et entreprises. Ces restrictions se justifient non seulement parce qu'il ne s'agit pas d'entraver la reprise de l'activité, mais aussi parce que la raison sous-jacente à l'autonomie fiscale est de susciter une plus grande transparence vis-à-vis des électeurs et qu'en conséquence, les ménages doivent partager les implications de la politique budgétaire locale. Toute augmentation dans les redevances des services d'utilité publique doit également être accompagnée d'aides au logement pour les ménages les plus pauvres.

Se fondant sur l'*acquis* du Conseil de l'Europe, le Centre d'expertise du Conseil de l'Europe et la LGI de l'Open Society Foundations ont élaboré une série d'indicateurs de référence pour évaluer les relations financières entre les différents échelons de l'État et la qualité de la gestion financière des collectivités locales. Si les indicateurs de référence concernant la gestion financière des collectivités locales proprement dite ont répondu à une demande et sont d'ores et déjà appliqués, ceux destinés à aider les États à évaluer leur action en matière de finances locales doivent encore susciter leur intérêt. Toutefois, ces indicateurs pourraient se révéler très utiles pour les gouvernements cherchant à comprendre quelles sont leurs forces et leurs faiblesses et à réformer les relations financières entre les différents échelons de l'État pour répondre à la crise et au-delà.

1.3.3. Renforcer la responsabilité et l'efficience

Tirer le meilleur parti de ressources plus rares va certainement devenir un défi permanent. L'amélioration du rendement et de l'efficacité des dépenses des collectivités locales revêt différentes formes, discutées plus avant au Chapitre III. Celles-ci visent principalement à ce que les responsables, tant les élus que les fonctionnaires nommés, rendent mieux compte de leur utilisation des deniers publics.

Maîtrise des coûts

Les rapports des observateurs nationaux dressent l'inventaire des initiatives prises par les collectivités locales pour maîtriser leurs coûts. Les mesures portent surtout sur les frais généraux et incluent diverses réductions sur les postes d'heures supplémentaires, de primes, de cérémonies officielles et d'utilisation du téléphone, cependant que les achats de véhicules et de mobilier et les recrutements aux postes vacants ont été gelés. S'agissant de la Roumanie, certaines de ces dispositions ont été dictées par les mesures d'efficacité adoptées avec l'Union européenne en tant que condition requise pour une assistance au budget national. En Lettonie, les fonctionnaires municipaux ont été associés à une baisse nationale de 15 % de la rémunération des fonctionnaires, tandis que les fonctionnaires municipaux hongrois ont perdu leur prime de 13^e mois et qu'au Royaume-Uni, la rémunération des employés du secteur public sera gelée pendant deux

ans. En Serbie, des GPS ont été installés dans les véhicules municipaux de façon que leurs conducteurs sachent se situer et que les autorités municipales puissent les localiser.

Pour justifiées qu'elles puissent être, il s'agit là d'économies temporaires ou ponctuelles qui n'auront pas de grands effets sur l'efficacité à plus long terme. Pour agir sur le plus long terme, il convient de procéder à un examen fondamental de la manière dont les services sont gérés dans la pratique, du champ thématique des analyses de rentabilité de l'investissement et des systèmes d'audit de gestion, mis en place au cours des trente dernières années au nom du modèle du *New Public Management*, ou modèle de management public. Le chapitre III présente trois initiatives dans ce sens, qui méritent une plus large application :

- sur la base du volontariat, l'Association des pouvoirs locaux danois procède à des évaluations de rentabilité dans des administrations ou services, qui reposent, comme au Royaume-Uni, sur la diffusion des pratiques des municipalités qui réussissent mieux que les autres en termes de coûts unitaires ;
- l'étalonnage ou étude comparative des performances des services et des coûts des services administratifs, menée en Bulgarie par l'*Open Society Foundations* en collaboration avec le centre de ressources pour la décentralisation et l'association pour le développement des municipalités Economika 2000 ;
- l'évaluation des normes de performances menée par un groupe (*Benchmarking Club*) de dirigeants hongrois d'entreprises du secteur de l'eau, avec l'appui consultatif du Centre régional de recherche sur la politique énergétique de l'université Corvinus de Budapest, qui repose sur l'étude comparée d'un éventail de questions techniques et de management.

L'étalonnage des performances est l'un des outils conçus pour aider l'opinion publique à examiner à la loupe le soin avec lequel son argent est utilisé. La Charte des citoyens (*Citizen's Charter*) en constitue un autre : il s'agit habituellement d'un engagement vis-à-vis des citoyens de garantir le respect de certaines normes dans la prestation des services et d'un ensemble de procédures par lesquelles ceux-ci peuvent vérifier si ces engagements sont tenus.

Le Conseil de l'Europe aide au développement des capacités de gestion des performances dans un certain nombre de pays tels que la Bulgarie, la Russie et la Serbie. Il apporte également son aide aux initiatives françaises dans ce domaine. La récession financière en accentue la nécessité.

Plusieurs collectivités locales grecques et britanniques ont adopté une démarche moins formelle pour réduire leurs coûts excessifs ; elles publient la liste de toutes les dépenses qui dépassent un certain plafond (généralement de 600 euros) afin que les médias puissent en prendre connaissance.

Contrôle de gestion

En 2006, la LGI a examiné l'audit réalisé dans les collectivités locales de douze pays d'Europe de l'Est et du Sud-Est. Elle a constaté que la plupart des États disposent d'un cadre législatif adéquat, adopté en grande partie récemment avec l'aide de l'Union européenne, mais que leur application est encore insuffisante :

- on note une pénurie de contrôleurs qualifiés dans le secteur public et par conséquent, les audits externes sont en fait rares. Inévitablement, la situation est pire dans les pays où il existe une multitude de petites collectivités (seuls les comptes définitifs de 84 des 7 455 collectivités locales roumaines ont été vérifiés);
- les audits s'attachent essentiellement aux questions de légalité et de respect des procédures prescrites ; quoique figurant dans le cahier des charges, l'efficacité et la rentabilité sont rarement examinées. La formation en matière d'audit sur ces questions est souvent insuffisante ;
- en règle générale, l'opinion ne s'intéresse guère aux résultats des audits, et l'opacité coutumière et la prudence qui caractérisent les rapports publiés sur le sujet n'aident guère à susciter plus d'intérêt.

Le Conseil de l'Europe apporte son aide au développement des capacités en audit de gestion dans un certain nombre de pays comme la Bulgarie, la Russie et la Serbie. La récession financière renforce ce besoin.

L'ambitieuse Stratégie pour l'innovation et la bonne gouvernance au niveau local, lancée par le Conseil de l'Europe, prévoit parmi ses mesures de mise en œuvre la création d'un label européen d'excellence en matière de gouvernance (ELOGE), qui serait décerné de manière décentralisée à des municipalités atteignant un certain niveau de qualité dans leur gouvernance globale. Reposant en particulier sur un outil d'étalonnage/de mesure spécifiquement conçu pour les besoins des collectivités locales, ce label pourrait, s'il aboutit (son expérimentation est en cours), se révéler très efficace pour aider à améliorer la gouvernance locale.

Suppression des incitations à des prestations de services coûteuses

La crise a stimulé la fermeture d'institutions de service public sous-utilisées. La Bulgarie, la Hongrie, le Moldova, la Roumanie et le Royaume-Uni font tous état de telles mesures, qui ont le plus souvent visé de petites écoles rurales. Il est fréquent que certaines dispositions administratives et financières incitent les collectivités locales à fournir des services inutilement coûteux.

Ainsi, dans un certain nombre de pays comme la Hongrie ou l'Ukraine, la prestation de soins aux personnes âgées et malades en établissements spécialisés et de soins hospitaliers relève de la compétence des échelons supérieurs de l'administration locale, tandis

que les municipalités se voient confier les soins à domicile et les soins de santé primaires. Le financement des services assurés par les collectivités de plus haut niveau repose parfois sur des formules de calcul qui prennent en compte le nombre de personnes accueillies ou traitées. Les dispositions de ce type risquent donc d'inciter fortement à placer certains clients des services sociaux en foyers ou d'hospitaliser des patients, alors que cela n'est peut-être pas la réponse la plus adaptée à leurs besoins, ni la plus compatissante. Dans la plupart des cas, il s'agit de la solution la plus coûteuse.

Les régimes de rémunération des prestataires à l'admission ou à l'acte peuvent gonfler les dépenses de soins médicaux. L'effet pervers de ces incitations est largement admis et des systèmes de financement selon une classification en groupes homogènes de diagnostic (DRG, diagnostic-related group) ont été conçus pour l'éviter. Toutefois, des réformes de ce type n'ont pas été adoptées partout et la crise ne fait qu'accentuer leur urgence. L'introduction récente en Hongrie d'une redevance modeste pour la consultation d'un médecin généraliste était également une solution efficace pour éviter de surcharger inutilement leur emploi du temps, mais celle-ci a été annulée par référendum.

Les exemples d'excès dans les dépenses des services sociaux sont légion. Des établissements scolaires dont le nombre d'élèves scolarisés diminue, par exemple, conservent souvent le même nombre d'enseignants, alors que le nombre d'heures qu'ils passent au contact des élèves est plus que faible.

Révision des normes de prestation non viables à long terme

Les réglementations nationales font souvent obstacle aux collectivités locales qui voudraient réduire leurs dépenses. C'est en particulier le cas dans les pays qui font la distinction entre les missions « autonomes » et les missions « déléguées » des collectivités locales et placent les services les plus onéreux comme l'éducation, les services sociaux et la santé dans cette dernière catégorie.

Les services délégués sont souvent réglementés par des normes précises relatives à leur prestation, et leur gestion par les collectivités locales est placée sous le contrôle étroit de leur ministère de tutelle. Généralement, ces normes réglementaires régissent les moyens plus que les résultats. Ainsi, les collectivités locales ukrainiennes ne sont pas habilitées à fermer des établissements scolaires en sous-effectif notoire, ni des institutions sociales ou culturelles, sans le consentement du ministère national, lequel est souvent refusé. Or, ces institutions peuvent parfaitement avoir perdu leur clientèle du fait de l'évolution démographique ou des préférences du public.

Le problème est généralement exacerbé par le fait que les ministères de tutelle concernés ne sont pas confrontés aux conséquences du maintien de services non rentables, étant donné que le financement des compétences déléguées relève souvent de la compétence exclusive du ministère des Finances. Plusieurs rapporteurs nationaux relèvent que l'incapacité à satisfaire à des normes de prestation non viables est chose courante, mais tolérée. D'autres considèrent que l'insistance de leurs autorités nationales sur le respect

de ces normes constitue un problème sérieux. Les signataires de la Charte européenne doivent veiller à ce que les ministères nationaux n'assurent pas une micro-gestion des services confiés aux collectivités locales, qu'il s'agisse ou non de délégations techniques.

Délégation de la gestion institutionnelle

Les mêmes principes valent pour les relations entre les collectivités locales et leurs propres administrations et institutions subsidiaires.

Lorsqu'il faut réduire des budgets, ce sont d'ordinaire leurs gestionnaires qui savent le mieux localiser les sources de gaspillage. Un directeur d'école sera le seul à se soucier que les lumières soient toutes éteintes en fin de journée, mais seulement si le budget de l'école conserve les économies réalisées.

La délégation des budgets et de leur gestion aux administrations prestataires constitue un autre aspect du nouveau modèle de management public, désormais très répandu ; ainsi, le principe de financement des établissements scolaires en fonction du nombre d'élèves accueillis est désormais largement adopté.

Quoique opportunes en période de récession, ces solutions doivent être mises en place avec prudence. Les dotations budgétaires doivent prendre pleinement en compte les facteurs exogènes de variation des coûts. Ainsi, la densité démographique et le contexte social ont des incidences majeures sur les dépenses scolaires, par exemple. Les audits et autres obligations relatives aux comptes à rendre doivent correspondre au degré de délégation financière.

Coopération et redécoupage territorial

La taille moyenne des collectivités locales est extrêmement variable d'un pays à l'autre : la population moyenne d'une municipalité varie dans une fourchette de 1 640 habitants en République tchèque et 1 720 en France à 56 570 habitants en Lituanie et 139 480 au Royaume-Uni. Les groupements de communes, largement pratiqués dans les années 1960 et 1970, mais aussi massivement démantelés dans les anciens pays du bloc socialiste après 1989, sont de nouveau à l'ordre du jour.

Le Danemark a fusionné 271 municipalités en 98. La Géorgie a remplacé 985 communes, principalement des communes rurales, par 64 grands districts formés sur les anciens rayony, politique déjà adoptée en Lituanie. Le nombre de municipalités en Finlande a été ramené de 447 à 348, et de nouvelles normes réglementaires imposent la population minimale requise pour l'administration et la prestation de services comme les soins et la formation professionnelle. La Grèce, l'Islande et la Lettonie ont également largement réduit le nombre de leurs collectivités locales.

Des municipalités plus grandes doivent consacrer une part plus faible de leurs ressources aux frais généraux et réaliser de plus grandes économies d'échelle. Toutefois, si le regroupement peut permettre aux collectivités locales d'assurer un plus large éventail

ou une meilleure qualité de services, il n'est pas prouvé qu'il permette globalement de faire des économies. Mis à part les coûts ponctuels afférents au redécoupage, on observe une tendance des collectivités fusionnées à reprendre à leur compte les habitudes les plus coûteuses de leurs prédécesseurs. L'incapacité des études empiriques à montrer les économies résultant des regroupements de communes peut s'expliquer par le fait que les économies d'échelle les plus évidentes ont d'ores et déjà été réalisées par l'intercommunalité.

En effet, il est peut-être plus simple de réaliser des économies d'échelle en développant la coopération intercommunale. En Hongrie, le nombre de décharges municipales a diminué de 90 % grâce à la constitution d'établissements publics communs, capables de maximiser l'utilisation des technologies modernes et des financements structurels de l'UE, tandis que des associations infrarégionales partagent des ressources professionnelles communes et l'équipement nécessaire pour exécuter certaines opérations administratives comme le recouvrement des impôts et les contrôles d'urbanisme. En France, des incitations aussi bien juridiques que financières ont abouti à une forte augmentation du nombre de communautés urbaines qui assurent une planification intégrée et des services dans le périmètre de leur conurbation.

Même au Royaume-Uni, où les collectivités locales comptent en moyenne un nombre exceptionnellement élevé d'habitants, la crise a incité à une gestion commune des services plus importante. La ville de Westminster s'est regroupée avec les communes voisines de Kensington et Chelsea pour gérer un service éducatif unique. Les collectivités d'Irlande du Nord ont, pour leur part, créé des « coalitions » pour la gestion des achats, de l'informatique et des contrôles d'urbanisme.

Mieux cibler le versement des prestations sociales

Les prestations sociales sont souvent distribuées sans considération de la situation financière des bénéficiaires. Tous les retraités britanniques (dont votre serviteur) perçoivent automatiquement une allocation de chauffage pour l'hiver de 200 livres sans avoir à la demander. En Lituanie, 64 % des dépenses de l'aide sociale sont allouées sans conditions de ressources, notamment les allocations familiales. Dans les pays de l'ex-Union soviétique, de nombreuses allocations ou services gratuits sont fournis à diverses catégories de « vétérans » (de la guerre, du travail, aux victimes de catastrophes naturelles, etc.).

Les mères de jeunes enfants et les retraités sont tendanciellement les principaux bénéficiaires. Le trait d'union probable entre les retraités n'est pas la pauvreté (ceux qui bénéficient d'une pension de retraite indexée sur l'inflation, qui ont remboursé leur emprunt immobilier ou dont les enfants sont adultes peuvent tout à fait jouir d'un revenu disponible confortable), mais leur bulletin de vote et la possibilité d'exprimer leur désaccord.

Les gouvernements sont contre l'assujettissement des prestations sociales à des conditions de ressources parce qu'il est source de dissensions, qu'il laisse la porte ouverte

à la corruption et qu'il est tout simplement difficile. Mais si les deniers publics sont comptés, sa mise en place peut être le prix à payer pour prêter assistance à ceux qui sont en situation réelle de pauvreté. La Banque mondiale estime que le pourcentage des ménages les plus pauvres qui bénéficient des transferts monétaires varie de 25 % en Pologne à 95 % en Hongrie. Une étude financée par la LGI, réalisée en Arménie, dans « l'ex-République yougoslave de Macédoine » et en Moldova, a établi que de nombreux ménages très pauvres sont exclus du bénéfice des prestations sociales par les obstacles administratifs qu'ils rencontrent comme de devoir se déplacer en ville pour obtenir un certificat de résidence, demander un justificatif de travail lorsque l'entreprise et son propriétaire, en l'espèce, l'ancien État yougoslave, ont tous deux été dissous. Le rapport russe mentionne que l'obligation de faire la queue pour obtenir une montagne de documents dissuade les candidats à une allocation logement.

La crise incite à nouveau à tenter de mieux cibler le versement des prestations sociales. Certaines villes roumaines, y compris Bucarest, ont supprimé les subventions aux sociétés de chauffage, les remplaçant par des allocations soumises à des conditions de ressources, versées directement aux consommateurs. Chisinau a commencé à soumettre les allocations de transport public à des conditions de ressources.

Les limites de l'État

La gravité de la crise dans certains pays et sa soudaineté dans le monde entier ont opportunément incité à se poser la question d'une plus grande transparence et d'une meilleure productivité des budgets locaux.

Toutefois, les réponses apportées ne remettent pas en cause la nature ou le champ d'action de ce que les collectivités locales tentent de faire, mais simplement la manière dont elles le font et le financent.

Et pourtant, il faudra relever ce défi si la crise est plus grave et plus longue que le prédisent les pronostics actuels. Les prévisionnistes ont tendance à se fier aux reprises qui ont succédé aux récessions précédentes, non à des faits concrets actuels. Compte tenu du niveau cumulé de l'endettement public, des tendances démographiques à long terme et des réponses qui s'imposent face au réchauffement climatique, il n'est pas dit que l'on reviendra aux niveaux antérieurs de prestation des services publics.

L'essentiel de ce que les pouvoirs publics, l'État et collectivités locales, apportent à leurs citoyens relevait de la responsabilité des communautés et des familles avant la Seconde Guerre mondiale. Revenir à l'ancien temps est difficilement imaginable ; abandonner l'éducation de masse et laisser les personnes âgées mourir de froid en hiver n'est pas concevable.

Mais le fardeau pourrait être mieux partagé. Le versement des prestations sous conditions de ressources est une piste, déjà mentionnée. Une autre consiste à impliquer davantage la société civile dans l'aide sociale. Les partenariats entre collectivités locales et organisations non gouvernementales (ONG) sont nombreux en Europe, aidés en cela par

le nombre croissant de retraités en bonne condition physique et potentiellement actifs. Mais il existe encore des pays où les ONG sont considérées non comme des alliés mais comme une menace, et où le « bénévolat » évoque des réminiscences du totalitarisme.

Or, cet état d'esprit n'est pas sain et son coût n'est pas non plus raisonnable. Il est vrai qu'il a souvent cours dans les sociétés où la solidarité familiale vis-à-vis des personnes âgées, des handicapés et des chômeurs est plus forte qu'en Europe de l'Ouest. Mais dans une société vieillissante et de plus en plus urbanisée, la solidarité familiale ne peut plus être considérée comme acquise. Les soins donnés bénévolement à un parent peuvent être subventionnés et donner droit à une aide, notamment par une prise en charge temporaire en institution pour laisser un moment de répit aux aidants familiaux, ou par le versement d'une allocation essence aux chauffeurs bénévoles. Il y a de la latitude pour des solutions intermédiaires dans le financement public des services publics.

La récession remet en cause la croyance de l'opinion en l'idée que l'État doit pourvoir à tout, ainsi que la posture des responsables politiques, qui font croire qu'ils le peuvent. La technologie permet une interactivité de plus en plus grande des processus. Là réside peut-être le modèle de la collectivité locale de l'après-crise.

En fin de compte, nous en revenons aux limites internes de l'État. La récession a montré combien la situation des finances locales était fonction des politiques nationales. Il ne faudrait pas amplifier le phénomène par un réflexe délibéré ou instinctif de recentralisation du pouvoir. Les réponses esquissées ci-dessus appellent à plus de souplesse et plus de pouvoir discrétionnaire à l'échelon local, et pas le contraire. La justification des principes et dispositions de la Charte européenne de l'autonomie locale demeure entière.

ii) The Impact of the Economic Downturn on Local Government in Europe: What Is Happening and What Can Be Done?⁶

1. Overview

(See the introduction to Chapter II.)

2. Comparative Analysis of European Local Budgets in Crisis

At the end of 2009, it is still rather early to gauge the full impact of the global economic crisis on the local budgets in all European countries. First, the events are still unfolding, with a lot of correction changes scheduled by governments for 2010, while data on local budget execution are notoriously hard to produce in real time. The figures presented in this chapter are based on Eurostat, plus information collected first-hand through a network of local operators and Council of Europe partners, in order to be able to illustrate local government budgets broken down by their main components. Second, subnational financial arrangements differ tremendously from country to country, and so do the official reporting templates for the local/regional budgets execution, the degree of data centralization, or the time-lag with which they are made available to the public, even among EU member states. Therefore, the results referring to recent periods should be regarded as preliminary: the task to integrate everything into a comparative format is time consuming and successive revisions have been necessary as the team continues to receive information from the local operators.

Nevertheless, a number of patterns seem to emerge that enable us to formulate tentative conclusions, most of which are summarized and discussed in the other chapters of this report. At the beginning of 2009, it seemed that the financial crisis hit

⁶ The original Report by the Local Government and Public Service Reform Initiative and the Council of Europe was presented at the Ministerial Conference as document MCL16(2009)Inf 1.

disproportionately the public budgets of the western and central parts of the continent, and less the eastern-most ones. While the continental local governments were better off in 2008 compared with 2007—with the notable exception of Iceland, where inflation eroded all budgets—only in Central and Eastern Europe did local revenues continue to increase in nominal terms in the first quarter of 2009.

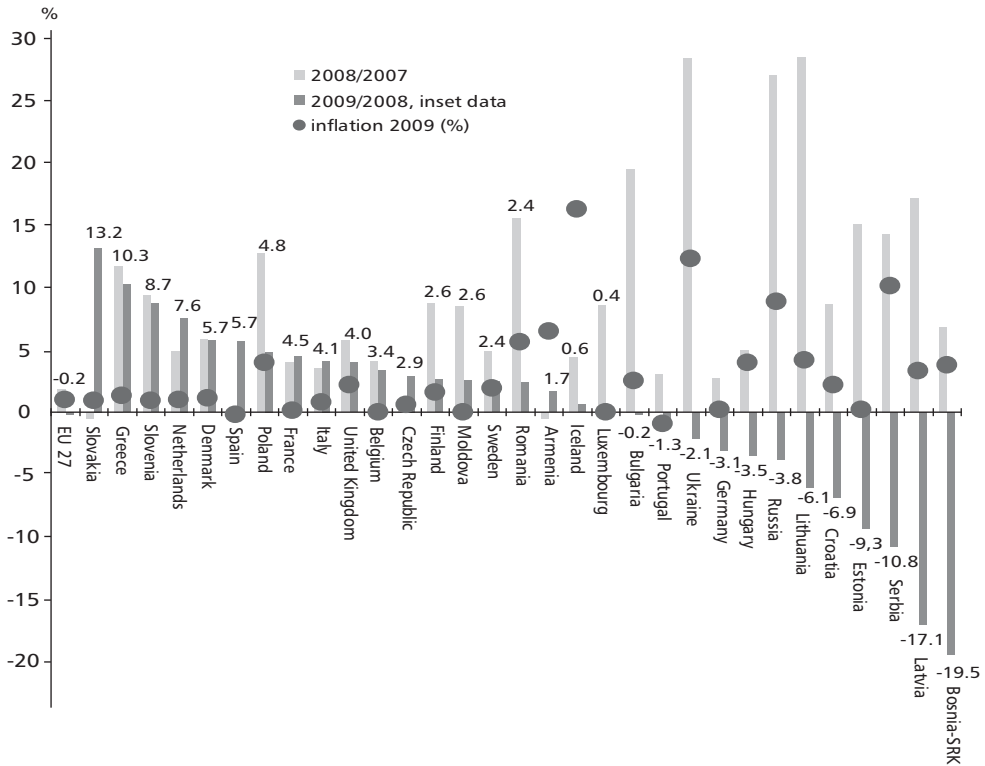
However, this trend did not last long and the full 2009 execution altered the picture completely: some new member states (the Baltic states, Hungary, Bulgaria) or nonmembers (Russia, Ukraine, the Balkans) have witnessed a dramatic combination of surging inflation and nominal shrinking of local finance (Figure 1). The same happened in old member states such as Germany and Portugal, where for various reasons the central governments probably did not transfer funds to compensate the local governments for their revenues losses, unlike in other hard-hit countries (Spain, Greece).

Overall, the landscape is very uneven across countries when looking at the European local budgets: from financial collapse in the Baltic states, CIS, and Western Balkans, to managed cuts in some new members states and Germany, to buoyancy or at least resilience in the rest of the continent.

There are two competing explanations for this: the happy scenario is that local finance will survive the crisis better than expected, due to the relative stability of the local revenue sources and the timely compensation transfers introduced by central governments. The alternative, unhappy scenario is that there may be only a time-lag between the moment the crisis hits the local economy and the moment when this is felt in the local tax collection:

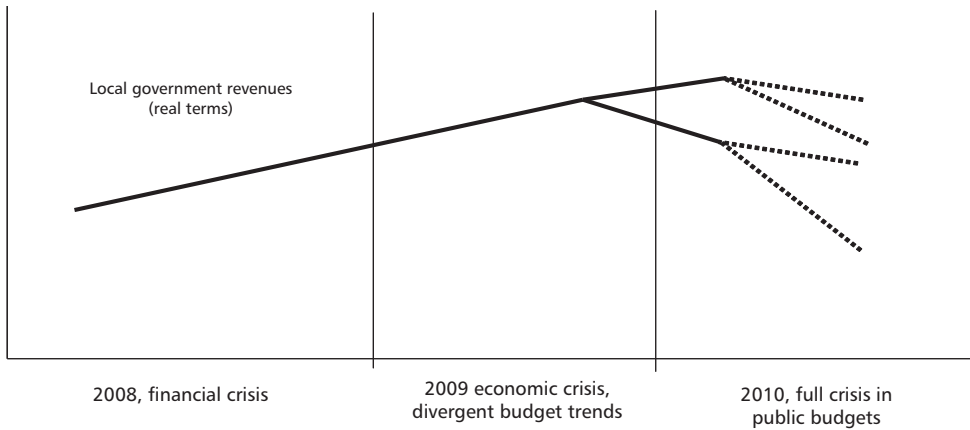
- Many own or shared taxes are tied with indicators reflecting last years' performance, and therefore the yield will decline in subsequent quarters (e.g., property, personal income tax, or local business tax in countries).
- Real estate transaction fees, a source that presumably reacted quickly to the crisis, in sync with the respective market, did not represent a very high fraction of the local revenues in the countries surveyed.
- Our data collection itself involves a time-lag, and therefore the picture might worsen as we receive information from the 2010 execution.

Figure 1.
Trends in Local Revenues (All Tiers Combined) and Inflation



Which scenario prevails will probably depend on the length of the crisis and the margin of manoeuvre each national government has in applying stimulus packages and compensating local governments for lost revenues. From this perspective, it is better to be cautious for the moment: the end of the crisis it is not yet in sight, in spite of the recent positive signs of recovery in industry; the few data we have at this point from the beginning of 2010 seem to support the unhappy scenario (local revenues getting worse); and most countries, especially in Central and Eastern Europe, already run substantial structural budget deficits, which do not allow their governments to be very generous with handouts and transfers. It is therefore possible that the European local budgets display a positive dynamic in the first stages of the financial crisis, only to collapse later, squeezed from below by slowly increasing social expenditure and declining own revenues, and from above by the reduced possibilities of the central government assistance. If so, 2010 may represent the peak of the crisis for the local communities (Figure 2).

Figure 2.
Stages of the Crisis and Local Budget Revenues



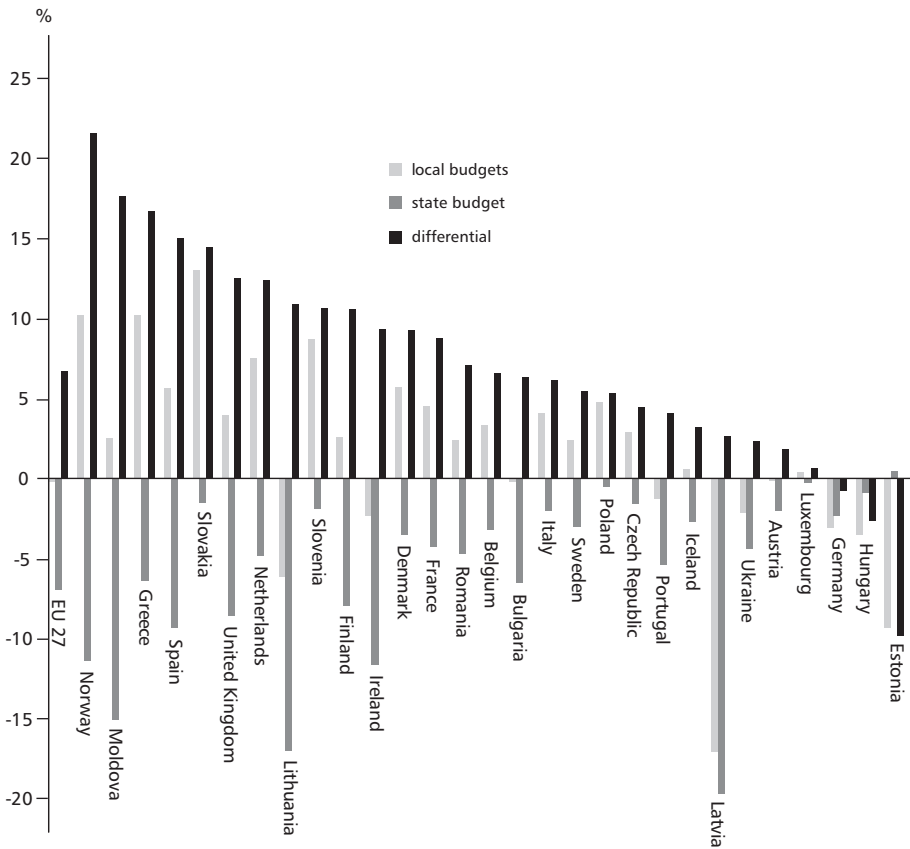
Going back to Figure 1 and analyzing it in more detail, a number of observations can be made. Apart from what happened in old member states, the crisis hit with extreme severity in early 2009 the local budgets in the Baltic states (Estonia) and some Western Balkan states, with nominal decline in revenues of more than 10%. To a less extent, this is true for Moldova and for the upper tier of the Russian subnational authorities (the “federal subjects”). However, these are nominal figures.

If we also take into consideration the inflation rate in 2008–2009, the general situation looks much worse: the net loss in Russia, Ukraine, Serbia, or Iceland is dramatic. In fact, the countries where local revenues increased in real terms in the first quarter of 2009 are very few, and, for some of the rest, governments intervened with central grants or fiscal policy changes over the course of the year. The overall picture is that, across the region, local governments struggle to maintain the previous levels of expenditure, which is eroded by inflation and the economic slowdown.

The crisis has generated a major shock not only in the budgets as such, but also in the expectations of local decision-makers and budget planners. Successive years of growth—or impressive growth, in CEE and SEE—in revenues, notably those deriving from taxes on individual or commercial property, personal income, or corporate revenues, have left local government people unprepared for the downturn. While in 2008 the local revenues were higher than in the previous year in almost all the countries covered by the analysis (Figure 1), only a few months later the picture changed and the local budgets turned into the red. Having to shift from planning spending increases to negotiating budget cuts requires a traumatic change of mindset.

On the one hand, this change may help focus the attention on efficiency and performance management, objectives often honoured more often in words than in deeds. With less resources available, decision-makers have now to face the tough choices they might have avoided in the years of plenty. In this sense, the crisis may also represent an opportunity to speed up reforms, in those places where they are needed. On the other hand, there is no guarantee that reductions in staff or other reallocations of resources, implemented in haste in a year of crisis, will be optimal for the service provision.

Figure 3.
Trends in National and Local Revenues in 2009 and 2008, in Percent



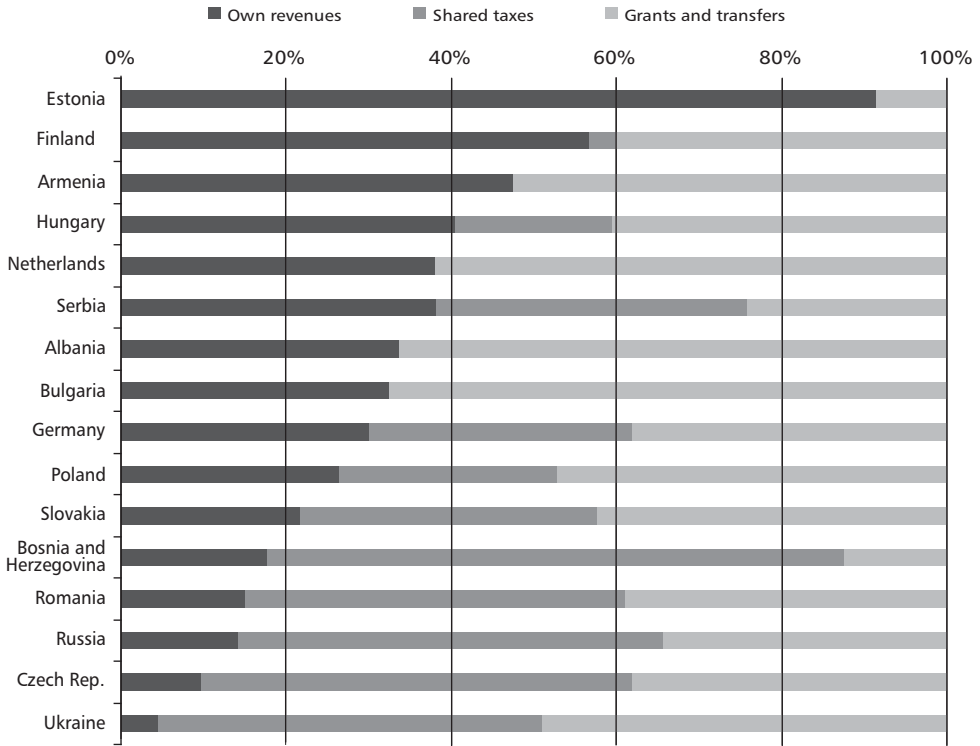
There are reasons for optimism in local communities due to the fact that in most of the countries surveyed, the budget crunch of 2009 did not affect them disproportionately. With the exception of Estonia, Hungary, and Germany, the central government was hit hardest and local budgets comparatively less, as Figure 3 shows: the latter grew more, or declined less than the former, and so the differential in dynamics plays in their favour. There are even situations when in the first quarter of the year the revenues to the central budget declined, while those to the local budgets continued to increase (Hungary, Romania, Croatia, Armenia; or France and the UK in the previous year). This trend appears to support a “generous government’s hypothesis”, i.e., that national treasuries reacted quickly to compensate through emergency transfers the losses at the local level, save for the three exceptions mentioned. Or it may be just that revenues at the local level are by comparison more volatile.

Both explanations may be true. There is evidence that in most places the central transfers were indeed bolstered; but also that central budgets were more exposed to the first stages of the crisis, relying to a larger extent on corporate and indirect taxes, or other contributions tied more directly to the level of economic activity. Nevertheless, a note of caution is necessary, as this situation may not last for much longer:

- The local revenues may decline later on (the time-lag effect mentioned).
- Even when central governments manage to overcompensate losses at the local level (transfers larger than the drop in revenues), these extra funds are usually earmarked. As a result, the local budget may be larger, but the autonomy in deciding how to spend it is more limited. It would be most unfortunate if the local autonomy ends up as a collateral victim of the drive to protect the local service provision against the vagaries of the crisis.

A downturn is obvious in large countries like Germany, Ukraine, and Russia (Figures 1 and 3), both at the central and local levels in the first case, and especially at the federal level in the second. Otherwise, by and large the local budgets followed the trend from the beginning of the year, just growing at a slower pace (Poland, Romania, Russia). This happened both in countries where the GDP held steady (Poland) and in those where a severe contraction was registered (Romania, with -7.2%). In Russia, if the upper tier of subnational governments is taken out of the picture (the “federal subjects”), local governments proper have witnessed small increases in revenues over the first half of 2009 and stagnation later.

Figure 4.
Local Financial Autonomy before the Crisis: Own Revenues in Total (2008)

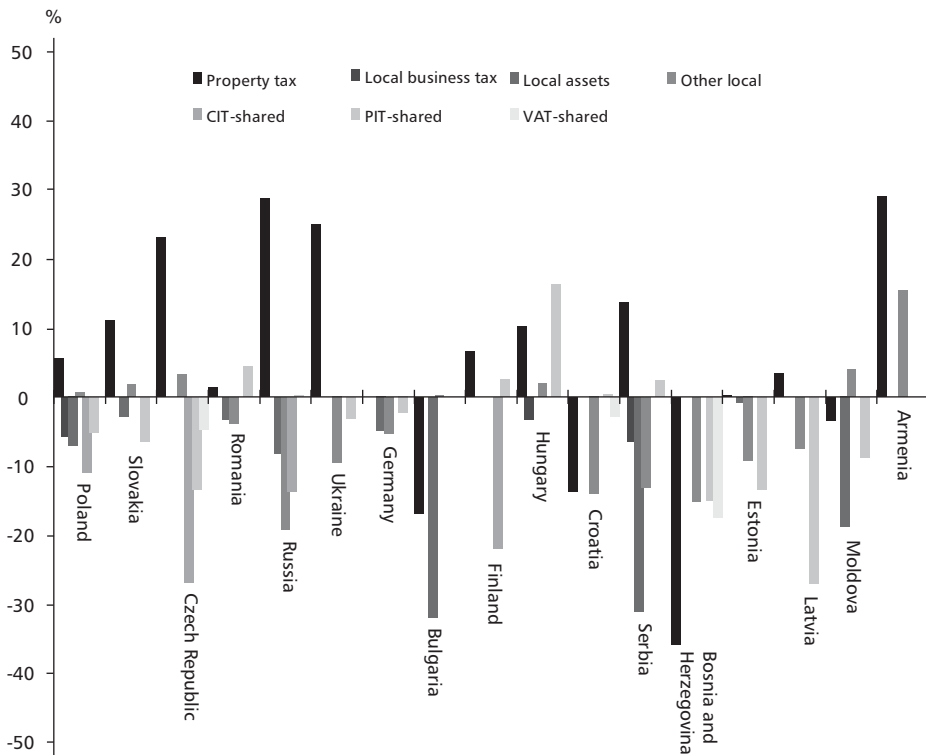


In other countries, such as Slovakia, substantive policy changes that occurred after the start of 2009 make the situation hard to compare with the previous period (re-assignment of revenue sources downwards, or a boost in capital spending). Nevertheless, difficult as it is to generalize based on such a small number of cases, the trend after the first quarter seem to be downwards, at least in the larger countries.

The vulnerability of local budgets does not depend on their degree of financial autonomy prior to the crisis, as Figure 4 indicates. We find countries hit hard by the crisis at both ends of the scale. In Estonia, Serbia, or Finland, local budgets rely more on own revenues and were badly hurt by the economic downturn, as common sense would suggest. However, in Russia, Ukraine, or Republika Srpska, local government budgets rely predominantly on grants and shared taxes, but still this has not prevented them from declining. On the other hand, those in the Czech Republic, Romania, or Poland did not suffer too much. Since there is no obvious correlation of this effect with

the GDP decline in 2009, we may conclude as a hypothesis that it is not the sheer reliance on transfers that insulate local budgets from the effects of the crisis, but probably a good combination of sources and the strength of contractual arrangements defining the intergovernmental finance: multiyear and formula-based transfers appear to offer more stability (as well as more accountability) to local communities, which is the case in the Czech Republic, Poland, and Slovakia.

Figure 5.
Trends by Type of Local Revenue in 2009 and 2008



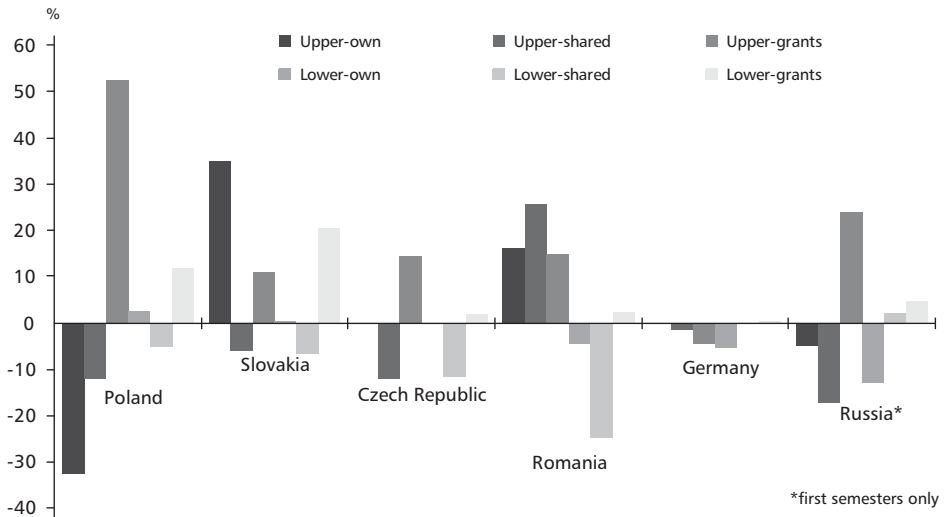
There is little surprise in the results displayed in Figure 5: the trends by type of local revenue follow more or less what the theory predicts:

- Local business taxes and the shares of the corporate profit tax fell quickly at the beginning of 2009 (Germany, Poland, Czech Republic, Russia, Serbia, Finland), unless they were tied to lagging indicators (Hungary), in which case the effect was delayed. The regions suffer most from this volatility (as Figure 6 also shows), since CIT shares tend to be a source assigned to this tier.

- Proceeds from the VAT shares (or other sales taxes), common in the ex-Yugoslav states (Croatia, Serbia, Republika Srpska) also marked a steep decline.
- Personal income tax proved to be more resilient in the first stages of the crisis, with the notable exception of the Baltic states, where unemployment shot up and this was reflected in the public budgets. If Europe will avoid a massive surge in unemployment, this would be especially good news for local governments: not only that social expenditure will be contained, but an important source of general-purpose funds (PIT) will continue to provide resources, helping to preserve not only the size of the budgets as such, but also some margin of manoeuvre at the local level. However, toward the end of 2009 the PIT yield declined in Central Europe, too (Poland, Czech Republic, Slovakia, Germany), which makes this trend an interesting one to be monitored in 2010.
- With the exception of some Balkan states, the property tax has held well in the crisis so far. However, there may be problems in the future with payments from companies, especially in countries where they are able to reassess the property value on their books (as in Romania): there is a strong temptation to do so when managers face a cash flow shortage, which creates tensions between businesses and the local government. On the other hand, in Russia and Ukraine there is evidence that the local governments proactively shifted the fiscal burden toward companies, by increasing the rates or the collection effort. Another problem may appear in those countries (UK) where a policy exists to help lower-income groups pay their taxes: while the tax collection may look good on paper, the yield incorporates a higher fraction of social support, also paid by the public authorities, and therefore the net gain is much reduced.
- Again, unsurprisingly, own revenues from the use of assets or other local sources (local fees and duties) went down almost everywhere.

Figure 6 differentiates the impact of the crisis by tier of subnational government. Again, we face the problem of the small number of countries in which the 2009 data allow such a breakdown. Nevertheless, the point made above about the greater vulnerability of upper tiers is confirmed: German *Länder*, Polish regions, and the Russian “federal subjects” were hit hardest in their own revenues, most likely because the mix of sources at this level makes collection more volatile. The same happened in Romania (though by not having regions, its upper-level local governments are not directly comparable with the others), and it may have happened in Slovakia, had the government not reassigned an important road tax to the regional level in 2009 (hence, the increase).

Figure 6.
Trends by Subnational Tier, 2009/2008



It is also clear that in most cases the central governments have indeed used grants to compensate losses at the local level, and this may explain to a large extent the relative resilience of local budgets in crisis visible in Figure 3. This happened obviously in Poland, Romania, and Russia; in Germany, the picture is not clear, with some help for the *Länder* and net cuts for lower tiers. What is important to note, however, is the fact that, depending on the strings attached to these compensation funds, the emergency transfers may imply a reduction in the decision-making autonomy at this level.

Another group of countries went the other way, cutting transfers for subnational governments: in Slovakia, because of the tax reassignment mentioned; in Ukraine, Hungary, or Bulgaria, probably due to the financial constraints at the central level. The data available so far do not allow us to tell if such examples are exceptions, or only announce a more general trend in 2010. In any case, local communities have fewer instruments to protect themselves against downturns and are very dependent on national policy changes. Therefore, further attention and monitoring are necessary to make sure that the financial burden of the crisis, which fell until now mostly on the shoulders of central governments, is not suddenly shifted toward local governments in the 2010 budget cycle or subsequently.

3. Local Capital Investments

3.1. Impact of the Economic Downturn on Municipal Investments

In assessing the consequences of the economic downturn for local government investments three basic questions will be answered:

- i) How important are the local government capital investments in the public sector?
- ii) What was the scope and trend of municipal capital expenditures during the past year?
- iii) How did the local own source capital revenues change in this period?

3.1.1. Significance of Local Investments

Local government capital investments do matter for the economy. Including fixed capital formation and capital transfers, they represent 1.5% of GDP in the European Union member states. (Table 1.) However, this seemingly low share is more than half of the total general government capital investments.

There are obviously huge variations in the weight of local investments between countries (4%–77%), depending on the scope and form of decentralization and also on the actual methods of financing local capital investments. The first consequence of economic downturn is also visible: compared to 2007 the share of local investments declined from 60% to 56% in 2008. (This fall was occurred before significant government programs were launched.) It might be the reason why CEMR already called the national governments' attention to the need for empowerment and partnership with the regional and local governments.⁷ The proposed "*local and regional new deal*" would mean protection of their financial bases, carrying out municipal social protection functions, and being involved in stopping the crisis.

3.1.2. Declining Local Capital Expenditures

Our survey in 2009 showed that fiscal austerity measures decreased subnational capital investments. Comparative data on local government capital investments were available from 13 countries. There are huge *variations in changes*: in some countries there was still

⁷ CEMR, The Athens Communiqué, 24 March 2009.

some increase (Finland: 7%, Luxembourg: 18%, Sweden: 8%, Croatia, Poland: 11%), while in most of the others contraction—from 6% (Ukraine) to 90% (Armenia)—was very visible in the first quarter of 2009. (Table 2.)

Table 1.
Local Investments as a Percentage of General Government Public Investment

	Country	2007	2008	Local in % of GDP (2008)
1.	Italy	78.3%	77.3%	1.7
2.	Netherlands	69.7%	72.7%	2.4
3.	France	72.7%	71.9%	2.3
4.	Portugal	65.2%	71.4%	1.5
5.	Ireland	72.7%	68.5%	3.7
6.	Finland	64.0%	68.0%	1.7
7.	Denmark	70.6%	66.7%	1.2
8.	Slovakia	57.9%	61.1%	1.1
9.	Germany	53.3%	60.0%	0.9
10.	Latvia	49.1%	59.2%	2.9
11.	Poland	61.0%	58.7%	2.7
12.	Sweden	54.8%	54.5%	1.8
13.	United Kingdom	55.6%	52.2%	1.2
14.	Austria	50.0%	50.0%	0.5
15.	Slovenia	48.6%	47.6%	2.0
16.	Hungary	44.4%	46.4%	1.3
17.	Romania	47.4%	46.3%	2.5
18.	Luxembourg	38.2%	46.2%	1.8
19.	Belgium	50.0%	43.8%	0.7
20.	Estonia	40.7%	42.9%	2.4
21.	Lithuania	32.7%	40.8%	2.0
22.	Czech Republic	46.8%	39.6%	1.9
23.	Bulgaria	37.5%	35.7%	2.0
24.	Spain	31.6%	28.9%	1.1
25.	Greece	20.0%	20.7%	0.6
26.	Cyprus	20.0%	20.0%	0.6
27.	Malta	5.0%	3.7%	0.1
	EU (27 countries)	60.0%	55.6%	1.5

Source: Eurostat, Government Statistics.

Table 2.
Changes in Local Capital Investments

1.	Albania	<i>Capital expenditures:</i>	Q1 of 2009/2008: 52% Q2 of 2009/2008: 152%
2.	Armenia	<i>Funds for capital investments:</i>	2008/2007: 73% Q1 of 2009/2008: 10%
3.	Bosnia and Herzegovina	<i>Capital expenditures:</i>	Q1 of 2009/2008: 91%
4.	Federation of Bosnia and Herzegovina	<i>Capital expenditures:</i>	Entity (2008/2007): 122% Municipal sample 39%-172%
5.	Croatia	<i>Capital expenditures:</i>	Q1 of 2009/2008 111%
6.	Denmark	<i>Capital expenditures:</i>	2009/2008 87%
7.	Estonia	<i>Capital expenditures:</i>	Q1 of 2009/2008 80% Q2 of 2009/2008 82%
8.	Finland	<i>Capital expenditures:</i>	Q1 of 2009/2008 106% Q2 of 2009/2008 106%
9.	Germany	<i>Capital expenditures:</i>	Q1 of 2009/2008: Local governments: 98% <i>Länder</i> (states) 217%
10.	Hungary	<i>Capital expenditures:</i>	Q1 of 2009/2008 78%
11.	Latvia	<i>Capital expenditures:</i>	Q1 of 2009/2008 61% Q2 of 2009/2008 72%
12.	Luxembourg	<i>Gross capital formation:</i>	Q1 of 2009/2008 118%
13.	Netherlands	<i>Capital investments:</i>	Q1 of 2009/2008 83% Q2 of 2009/2008 99%
14.	Poland	<i>Capital expenditures:</i>	Q1 of 2009/2008 103% Q2 of 2009/2008 111%
15.	Portugal	<i>Investments:</i>	Q1 of 2009/2008 97% Q2 of 2009/2008 108%
16.	Romania	<i>Capital expenditures:</i>	Q1 of 2009/2008 80% Q2 of 2009/2008 67%
17.	Sweden	<i>Gross capital formation:</i>	Q1 of 2009/2008 117% Q1 of 2009/2008 108%
18.	Ukraine	<i>Capital expenditures:</i>	Q1 of 2009/2008 94%

Source: Country reports.

However, these figures should be *interpreted with caution*. Only two years are compared at the very beginning of the economic downturn, so the trends might be influenced by special factors, like the election cycle. Local capital spending is usually higher in an election year. Also the murky relations with public utility companies in South Eastern Europe might affect the level of capital expenditures in the fiscal reports. The public utility companies are mostly financed by municipal grants, through special municipal contracts, and the service organizations receive subsidies from the line ministries or national public investment programs. These expenditures are connected to local services, but they are rarely consolidated with the municipal capital budgets.

3.1.3. Drop in Local Own Source Capital Revenues

Local capital expenditures are usually financed by municipal revenues, national budget transfers, and international development programs. Large-scale investments in local infrastructure, like utilities or roads, often do not appear in the local budgets. In the new EU member states, the local capital investments almost exclusively depend on the funds allocated through the various EU Operational Programmes. In other countries with rather centralized funding of local governments, the capital revenues are minimal and they are usually treated as residuals after the current budget expenditures are made.

The own source capital revenues are typically connected to *local government property*. In transition countries, after receiving the former state-owned assets or benefiting from privatization revenues, these own source capital revenues usually diminish. The cash-strapped local governments do not invest these cascading revenues, so they are often used for current budget purposes.

In the case of Armenia, one of the reasons for a sharp decrease in municipal capital investments was the decreasing revenues from the sale of municipal land. In the period of 2004–2006, state-owned land located in the administrative territory of the municipalities was transferred to the municipalities. Sale of these assets was the main source of municipal capital budgets in 2007 and 2008, so by now only a small fraction of these assets remained.

Local capital revenues are rarely separated from the current budgets and it is not clearly regulated which should be considered as a capital revenue (e.g., the construction land fee in Serbia). The concept of distinct local government development funds is being introduced in some countries only in recent years, as in the case of the former Yugoslav Republic of Macedonia in 2008.

The surveyed countries report declining municipal capital revenues (mostly lower asset sales). (Table 3.)

Table 3.
Changes in Local Government Capital Revenues

	Country	Capital revenues, period compared	Percent Change
1.	Armenia	Asset sale 2008/2007: Q4/Q1 of 2008:	85% 69%
2.	Bosnia and Herzegovina	“Income on the ground of capital” (asset sale) 2008/2007: Q1 of 2009/2008:	347% 123%
3.	Bulgaria	“Other non-tax revenues ⁸ ” 2008/2007:	81%
4.	Croatia	“Revenue from non-financial assets” Q1 of 2009/2008:	61%
5.	Czech Republic	Capital revenues 2008/2007:	128%
6.	Estonia	Property sale Q1 of 2009/2008:	56%
7.	Georgia	Capital revenues 2008/2007:	96%
8.	Germany	“Other capital related revenues” Q1 of 2009/2008: Local government: <i>Länder</i> (state):	92% 45%
9.	Hungary	Sale of assets, shares Q1 of 2009/2008:	96%
10.	Poland	“Revenues from local government property” Q1 of 2009/2008: Q2 of 2009/2008:	93% 84%
11.	Romania	Capital revenues Q1 of 2009/2008: Q2 of 2009/2008:	31% 40%
12.	Russia	Q1 of 2009/2008: Property sale: Capital transfers:	51% 25%
13.	Slovakia	“Other capital revenues” (asset sale) Q1 of 2009/2008: Q2 of 2009/2008:	47% 33%
14.	“the former Yugoslav Republic of Macedonia” ⁹	Capital revenues (asset sale) 2008/2007:	101%
15.	Ukraine	“Revenues from capital transactions” Q1 of 2009/2008:	40%

Source: Country reports.

⁸ Sales of property, rents, dividends, interests, concessions, donations, penalties, sanctions.

⁹ Sample of five cities.

In countries with high *remittances*, the transfers from abroad could be important sources of local investments. Workers come home for the summer holidays and they pay their local taxes only in that period. They usually invest in housing, which would require basic amenities, sometimes helping municipal infrastructure development. According to past experiences, the remittances might increase in the first period of the economic crisis, when returning emigrants bring home their savings. So they could increase the investments and spending on local infrastructure.

3.2. Launching Stimulus Programs or Coping with Restrictions?

In Europe—both in the Eurozone and in the EU 27 countries—the GDP decline was 2.5% in the first quarter of 2009 compared to 2008. It was even higher compared to the last months of the previous year, when the growth rates were negative: -1.6% in the euro area and -1.5% in the EU27.¹⁰ The American economy showed the same decrease in this period. National fiscal policies have to respond to this decline for two basic reasons: firstly, because public spending is an important factor of economic development and secondly, simply because of the shrinking tax revenues the former expenditure targets cannot be met.

As the OECD survey in 2009 showed that in the developed countries significant *economic recovery programs* had been started by the governments.¹¹ In the period 2008–2010, the budget impact of the average stimulus packages totaled of 2.5% of the GDP, mostly concentrating on fiscal year 2009. The Economic Recovery plan of the European Union also targeted a coordinated fiscal impulse of the member states' budget (1.2%) and of the EU funding (0.3%) for the year 2009.¹²

These fiscal measures are usually directed at both public spending and public revenues. The majority of the OECD member countries launched supportive fiscal packages for the period of 2008–2010. Almost half of the measures will be implemented in the fiscal year 2009. The fiscal policies target *government spending*, which is planned to be increased (1.5% of GDP in 2008), but *tax revenues* will decrease (an estimated 1.9%) as well. On the expenditure side, the fiscal programs typically focus on infrastructure development and active labor market measures are introduced. On the revenue side of the budget, a reduction of the national tax burden, primarily personal income taxes, is planned.

¹⁰ Eurostat (STAT/09/70) report.

¹¹ OECD Economic Outlook, 2009, Interim Report, Chapter 3. The Effectiveness and Scope of Fiscal Stimulus.

¹² A European Economic Recovery Plan (COM(2008) 800 final), 2008.

However, some countries might not benefit from these fiscal policy actions. When their economy is dependent on exports then the economic boom in their partner countries is what really matters. If there is a high budget deficit coupled with a current account deficit, then the room for these domestic fiscal policy measures is limited. High external debt would require also public sector restrictions and leave no space for economic stimulus programs.¹³ So the fiscal measures very much *depend on* the overall economic and fiscal *status of the country*.

Also it is widely accepted that the increase in spending should be *short-term and focused*. The “automatic stabilizers,” such as the social benefit programs, will create demand, but should phase out with economic recovery.¹⁴ The OECD already started to communicate the importance of the exit strategy after the crisis. It is emphasized, that recovery measures could be made only according to the long-term fiscal policy objectives.

3.3. Local Options for Increasing Capital Investments

Local governments in the period of economic downturn are faced with two types of challenges in the area of capital investments:

- (i) Whether they are involved in the economic stimulus programs at all?
- (ii) How they can cope with the consequences of restrictions in the general government budget?

Local governments might face these two different problems at the same time, when the special countercyclical national funds, the new allocation mechanisms of these grants, are combined with the overall reduction in the usual sources of capital investment financing. Municipal responses to these two challenges were diverse in the countries studied, because the systems of intergovernmental finances, the level of local government autonomy and the extent of economic downturn vary.

In evaluating the local responses, the following options will be discussed in greater detail:

- a) Competition for the available resources in the public budgets.
- b) Benefits of the external public funds, like the EU or other donors’ assistance.
- c) Increase in own source capital revenues, including funds received through various forms of public-private partnership (PPP) schemes.

¹³ K. Ott (2009) *Fiscal Destimulation Instead of Fiscal Stimulation*. Zagreb: Institute of Public Finance.

¹⁴ A. Kraay and L. Serven (2008) *Fiscal Policy Responses to the Current Financial Crisis: Issues for Developing Countries*, Macroeconomics and Growth Research, The World Bank.

- d) Municipal borrowing.
- e) Improving local project preparation and management.
- f) Introducing indirect measures to create a favorable environment for local investments.

3.3.1. Competition for Public Funds

In some countries, the system of intergovernmental finances has *built-in, automatic mechanisms* to protect the local governments' unified budgets from sudden and unexpected changes. In the case of Hungary, "the former Yugoslav Republic of Macedonia," and Slovakia, the set rules of PIT or VAT sharing stabilize the local revenue flow. The local governments' share is either legislated by the act on local government finances or there is a long-term political consensus on the "fair" share of local budgets. Sometimes the lack of accurate data also explains the delay; for example, in Hungary no exact information on PIT revenues is available in the period of fiscal planning ($t-1$), so revenues are shared with a two-year-delay (based on the actual PIT revenues in year $t-2$).

Special national funding schemes and public investments programs might also limit the scope of the national government's discretion. The institutional interest of the agencies managing public investment programs (e.g., the funds allocated through the National Investment Plan in *Serbia*) or a special anticrisis commission allocating the available funds (*Armenia*) could be significant built-in breaks for restrictions. The national associations of local governments could also protect their members' interest during the budget negotiation process to avoid leaving their members out of the economic recovery programs (*Bulgaria*).

In the more developed economies of Western Europe significant economic stimulus programs have been launched. In *France*, the new finance law for 2009 legislated a recovery program equal to 1.3% of GDP. Local governments benefit from these extra funds by receiving compensation for the VAT on new local capital investments; loans are provided for local government projects or for public-private partnerships and special programs (e.g., digital schools in rural municipalities). In *Norway*, local governments received one-third of the 20 billion krone national package mostly for capital investments in infrastructure. The *UK* government funding for local authorities aimed primarily at increasing employment and housing development.

All these funding mechanisms might be subject to competition for public revenues. Rearrangement and centralization of public sector revenues is always an option for the national governments. In *Serbia*, where the cutback in local grants was severe (37% in the middle of the fiscal year), there is a competition for the potential revenues from privatisation of local public utility companies. These companies manage marketable assets (like land, buildings), so they could raise one-time capital revenues for the future owners.

But local governments also follow similar policies toward their service organizations by lowering their subsidies or forcing them to borrow for funding capital investments (without issuing local government guarantees).

3.3.2. Better Access to External Resources

In countries eligible for European Union structural and cohesion funds or other programs available for candidate countries or external partners, the EU is a significant source of financing local capital investments. Several nonmember countries reported new activities in *information sharing and awareness raising*, which would improve the local governments' access to IPA funds in the Balkans and other twinning, cross-border, and national government cooperation programs (e.g., TAIEX) as well.

In the case of the new member countries, *EU structural and cohesion funds* are the single largest sources of future municipal capital investments. (Table 4.) The new EU member states developed various methods for efficient use of the EU funds. Special *intermediary funds* were set up in Bulgaria, and Estonia, and the application and purchasing *contracting procedures* have been simplified (Estonia and Romania). In Poland, the government is committed to supporting the prefinancing of EU projects and accelerating the funding of large local infrastructural programs. In Greece, a special nonprofit organization has been set up to assist those small municipalities that do not have the appropriate skills for preparing projects for EU structural funds.

The European Commission has also accelerated the implementation of the programs financed by the structural funds. The funds for prefinancing of EC projects has been increased and member states should enhance the part financed by the Community and should bring forward the implementation of major investment projects, simplifying the treatment of advances paid to the beneficiaries.¹⁵ New calls for proposals will be launched in four areas: (i) energy; (ii) infrastructure, transportation, and water (iii) green technology, and (iv) Internet infrastructure. The national authorities should pay their suppliers on time (in 30 days). Restrictions on State Aid will be temporarily eased.

It is critical to improve the EU fund *absorption capacity* of the national administrations. The secondary regulations are often stricter and more complicated than those of the European Union, partly because the national governments want to protect themselves from corruption charges. However, in reality the more complicated rules increase the risk of corruption.

¹⁵ A European Economic Recovery Plan (COM(2008) 800 final), 2008.

Table 4.
Actions to Improve Access to EU Funds

1.	Federation of Bosnia and Herzegovina	IPA, TaieX, Twinning programs: awareness raising, capacity development, decrease cofinancing, easing project requirements, adjusting local projects to IPA requirements.
2.	Bulgaria	Fund for Local Authorities and Governments (FLAG), partially funded by EBRD loan to assist EU project design and implementation.
3.	Estonia	EU Funds reallocated through special funds for countercyclical purposes. Application process eased and accelerated.
4.	Greece	Establishment of the DEMOS S.A., a nonprofit organization to assist the municipalities in preparing proposals for EU structural funds offer. Preparation of 4-year action plans for the municipalities with populations below 10,000.
5.	Hungary	EU funded projects' construction work tenders are up by 57% in Q1 2009, compared to Q1 2008.
6.	Ireland	Significant reductions in tender prices; delivering large part of the National Development Plan of 2007–2013 within the envisaged timescale.
7.	Poland	Simplification of procedures, assisting the small municipalities to submit proposals.
8.	Romania	Making public procurement procedures more efficient (in managing complaints, shortening the process).
9.	Serbia	IPA Funds redirected to national budget.
10.	Slovakia	EU Funds are major sources, but planning and project design capacity varies; regions and cities have qualified staff.
11.	Ukraine	Further decreasing cofinancing requirements for CBC programs (2004/2006: 10%); pressure for high quality projects within the consortia; lack of fiscal regulations for accounting and managing EU funds.

Source: Country reports.

3.3.3. Increasing Own Capital Revenues

Most of the countries reported declining or stagnating local government capital revenues. (Table 3.) Asset sale and privatisation does not work in the crisis period, when there is an overall lack of investment funds and the property prices are declining.

Private contribution to public sector investments has stopped as well. Despite the advantages of PPP deals there is a general resistance toward this earlier much-praised method of financing infrastructure and urban development. One-quarter of globally surveyed PPP projects are facing difficulties, either being delayed or canceled, despite the fact that they were at an advanced stage of raising finance. This trend is expected to continue; however, some countries like France reported no long-term reduction in the

number or volume of public private partnership. There is a demand for these innovative projects, but the share of the public sector has to be increased, when the private sector has limited access to funds.¹⁶

3.3.4. Local Borrowing

Loan financing of capital investment projects is regarded as one of the feasible options to keep local government infrastructure development afloat. Studies of the possible ways to recover from economic crisis showed that in countries with low public debt the municipal borrowing might be a fast response with high multiplier affect for stimulating economic growth through fiscal expansion.¹⁷ Subsidized loans might further help specific investments (e.g., for energy savings) as well.

However, as the present crisis originated from the financial sector, the loans are not easily available on the market. The traditional communal banks were also hit by the crisis.¹⁸ Despite this situation some of the surveyed countries still showed considerable increase in local government borrowing (Table 5).

Interestingly the new EU member countries actively used this method of financing, partly to raise funds for cofinancing and prefinancing the projects funded by the EU. These are the countries, which already have proper regulations on municipal borrowing and the rules of potential consolidation for defaulting local governments are set and tested. In *France*, a special company for financing the French economy (SFEF) provides guarantees and loans for local governments. Consequently, in the last quarter of 2008, municipal borrowing increased by 4.9%, while loans in general only grew by 1.4%. *Ukraine* reported amendment of borrowing regulations, making the sale of securities possible and relaxing debt limit regulations.

The forms of local government borrowing have been transformed as well. The former bank loans are being gradually supplemented by a new wave of *bond issuance*. It has been actively promoted in transition countries for many years, but now urban local governments have started to use this instrument again. Large cities in the Czech Republic, Hungary, and Poland issue bonds more actively, because no public procurement

¹⁶ P. Desilets (2009) *PPPs Projects and Financial Crisis: Short-Term Impacts and Medium-Term Trends*. Institute for Public-Private Partnerships, Inc.

¹⁷ In the case of China, the East Asian crisis was partly managed by lifting the constraints on subnational borrowing through allowing municipal loans with a size of 1% of GDP. http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTMACROECO/0,,contentMDK:22058212-pagePK:64168182-piPK:64168060-theSitePK:477872,00.html#Notes_7.

¹⁸ Like Kommunalkredit (Austria), Kommunalkreditt (Norway), or Dexia. See CEMR survey in March 2009.

regulations apply and there is a stable market for private placement (usually by the local governments' own commercial banks). Other countries like Serbia are in the process of developing supportive regulations for municipal bond financing.

Table 5.
Changes in Local Government Borrowing

Country	Period compared	Percent change
1. Bosnia and Herzegovina	2008/2007	164%
2. Bulgaria	2008/2007	54%
3. Croatia	Q1 of 2009/2008 Local government borrowing	55%
	Local government lending to public utility companies	246%
4. Czech Republic	Municipal debt: 2008/2007	101%
5. Denmark	2009/2008	37%
6. Finland	Loans Q1 of 2009/2008	112%
7. Hungary	Q1 of 2009/2008	463%
8. Poland	New debt Q1 of 2009/2008	66%
	Q2 of 2009/2008	280%
9. Romania	Loans Q1 of 2009/2008	125%
	Q2 of 2009/2008	700%
10. Serbia	Debt service Q1 of 2009/2008	126%
11. Slovakia	Loans and credits Q1 of 2009/2008	96%
	Q2 of 2009/2008	540%

3.3.5. Improved Project Preparation and Management

The EU fund allocation mechanisms through the *Operational Programmes* forced local governments to prepare capital investment projects, which fit into the hierarchical structure of regional development plans. This planning process was started well before the EU accession, so by now local governments, in addition to having general urban

and regional development plans, have designed a variety of projects, which can be easily adapted to the national funding priorities.

In the non-EU member countries, the various *donor programs* have prepared the new municipal projects. They are funded by a combination of revenues, including donor support, special credit lines, and support to domestic development banks. For example, in Serbia the Standing Conference for Towns and Municipalities has developed a web-based information system assisting municipalities to develop the documentation for accessing development funds (SLAP).¹⁹ It is a database of infrastructure projects and requirements for financial support. SLAP enables municipalities to fill in data online, creates a scoring system, and makes project selection for the donors more transparent. The EU recovery plan puts a great emphasis on *financial management*. Timely payment of public sector contractors and accelerated public procurement procedures (decreasing the time limit from 87 days to 30) for an interim period of the coming two years might speed up the implementation of the new projects.

3.3.6. Indirect Measures for Improving Local Investments

Local governments in the transition countries are actively involved in economic development. In the period of economic downturn, when large-scale foreign direct investment also slows down, more attention is paid to small- and medium-size enterprises. Local governments are able to do a lot to promote these businesses and keep the flow of inward investments steady.

Following the traditions of the former planned economy, municipal officials are actively involved in developing the local business environment. Obviously the regulatory framework is set by the national government. But there are municipal techniques that could have an impact on SME development: e.g., through a slight shift in funding from infrastructure projects to SME development (Hungary), subsidized interest rates for SMEs (Serbia), or government guarantees for SME loans (Republika Srpska/BiH).

3.4. In Search of New National Policies

As can be seen from our survey, national governments are trying to develop new policies to minimize the impact of economic crisis at the local level. These measures are partially justified by the high share of local capital investments in the public sector and by the multiplier effect of local investments. The national government's influence is limited by the overall fiscal constraints, which decrease the resources available for local governments in the form of transfers and shared and own source revenues.

¹⁹ <http://www.misp-serbia.rs/en/slap.php>.

Consequently, the local government responses to the declining revenues are very much defined by the *forms and stage of decentralization* in a specific country. In this respect, the most important factors are: (i) the scope of local government spending, (ii) the role of the national state in capital investment planning and financing, (iii) the availability of external official development assistance and the EU funds, and (iv) the municipal capacity to borrow and to manage debt.

In the period of economic crisis and fiscal restriction, the most a democratically elected municipal leadership can do is to *adjust local fiscal policies to the voters' preferences* by responding to the local priorities. Since 1980 three basic strategies have crystallized: (a) increasing public revenues through higher taxes, (b) cutting expenditures, and (c) improving service efficiency, primarily by focusing on cooperation with the private sector and using market-based incentives. This latter strategy resulted in the worldwide movement of alternative service delivery arrangements—starting from contracting out to complex forms of concessions—and the adaptation of the new public management to local public service provision and administration.

Currently, however, there seems to be an overall move away from these methods. It is claimed that more power has to be allocated to the state as an owner, not just as a regulator; the market is regarded as a mechanism creating monopolies, further increasing social inequalities. Following these arguments there are high hopes that stronger governments will be more effective and fairer.

But, as some development economists argue, this would require a more transparent and less corrupt public sector.²⁰ The desire for a “new deal” between different tiers of governments should be based on a combination of institutional reforms. The way local governments will respond to the present economic downturn does not really depend on short-term emergency measures. It is defined more by the strength of the local governments, and the institutions and procedures developed under the slowly evolving decentralization framework.

4. Improving Efficiency

4.1. Introduction

Making the most of more limited resources is likely to be an ongoing challenge. Improving the efficiency and effectiveness of local government expenditure has many manifestations.

²⁰ Kaufmann, <http://www.thekaufmannpost.net>.

Country observers' reports detail many efforts by individual local governments to reduce costs. These mainly apply to administrative overheads and include cuts in overtime, bonuses, official entertainment, and telephone usage, while purchases of vehicles and furniture have been deferred and staff vacancies have been frozen. In Serbia, GPS systems have been fitted in municipal vehicles so that both drivers and town halls know where they are. Most are local initiatives, but some have been imposed. In the case of Romania, some efficiency measures have been mandated by government as conditions for national budget support by the European Union. In Latvia, municipal employees have shared a national 15% cut in public service pay, while Hungarian staff are losing their 13th-month bonus, and UK employees face a two-year pay freeze.

Justified as they may be, these are temporary or one-off savings that do not greatly affect longer-term efficiency. This requires more fundamental examination of the practical ways in which services are run.

4.2. The Role of Benchmarking

There are three good examples of "value for money" approaches and performance audit systems developed over the last three decades under the umbrella of New Public Management:

- "Value for money" assessments of individual authorities and services are undertaken on a voluntary basis by the Danish Local Government Association, based like their British equivalents on disseminating the practice of those municipalities which perform well in a comparison of unit costs.
- Benchmarking individual service and administrative service costs carried out in Bulgaria by the Open Society Foundations in collaboration with the National Association of Municipalities, described in Annex I.
- Performance standards measured by the Benchmarking Club of Hungarian water company managers, with the consultant help of the Regional Centre for Energy Policy Research at the Corvinus University of Budapest. The comparisons look at range of both technical and management issues. A fuller description is in Annex II.

These are all voluntary systems based on peer review. A "top downwards" approach has been adopted for over two decades by the English Audit Commission and parallel bodies in Scotland and Wales, which have developed comprehensive assessments of local government efficiency, although their recommendations are not binding on local authorities. The Russian Federation now requires local authorities to report annually on a range of performance measurements.

All these measurement systems have achieved substantial improvements by some if not all authorities. The standard criticism is that they focus undue attention on certain easily measurable aspects of performance at the possible expense of other aspects of quality.

4.3. Performance Audit

During the 1980s and as part of New Public Management reforms, several Western European countries extended their audit of both national and local government from a preoccupation with legality to the promotion of performance and efficiency. After 1989, a number of Central European states like Hungary and Poland did the same.

In 2006, the Local Government and Public Service Reform Initiative surveyed the audit of local government in 12 Eastern and South Eastern European states. It found that most states had an adequate legislative framework, much of it newly enacted with EU assistance, but implementation so far was weak:

- Qualified auditors were in short supply in the public sector and as a result actual external audits infrequent. Inevitably the situation was worse in countries with large numbers of small authorities. (Only 84 out of 7,455 Romanian local government final accounts had been audited).
- Audit was still largely concerned with legality and conformity with required procedure; performance and efficiency, though within its terms of reference, were rarely examined. Audit training in these aspects was often inadequate.
- Public interest in audit findings was generally low, not aided by the customary opacity and circumspection of published reports.

The Council of Europe has been helping to develop performance audit capacity in a number of countries such as Bulgaria, Russia, and Serbia. The financial downturn emphasises the need.

4.4. Efficiency in Social Expenditures

In current economic circumstances, national and local policies seek to protect social expenditures, because of their heightened importance. Preserving present standards of social provision does not, however, mean preserving existing input levels or methods of spending; their efficiency should also come under review.

Local governments' involvement in the social sector varies enormously, as does its freedom of action. Sometimes the allocation of responsibility itself creates incentives to high cost provision. For example, in a number of countries such as Hungary and

Ukraine, responsibilities for residential care for the elderly and infirm and hospital care lie with upper tiers of local government, while the municipalities provide domiciliary and primary health care. Funding of the upper-tier service may well be based on the numbers housed or treated. These arrangements may provide strong incentives to place social service clients in residential homes or patients in hospitals when it may be neither the most appropriate nor sympathetic response to their need. In most cases it is the more expensive solution.

The system of payment for services can also be a major source of inefficiency. Medical care costs, for example, can be inflated by a system of paying providers per admission or individual treatment. These can result in patients staying in hospital far longer than necessary or being subjected to inordinate numbers of blood tests. These perverse incentives are widely recognised and systems like DRG funding have been designed to reduce them. But such reforms have not been universal and the crisis underlines their importance.

Other examples of excessive social sector costs abound. Schools with declining pupil populations, for example, frequently retain previous numbers of teaching staff while mandated contact hours with pupil are generously low.

4.5. Regulation of Expenditure

Local governments that would like to cut costs are frequently debarred by national regulation prescribing inputs rather than outcomes. This applies particularly in the countries that distinguish between the “autonomous” and “delegated” tasks of local government and place the more expensive services like education, social service, and health care in the latter category.

The Ukrainian report states the following:

Delegated services are often regulated by detailed standards of provision and local government management subject to close supervision by sectoral ministries. Local governments have very low discretion in allocating funds and administering respective programmes. Administrative decision-making (including facility-level budgeting) is subject to a rigid vertical structure of input norms, dictated by central line ministries. These norms are contained in ministerial guidelines dictating the amounts of staffing and other resources based on existing infrastructure inputs, but also in constitutional prohibition of closing facilities in healthcare and education. These norms are also the key principle behind budgeting at the facility level and negotiating these budgets with local governments. One consequence is imposition on local governments of vertically protected recurrent spending, including half of the total public wages. Some decisions on local approaches to service provision are also stimulated by incentives built in the transfer formula as described earlier. This input based budgeting, which permeates the system,

creates strong negative implications for technical and allocative efficiency in key sectors, where the quality of service delivery is deteriorating at dramatic rates.

Ukrainian local governments cannot close any grossly underutilised schools or social and cultural institutions without the permission of national ministries, frequently withheld. Such institutions may well have lost their custom through changes in population or public preference.

The problem occurs more widely. It is typically exacerbated by the fact that the sectoral ministries concerned are not faced with the consequences of running uneconomic services, since the financing of delegated services is usually governed solely by ministries of finance.

Several national rapporteurs comment that failure to meet unsustainable service standards is widespread but tolerated. Others identify national insistence on observing the norms as a serious problem. Signatories of the European Charter should be ensuring that national ministries do not micromanage services entrusted to local government whether technically delegated or not.

4.6. Delegating Institutional Management

The same principle applies to the relations between local governments and their own subsidiary agencies and institutions.

When budgets have to be cut, it is usually their managers who know best where waste is occurring. It is only the school head who will bother that lights are switched off at the end of the day and only if the school budget keeps the savings.

Delegating budgets and their managements to service institutions is another aspect of New Public Management which is now widespread; per-pupil funding of schools is now widely adopted, for example.

These solutions, though timely in a period of recession, need careful introduction, however. Budget allocations need to take full account of exogenous variations in cost. Population density and social background have major impacts on school expenditure, for example. Audit and other forms of accountability must match degrees of financial delegation.

4.7. Local Government Audit

In 2007, the Local Government and Public Service Reform Initiative commissioned reports on local government audit in 12 Eastern European countries. The countries covered were Armenia, Azerbaijan, Bosnia and Herzegovina, Croatia, Georgia, Moldova,

Montenegro, Romania, Russia, Serbia, “the former Yugoslav Republic of Macedonia,” and Ukraine. Their findings are briefly summarised in the following paragraphs and suggest the need for further reform before audit can play its full part in improving efficiency.

4.7.1. External Audit

Legal Requirements

External audit may be exercised by the following:

- National audit institutions examining local budgets in full.
- National audit institutions scrutinising the expenditure of earmarked state budget subsidies only.
- Private audit companies operating commercially.

In Bosnia and Herzegovina, Croatia, Romania, Serbia, and “the former Yugoslav Republic of Macedonia,” local governments are subject to comprehensive audit by the national audit organisations answerable to Parliament. These are states that possess or aspire to EU membership and the arrangement arises from recent reforms designed to conform with *l’acquis communautaire*. In Montenegro and Serbia, local councils may also hire parallel audits by commercial firms. Similar provisions exist in Moldova.

In Russia and Ukraine, the federal/national and republican/*oblast* audit chambers have powers to audit use of State Budget earmarked subsidies but not “own revenue.” There is also a vertical system of financial control within the executive hierarchy of finance departments—in Ukraine under the Chief Accounting and Audit Department of the Ministry of Finance (CCAD), which scrutinises local budgets in full. In Georgia, state audit only covers use of earmarked grants and elected council finance commissions are supposed to undertake or commission audit of the budget execution reports. Similar provision is made in Armenia but state audit extends to non earmarked transfers, which effectively involves scrutinising all expenditure, since the source of funding cannot be distinguished.

In Azerbaijan, the national Chamber of Accounts may conduct an audit of an individual local government at the request of the Ministry of Justice, i.e., to investigate a specific complaint or suspicion of financial irregularity. Otherwise, local governments are required to arrange commercial audit of their budget execution reports.

The Practice

In several cases external audit is less satisfactory in practice than in law. The following are examples of apparently inadequate coverage at the time of the 2007 survey:

- Armenia: an average of 24 local governments audited annually out of 926.
- Bosnia and Herzegovina: coverage of the Federation municipalities by the Audit Office has declined from 18 in 2002 to 1 in 2006.
- Montenegro: 2 out of 21 municipalities audited to date.
- Romania: 84 budget execution reports audited in 2006 out of 7,455.
- Serbia: the State Audit Institution had not yet been constituted by Parliament.

A rotating national audit is covering approximately one-third of local government units per annum in Croatia and “the former Yugoslav Republic of Macedonia,” and one-half in Republika Srpska. In Georgia, the reorganised municipalities only commenced financial operations in 2007.

In Georgia and Serbia, institutional arrangements for audit are new and their adequacy remains to be proved. Inadequacy elsewhere has been ascribed to the time and cost involved in deploying sufficient qualified staff and, in countries like Armenia and Romania, the territorial fragmentation which creates large numbers of small units requiring full audit procedures, however small their budgets.

4.7.2. Internal Audit

Legal Requirements

Local government units are required to establish internal audit units in Armenia, Croatia (in municipalities over 35,000 inhabitants, running primary education or employing over 50 staff), Romania (for budgets exceeding €10,000 p.a.), Serbia, and “the former Yugoslav Republic of Macedonia” (over 15,000 inhabitants). In Russia and Ukraine, internal control sections form part of vertical hierarchies subordinate to the Ministry of Finance.

Elsewhere, Ministry of Finance regulations mandating internal audit are currently in draft in Moldova. In Bosnia and Herzegovina and Montenegro, some municipalities have established internal audit sections voluntarily.

In Croatia, Romania, Serbia, and “the former Yugoslav Republic of Macedonia,” ministries of finance have established central harmonisation units to integrate the procedures and standards of internal audit throughout the public sector, and organise associated training.

The Practice

As in the case of external audit, the practice in several cases fell short of the legal requirement at the time of the survey:

- By 2006, only 35% of Romanian authorities obliged to establish internal audit units had done so, and 85% of these had appointed only one staff member to them.
- In Serbia, few municipalities (mainly in Belgrade and Vojvodina) had formed internal audit units.
- In “the former Yugoslav Republic of Macedonia,” 20 units have so far been set up out of 42 mandated.
- In Armenia, 34 out of 41 urban municipalities have established units but very few in rural areas.
- In Croatia, most small municipalities buy in the county internal audit service.

Provision in countries like “the former Yugoslav Republic of Macedonia” for smaller municipalities to establish joint internal audit units or to buy in the services of larger towns have been largely ignored.

Shortfalls in provision have been ascribed variously to the cost or nonavailability of qualified staff, but also to the apathy of elected members or executives.

4.7.3. Scope of Audit

In all countries surveyed, such audit as takes place is primarily concerned with issues of *regularity*, i.e., of the compliance of financial transactions with laws and official procedures, and of the conformity of revenues and expenditures to budgets and budget variations approved by legislative bodies.

In the Balkan countries, Georgia and, to some extent, Ukraine, audit is also expected, or at least authorised, to examine the utilisation of local budgets in terms of performance and *efficiency*. The country reports suggest that this mandate is largely ignored in practice. Audit staff and time are preoccupied with verifying regularity. Staff lack skills in scrutinising performance and efficiency, and there is little experience of doing so or popular demand.

4.7.4. Access to Audit Reports

Reports by state audit institutions are normally submitted to Parliament. In most cases, however, copies are sent to the councils under scrutiny or are available on websites.

The prime audience for *external* audit findings should be the elected council that approves the budget under scrutiny. It is less likely to pay attention to reports that are not specifically addressed to it, or where comments are lost in generalities applied to several or all local governments.

Ideally civil society should also have access to them since councils and their executives may well collude in mismanagement of public money. In practice, public access to external audit reports is more restricted in several of the countries surveyed. In Armenia, audit reports can only be accessed by application under the Freedom of Information law. In Azerbaijan, a list of audits undertaken is published on the website but results are not disclosed. In Russia and Ukraine, reports on budget execution are submitted to local councils but receive no publicity. There is no public access to reports in Moldova.

Internal audit reports are almost invariably confidential and submitted to the chief executive except where specifically prepared for the Finance Commission, as in Georgia.

4.7.5. Human Resources

Most of the country studies describe a formalised structure of training and qualifications surrounding the staffing and operation of external audit institutions, whether state or private. They increasingly include membership of INTOSAI and adherence to IFAC standards. An exception is Georgia, where accreditation requirements for private auditors were jettisoned in a general campaign for deregulation.

The state bodies vary, however, in the adequacy of trained staffing numbers. The Romanian county branches are 50% below establishment, while the Serbian State Audit Institution still awaits practical formation. The problems relate principally to recruitment since the required accounting skills are generally better rewarded in the private sector.

Internal audit presents a greater challenge. Only larger and more urbanised local governments can attract and afford graduate professionals. In Russia the smaller and more rural municipalities cannot even afford to send staff on the training courses that are available to them. In countries like Croatia, Romania, and “the former Yugoslav Republic of Macedonia,” pre-accession reforms have inspired the creation of central units in the ministries of finance charged with “harmonising” standards of internal audit across the public sector as a whole. These are promoting capacity within local governments but the problems of affordability and career prospects remain.

4.7.6. Conclusions

Relatively strong legal frameworks for local government audit are now in place in most of the countries studied, particularly those in some stage of preparation for EU membership. Implementation, however, has barely started in Serbia and is weak generally. Many local governments have never seen an auditor, some only rarely.

Adequate audit is expensive, taking the time of staff who need to be well qualified and well paid to stay in the public sector and work honestly and independently.

Countries with fragmented local government systems find it particularly difficult to provide both external and internal audit to a large number of small, mainly rural local bodies; they may be spending little money but the control procedures are the same for large and small. It could be argued that the absence of audit matters less in rural communities where “everyone knows what’s going on”; but the realities of village politics may well shelter officials from the consequences of their misconduct, however obvious. Persuading small municipalities to share internal audit services with neighbours, towns, or counties is one answer.

The conclusion of the Russian study is that much audit is carried out, but no one takes any notice of its findings. This may be because of a suspicion that the purpose of audit is to maintain vertical power and punish independent-minded mayors rather than protect the public.

Audit suffers from the legacies of the communist past when it was seen as an instrument of vertical intrusion, driven as much by interpersonal relations within the hierarchy as by concerns for integrity and efficiency. In a democratic society effective audit is essential, not inimical to local autonomy, because it plays a vital part in securing public trust.

Audit needs to gain perceived value. For this it needs to be regular, not an apparently random and punitive intervention. Its findings need to be accessible to elected members and to civil society including the media. And it needs to be concerned with more than misconduct or inaccuracy, giving positive help to the improvement of performance and efficiency.

4.8. Energy Efficiency

One field to receive a boost as a result of the crisis has been the promotion of efficiency in energy consumption.

The onset of the crisis coincided with lead-up to the 2009 Copenhagen Summit, when both governments and the public were acutely aware of environmental challenges and anxious to demonstrate their concern. As a result, much “fiscal stimulus” spending was directed to energy efficiency programmes. It helped that changing street light bulbs, insulating public buildings, and increasing use of renewable energy sources constituted “shovel ready” investment which could be started widely at relatively short notice. It also helped that such investment over the long term could save money as well as the planet.

5. Territorial Reforms as a Potential Response to the Economic Downturn

5.1. Introduction

Can reforming the territorial structure of local governments be one of the responses to the financial crisis in local governments? In several countries in Western and Central and Eastern Europe, there are numerous very tiny municipal governments, and numerous experts have pointed out the high cost of their functioning. The issue is by no means limited to the municipal tier. For example, in Poland the largest potential efficiency saving might be found on a county (*powiat*) level, where 380 units could be replaced by a smaller number (expert estimations vary from 150 to 300) of territorially larger, cheaper, and more efficient units. The same may apply to the meso or upper tier of subnational jurisdictions in other European countries. But for the time being, this chapter concentrates on a municipal tier, where the issue seems to be the most urgent and brings potential for the highest saving.

There are plentiful academic literature and expert reports demonstrating the relevance of economy of scale to local administration. Even though economy of scale is more visible in capital-intensive rather than labour-intensive sectors (and most of local government services belong to labour intensive), there are still examples of the “size effect” in municipal governments. An excellent review of recent research and theoretical arguments has been provided by Houlberg’s chapter in one of the latest books produced by the Local Government and Public Service Reform Initiative (see Houlberg 2009).²¹

Leaving aside other services, on which arguments are more complex, there is no doubt that size is negatively correlated with spending on administration. As the 2002 study showed (Swianiewicz 2002), in several small Slovak, Hungarian, or Czech municipalities, administration consumes close to half of the operating budget, leaving not much for other functions. Houlberg (2009) demonstrates the economy of scale effect in administrative spending in Norway, which strongly affects municipalities with populations below 5,000. He quotes also Danish studies showing that municipalities can save as much as 10% of administrative expenses (or 1.5% of their total budget) if the municipalities are amalgamated so that the smallest municipalities have 18,000–25,000 inhabitants. Finally, he also provides arguments that, at least in Denmark, economies

²¹ For extensive reviews of relevant literature, see also Baldersheim and Rose (forthcoming), and for the discussion of theoretical arguments on size and effectiveness of local governments, see King (1984), Sharpe (1995), Keating (1995).

of scale have been rising over the last 20 years. In Poland also, small local governments spend (per capita) considerably more on administration than larger jurisdictions. For example, in 2008 the median spending on administration for rural local government below 5,000 citizens was PLN 322, while the median for rural local governments over 10,000 citizens was PLN 210. A recent careful analysis of one Polish rural government that in 1998 split into two separate jurisdictions suggests that as a result of the split new municipalities spend every year at least 100,000 more on local administration (leaving aside other economic costs that more difficult to measure).

Of course, there is also an opposite phenomenon, i.e., diseconomies of scale, but none of the available studies show these appearing in the production costs of services below the population size of (at least) 25–30,000; this does not seem to be an argument in defence of very small municipalities. A negative impact of larger size may be more often found in arguments related to local democracy (as measured, for example, by interest in local affairs, electoral turn-out, citizens satisfaction, information about local affairs, etc.). But even in that case the negative impact of size is not quite a linear function, nor is it the obvious conclusion of all research. For example, Mouritzen (2009, forthcoming) on the basis of his studies of Denmark comes to the conclusion that the negative impact of size on local democracy is much lower than commonly believed.²²

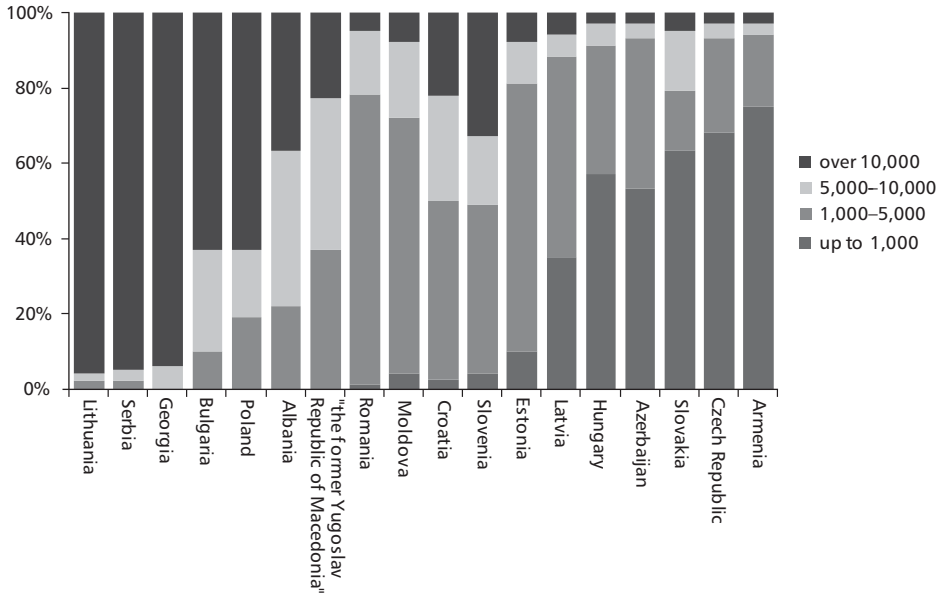
It all suggests that territorial reforms could be considered an interesting option for many countries as a response to economic downturn. But what is a “small size” for a municipality? There is no universal answer, only different conclusions from different studies of various sectors and countries. But it seems to be agreed that higher costs are generated *at least* by municipalities with less than 5,000 citizens, and that below the 1,000 threshold delivery of many functions becomes either next to impossible or extremely expensive.

This simplistic measure is compared with the actual situation in countries of Central and Eastern Europe in Figure 7. The data suggest that territorial fragmentation of the municipal tier may generate considerable financial costs in all countries except Lithuania, Serbia, Georgia, Bulgaria, “the former Yugoslav Republic of Macedonia,” and Poland (no data for Bosnia and Kosovo²³ is presented in the figure).

²² Although we should note that Mouritzen was comparing “mid-size” governments with larger local governments. His analysis did not involve very tiny (below 2–3,000 population) municipalities.

²³ All reference to Kosovo, whether to the territory, institutions or population, in this text should be understood in full compliance with United Nations Security Council Resolution 1244 and without prejudice to the status of Kosovo.

Figure 7.
 Distribution of Municipal Governments According to Their Population Size
 in Central, Eastern, and South Eastern Europe



Potentially there are several ways to deal with excessive territorial fragmentation of local governments:

- The most obvious is boundary reform through territorial consolidation (amalgamation).
- A frequently suggested alternative is developing voluntary or semivoluntary intermunicipal co-operation
- Less obvious and more indirect solutions may include the contracting out of services to private sector companies enjoying economy of scale or one local government purchasing services from another.

The first two solutions are discussed below.

5.2. Territorial Consolidation (Amalgamation)

Economy of scale arguments were at the heart of several territorial reforms introduced after the Second World War, mostly in northern Europe. Reorganisations introduced in Norway, Finland, Sweden, Denmark, Netherlands, and the United Kingdom through-

out 1950s to 1970s may be provided as examples of this process. To a lesser extent the same argument was under consideration in more recent territorial reforms in Denmark, Germany, and Greece (see overview in Swianiewicz 2009).

After 1990 an opposite trend was often witnessed in Central and Eastern Europe. Territorial fragmentation was a common tendency present in the Czech Republic, Slovakia, Hungary, “the former Yugoslav Republic of Macedonia,” and several other countries. After 1990 the promotion of decentralization and a paradigm of local autonomy were often understood as giving almost every settlement unit the right to become a separate local government, even if it was a very tiny village. An attempt to create (or to keep) larger territorial jurisdictions was seen as a violation of local autonomy. Very soon territorial fragmentation became mentioned as one of the major barriers to decentralization and the effective functioning of the local government system. With a different level of intensity, such voices could be heard in Albania, “the former Yugoslav Republic of Macedonia,” Moldova, Hungary, Slovakia, Czech Republic, Latvia, Estonia, Ukraine, Armenia, Azerbaijan, Georgia, and perhaps also in some other countries. In a different context similar discussion has been conducted in Poland, where the size of upper tiers of subnational government—*powiat* and *województwo*—was discussed; likewise in Bulgaria, Montenegro, or Poland, bottom-up pressure to split existing larger municipalities has occasionally pushed toward the larger degree of territorial fragmentation but countered by arguments over cost and scale economy.

Territorial boundary reform is always politically difficult (and often risky for the central government) and brings considerable opposition from below. As a result, territorial reforms are very often discussed but relatively rarely implemented. In the postcommunist environment, one can only point to examples of territorial reforms in Georgia, “the former Yugoslav Republic of Macedonia,” Latvia, and Lithuania—and even in each of these examples there are elements that make them distinct from classic amalgamation reforms.

The crucial question is whether the current financial crisis will provide a stimulus for territorial reforms. In theory, central governments should now be especially interested in such solutions, and opposition of small local governments experiencing financial difficulties should be weaker than in times of prosperity. Expected financial savings should sweeten the disadvantages of the reform. However, reports provided by country observers suggest this is rarely the case.²⁴

²⁴ My analysis is based on national reports from following countries: Armenia, Bosnia and Herzegovina, Bulgaria, Estonia, Poland, Romania, Serbia, Slovakia, and Ukraine as well as reports from a few countries of “Old Europe”: France, Finland, Norway. Reports from other countries (Albania, Croatia, Czech Republic, Georgia, Latvia, Lithuania, Moldova, Montenegro, Russia, Slovenia, “the former Yugoslav Republic of Macedonia”).

There are a few countries in which territorial reforms are still discussed (for example, Armenia, and Slovakia), but the financial downturn has so far had no impact on this process. In some others the lack of discussion simply originates from the current scale of territorial consolidation, making the space for potential savings negligible (Bulgaria, Serbia).

There are, however, a few examples of countries in which the current crisis has had an impact. In Latvia, the number of municipalities has reduced almost fivefold. Most dramatically, Iceland has accelerated a process started in 1990 of cutting the number of local authorities from 7,200 to 76. In Estonia the discussion on territorial consolidation has been going on for many years, but the crisis put renewed pressure in this direction. In March 2009, the plan of consolidation was submitted, but it was soon rejected by coalition parties. Also, in Ukraine, territorial reform has been under discussion at least since the Orange Revolution (including the radical and never implemented Bessmertnyj proposals). In spite of political chaos in Kyiv, the crisis has been used by some pro-reformers as an occasion to exert more pressure for change. On 24 April 2009, the Ministry of Regional Development and Construction submitted a new draft law on territorial reorganisation, stating at the same time that the crisis is a proper and suitable time for reform. The draft is not very specific about a new map of the municipal tier (similarly to earlier Bessmertnyj proposals, it introduces a new name for the lowest level government—*bromada*—being a unit larger than individual village or a town), but states only general principles suggesting that consolidation is inevitable. It is more specific about the meso (*rayon*) level, stating that (with the exception of a very few specific situations in the most sparsely populated areas) the *rayon* should have at least 150,000 citizens, i.e., be approximately twice as big as the current *rayons*. It is difficult to say how likely its implementation is. The general political turmoil encourages skepticism about its chances in the near future.

Finland has introduced a “financial carrot” for mergers of municipal governments. It is expected that at least until 2013 amalgamation will have a voluntary character only. The reform has not been directly caused by the financial crisis, but it influenced its implementation. In France, the Ministry of Interior submitted in May 2009 a draft law which provides for transforming current intermunicipal institutions *Etablissements Publics de Coopération Communale* (EPCI) into so called “new communes.” If the law is approved by the Parliament, “new communes” (with a wider set of functional responsibilities than the old, small communes) might—on a voluntary principle—replace old, very small local governments and allow benefits from economy of scale. The influence of the financial crisis on these changes is only indirect (the discussions on the reforms of territorial organization in France have been going on “forever”), but it may strengthen the process of change. Another country worth mentioning in this section is Ireland. Although there are no concrete plans of territorial reforms, a recent report commissioned by the Ministry of Finance has recommended the abolition of smaller

local authorities and their merger with some larger ones. The aim of the report has been to identify possible savings, and territorial consolidation has been mentioned as one of possible options worth considering.

It is a bit surprising that the crisis has not renewed the discussions on territorial reforms in Norway, since the issue has been periodically debated in that country for many years.

5.3. Intermunicipal Co-operation (IMC)

Some politicians and experts claim that voluntary intermunicipal co-operation may be a useful alternative to territorial amalgamation. Since it avoids the high political costs of boundary reforms, and at the same time joint provision of services by a couple or more municipalities allows gains from economy of scale, so the financial savings effect may be similar. However, as Robert Hertzog suggests, joint provision of services often results in improved quality for the same price, rather than in absolute saving, since citizens of the municipalities involved demand an increase of the service quality to the standard of the best-off partner. More importantly, some authors (including Wollman 2007, Borraz and Le Gales 2005) express their doubts related to actual outcomes of IMC. First, opposite to what advocates of such a solution suggest, bottom-up IMC does not happen very often and is not unproblematic. The political difficulty of entering voluntary co-operation is often similar to that raised by consolidation. It requires compromises on the particular interests of the individual municipalities involved. The need for agreement on co-operation will sometimes affect the personal ambitions of local leaders. But there are also potential organizational and democratic problems related to IMC. The joint provision of functions, although frequently bringing financial benefits, involves transaction costs, associated with a complicated organizational-managerial setting. Complex intercommunal arrangements, including the necessity of debating issues by councils of the local municipalities involved, may also slow-down the pace of decision-making. The negative side-effect is sometimes that co-operative arrangements make accountability toward local citizens and the transparency of the decision-making process more problematic.

Nevertheless, one might expect promotion of intermunicipal co-operation to become a popular political option in times of financial crisis. Such a solutions have been successfully promoted for a long time in France and Finland, and in the last few years more and more popular (also thanks to the policies of respective central governments) in the territorially fragmented systems of the Czech Republic, Hungary, and Slovakia. Even in the UK, collaboration between neighbouring authorities is growing in fields such as procurement, IT, development control, and even education management.

5.4. Conclusions

The reactions of both central and local governments to the crisis have so far been schematic rather than innovative. Looking for savings through cutting some expenditures, enlarging budget deficits, or increasing taxes have been called upon much more often than policies aimed at increasing spending efficiency and effectiveness. Lack of interest in territorial reforms seems to be an example of such a missed opportunity. This situation may be strengthened by the fact that during the difficult economic period, central governments are especially afraid of unpopular decisions that might undermine their chances to win the next elections. Territorial reforms are rarely popular, especially because most people including local politicians are not aware of the potential benefits, while immediate political costs are clear to everyone.

6. Social Policy Connotations of the Economic Downturn

6.1. Changing European Societies

The current world economic downturn has turned the spotlight on the contradictions between the economic efficiency and competitiveness of the modern welfare state on the one hand, and on social rights on the other. Although the welfare state is one of Europe's most important cultural heritages and has received steadily growing significance since the 1990s when shaping EU policy, one key to resolving the economic crisis is seen—particularly by the institutions financing the recovery—in cutting public expenditure, principally social policy spending. In the newborn welfare states, the former state-socialist countries, this type of proposal tends to meet much less resistance than in the traditional welfare states. In the latter, the institutions of democracy and strong civil societies and interest protection organizations are ready to defend social rights, while in the former state-socialist countries these institutions are weak, and political discourse is centred on other issues.

The other disadvantage of the former state-socialist countries is that their welfare institutions are in a constant state of flux, evolving along the lines of trial and error, and there is little reliable statistical data available when attempting to analyze the effects.

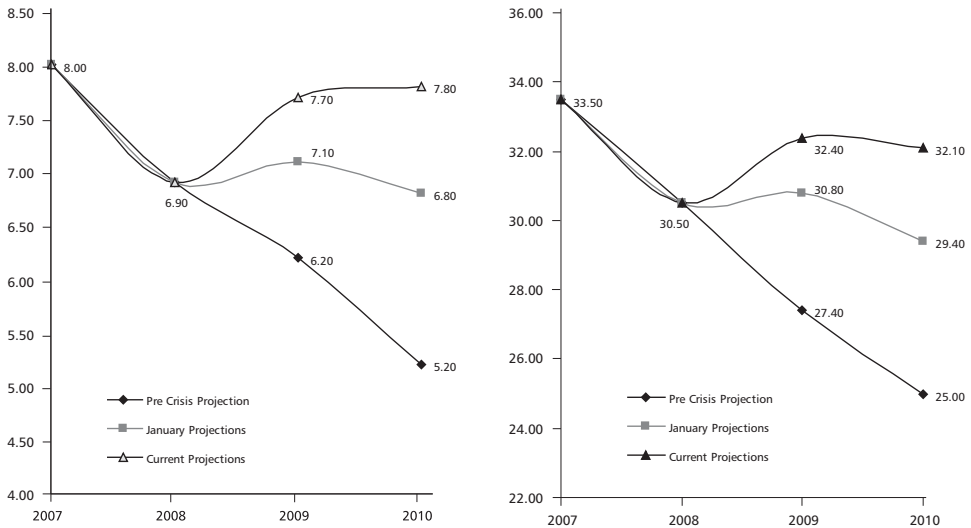
A PowerPoint presentation of the World Bank at a conference in spring 2009 contained the following:

“Social policy actions are a priority:

- The region has started to give back poverty gains of the last decade.
- Countries with weaker fiscal, financial, and social policies have been hit harder.
- Most countries in the region have social programs that can be strengthened and scaled up to provide targeted assistance.

ECA (Europe and Central Asia) countries were vulnerable, but there are also large differences across countries in the region—with seven months of the crisis, the region has started to lose poverty gains made over the last 10 years.”²⁵

Figure 8.
Poverty Rate Projections



Source: World Bank staff estimates.

The downturn has had differing effects on the various social groups and social welfare systems designed to support them have responded in different ways.

The general opinion is that the downturn has been felt first of all through the rise in unemployment.

²⁵ ECA Economic Briefing, Office of the Chief Economist Europe and Central Asia World Bank Spring Meetings 2009.

Table 6.
Seasonally Adjusted Unemployment Rates²⁶

Geo\time	September 2008	September 2009
EU 27	7.7	9.2
Belgium	7.3	7.9
Bulgaria	5.2	7.6
Czech Republic	4.3	7.0
Denmark	3.4	6.4
Germany	7.1	7.6
Estonia	6.5	—
Ireland	6.7	13.0
Greece	7.5	—
Spain	12.4	19.31
France	8.0	10.0
Italy	6.8	—
Cyprus	3.5	5.9
Latvia	8.1	19.7
Lithuania	6.3	—
Luxembourg	5.1	6.6
Hungary	7.8	9.7
Malta	5.8	7.2
Netherlands	2.7	3.6
Austria	3.9	4.8
Poland	6.8	8.2
Portugal	7.8	9.2
Romania	5.8	—
Slovenia	4.1	5.9
Slovakia	8.9	12.0
Finland	6.5	8.6
Sweden	6.4	8.7
United Kingdom	6.0	—
Norway	2.5	—
United States	6.2	9.8
Japan	4.0	—

Source: Eurostat. Last update: 12.08.2009.

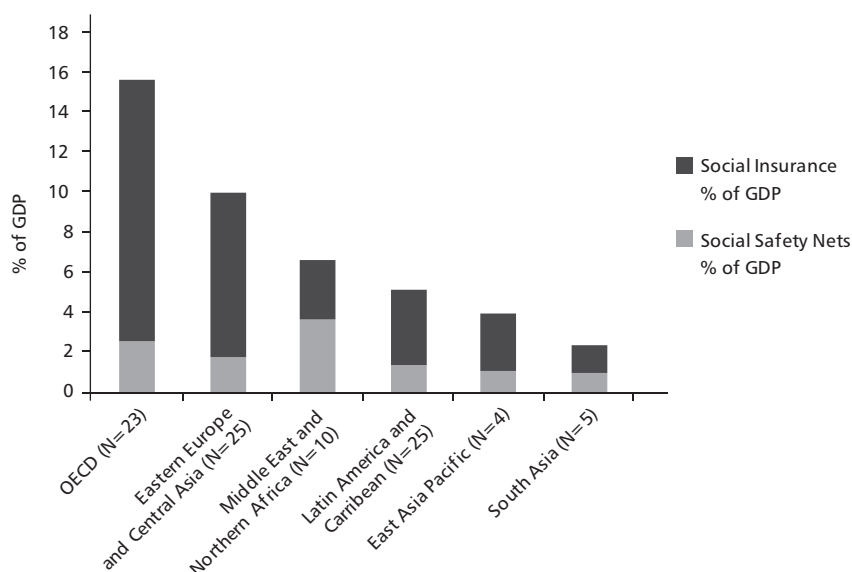
²⁶ Antonella Puglia (2009) "Population and Social Conditions." *Statistics in Focus* 40/2009.

While this is true for EU members, in Croatia, for instance, the minimum growth appears to have been triggered by seasonal fluctuations linked to the tourist season, at least for now.

In the first period of the downturn, the unemployment insurance system has had to treat this problem, but later people of active age will need to rely on the social assistance system and the poverty relief programmes.

Rarely do we discuss the situation of elderly people although problems concerning the maintenance of pension systems have become clear (e.g., Finland, Hungary). True, this goes beyond the competence of local governments. Nevertheless, they are faced with many tasks related to alleviating poverty among the ageing.

Figure 9.
Social Protection Spending, Regional Averages



Notes: Data on 69 countries taken from World Bank public expenditure reviews or other similar work. For OECD, data from the OECD.

“Safety nets are less suited for crises—ECA spends a lot on social insurance, but less on social assistance programmes.” This quote comes from the presentation already cited.²⁷ The wording tends to suggest the need to spend less on social insurance and block grants and more on aid, on means-tested programmes. These generalized conclusions are ignoring the differing characteristics of the European welfare states.

²⁷ ECA Economic Briefing, Office of the Chief Economist Europe and Central Asia World Bank Spring Meetings 2009.

Table 7.
Expenditure on Social Protection (as Percent of GDP²⁸)

	2000	2001	2002	2003	2004	2005	2006
EU 27	—	—	—	—	—	27.1	26.9
EU 25	26.5	26.7	27.0	27.3	27.2	27.3	27.0
EU 15	26.8	27.0	27.3	27.7	27.6	27.7	27.5
EA 15	26.7	26.8	27.4	27.8	27.7	27.8	27.5
Belgium	26.5	27.3	28.0	29.1	29.3	29.7	30.1
Bulgaria	—	—	—	—	—	16.0	15.0
Czech Republic	19.5	19.4	20.2	20.2	19.3	19.1	18.7
Denmark	28.9	29.2	29.7	30.9	30.7	30.2	29.1
Germany	29.3	29.4	30.1	30.4	29.8	29.7	28.7
Estonia	14.0	13.1	12.7	12.6	13.0	12.7	12.4
Ireland	13.9	14.9	17.5	17.9	18.2	18.2	18.2
Greece	23.5	24.3	24.0	23.6	23.5	24.3	24.2
Spain	20.3	20.0	20.4	20.6	20.7	21.1	20.9
France	29.5	29.6	30.4	30.9	31.3	31.4	31.1
Italy	24.7	24.9	25.3	25.8	26.0	26.3	26.6
Cyprus	14.8	14.9	16.3	18.4	18.1	18.4	18.4
Latvia	15.3	14.3	13.9	13.8	12.9	12.4	12.2
Lithuania	15.8	14.7	14.0	13.5	13.3	13.1	13.2
Luxembourg	19.6	20.9	21.6	22.1	22.2	21.7	20.4
Hungary	19.3	19.3	20.4	21.1	20.8	21.9	22.3
Malta	16.9	17.8	17.8	18.2	18.6	18.4	18.1
Netherlands	26.4	26.5	27.6	28.3	28.3	27.9	29.3
Austria	28.4	28.8	29.2	29.7	29.3	28.8	28.5
Poland	19.7	21.0	21.1	21.0	20.1	19.7	19.2
Portugal	21.7	22.7	23.7	24.1	24.7	25.4	25.4
Romania	13.2	13.2	13.4	12.6	15.1	14.2	14.0
Slovenia	24.2	24.5	24.4	23.7	23.4	23.0	22.8
Slovakia	19.4	19.0	19.1	18.2	17.2	16.7	15.9
Finland	25.1	24.9	25.6	26.5	26.6	26.7	26.2
Sweden	30.1	30.8	31.6	32.5	32.0	31.5	30.7
United Kingdom	26.4	26.8	25.7	25.7	25.9	26.3	26.4
Iceland	19.2	19.4	21.2	23.0	22.7	21.7	21.2
Norway	24.4	25.4	26.0	27.2	25.9	23.8	22.6
Switzerland	26+9	27.6	28.5	29.1	29.3	29.3	28.4

²⁸ Antonella Puglia (2009) "Population and Social Conditions." *Statistics in Focus* 40/2009, p.4.

Table 8.
Social Protection Receipts by Type (as Percent of Total Receipts)²⁹

	General government contributions		Social contributions						Other receipts	
			Total		Employers		Protected Persons (1)			
	2000	2006	2000	2006	2000	2006	2000	2006	2006	2006
EU 27	—	37.6	—	58.9	—	38.2	—	20.6	—	3.5
EU 25	35.5	37.7	60.9	58.8	38.7	38.2	22.2	20.7	3.6	3.5
EU 15	35.6	38.0	60.9	58.9	38.7	38.3	22.2	20.6	3.5	3.2
EA 15	31.8	34.28	64.3	62.4	41.4	39.8	22.9	22.6	3.9	3.4
Belgium	25.3	27.7	72.1	70.8	49.9	49.3	22.3	21.4	2.5	1.5
Bulgaria	—	39.5	—	58.0	—	38.3	—	19.7	—	2.5
Czech Republic	25.0	18.8	73.8	80.3	49.8	53.9	24.0	26.4	1.2	0.9
Denmark	63.9	62.8	29.4	30.8	9.1	11.0	20.3	19.8	6.7	6.4
Germany	31.9	35.3	66.0	63.1	38.4	35.3	27.6	27.8	2.1	1.6
Estonia	20.6	19.5	79.2	80.4	79.2	80.1	—	0.3	0.2	0.1
Ireland	58.6	53.2	41.0	41.8	25.6	26.2	15.4	15.5	0.4	5.0
Greece	29.2	31.4	60.8	57.7	38.2	35.1	22.6	22.6	10.0	10.9
Spain	29.4	33.9	68.0	63.9	51.8	48.5	16.2	15.4	2.6	2.2
France	30.3	30.6	65.9	65.2	46.0	44.3	19.9	20.9	3.8	4.2
Italy	40.6	41.9	57.7	56.4	42.8	41.3	14.9	15.1	1.6	1.6
Cyprus	39.9	48.1	43.0	39.1	26.6	24.0	16.4	15.1	17.1	12.8
Latvia	34.6	35.5	65.4	63.9	49.4	47.1	16.0	16.8	0.0	0.6
Lithuania	38.9	38.5	59.6	61.0	53.7	54.9	5.9	6.1	1.5	0.5
Luxembourg	46.9	45.6	48.6	50.5	24.7	26.5	23.8	24.0	4.6	3.9
Hungary	31.6	40.6	59.7	53.8	47.0	38.6	12.8	15.2	8.7	5.7
Malta	29.8	35.2	67.6	62.0	46.6	43.3	21.0	18.7	2.6	2.8
Netherlands	14.4	20.1	67.5	69.5	29.4	31.8	38.1	37.7	18.1	10.4
Austria	32.3	33.3	66.3	65.3	39.2	37.8	27.1	27.4	1.3	1.4
Poland	32.5	33.3	55.3	48.0	30.5	25.9	24.8	22.0	12.2	18.8
Portugal	39.1	44.1	53.0	45.3	35.6	30.8	17.4	14.5	7.9	10.6
Romania	—	19.6	—	69.5	—	56.3	—	13.2	—	10.8
Slovenia	31.5	30.7	66.3	67.9	27.0	27.1	39.3	40.8	2.2	1.4
Slovakia	31.0	25.5	66.8	65.6	48.3	44.2	18.5	21.4	2.2	8.9
Finland	42.9	43.3	50.0	50.6	38.0	38.8	12.0	11.8	7.0	6.0
Sweden	45.9	48.9	49.9	48.7	40.4	39.9	9.4	8.9	4.3	2.4
United Kingdom	46.4	50.4	52.4	47.9	29.9	34.2	22.5	13.7	1.2	1.7
Iceland	51.4	31.6	48.6	30.6	39.5	24.8	9.1	5.8	—	37.9
Norway	60.5	52.9	38.4	47.0	24.4	32.0	14.0	15.0	1.1	0.1
Switzerland	21.0	22.3	60.4	62.2	29.3	28.7	31.1	33.6	18.6	15.4

²⁹ Antonella Puglia (2009) "Population and Social Conditions." *Statistics in Focus* 40/2009, p.10.

Expenditure on social protection as a percentage of GDP was 26.9% in this period but differences from one country to the next in the EU 27 are as much as twofold.

While there is only a 0.6% difference between the new members and the EU 15 in social protection spending when compared to these countries' GDPs, there are significant differences in the actual amounts used to support people in disadvantaged circumstances.

There are also significant differences from one country to the next in the sources of funding for social protection. For the duration of the downturn, the amount of social insurance contributions depends primarily on how strong the labour market is and how extensive the clandestine economy proves to be. Tax revenues are highly dependent on the ability of the public to consume, given the role played by the consumption tax.

Different countries have markedly different systems for financing social protection, depending on whether they favour social security contributions or general government funding. Government contributions in Denmark, Ireland, the United Kingdom, and Norway are particularly high when compared to the social insurance-type inflows. "The differences are historical and due to the institutional rationale behind social protection systems. Northern European countries, where government funding dominates, are steeped in the 'Beveridgian' tradition (in this type of system, it is sufficient to be a resident in need in order to be eligible for social benefits). Other countries are strongly attached to the 'Bismarckian' tradition, in which the system is based on the insurance concept (in the form of contributions). However, the gap/difference between European countries is gradually narrowing, with more funding from tax revenue in those countries where it used to be low (France, Germany, Italy, and Portugal, for example), on the one hand, and with more coming from contributions in the countries with high levels of government funding, on the other."³⁰

In all countries, the largest single expenditures on social protection are pensions and health care, but here, too, there are major differences from country to country. The range of pension-type expenditure as a proportion of GDP goes from an average of 11.9% to a high of 15.5% (Italy) and a low of 5.5% (Estonia). In health care the average is 7.5%, and ranges from a high of 8.7% (France, and Netherlands) and a low of 3.5% (Latvia).

³⁰ Antonella Puglia (2009) "Population and Social Conditions." *Statistics in Focus* 40/2009, p.10.

Figure 10.
Structure of Social Protection Expenditure in EU 27, 2006³¹

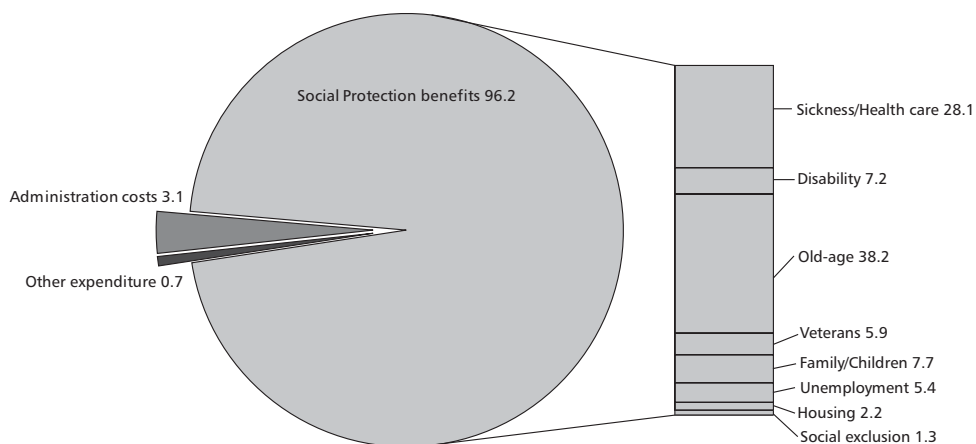


Table 9.
Changes in Social Benefits Between 2000 and 2006

Number of benefits affected by the changes	Country
1 significant increase	Greece, Czech Republic, Denmark, Netherlands, Belgium, Italy, Malta, Portugal, Germany, Slovenia
2 significant increases	Estonia, Latvia
3 significant increases	Latvia, Spain
4 significant increases	Cyprus, Hungary, Luxembourg
5 significant increases	Ireland, Romania
1 decrease	Belgium, Netherlands, Austria, Malta, Romania, Slovenia, United Kingdom, Estonia, Latvia
2 decreases	Poland, Denmark, Sweden
3 or more decreases	Germany, Slovakia

While expenditure for social protection grew overall among the European Union members between 2000 and 2006 (2.6% in the EU 25, there were differences between countries. In Romania (11.0%) and Ireland (10.3%) the growth in welfare

³¹ Antonella Puglia (2009) "Population and Social Conditions." *Statistics in Focus* 40/2009, p.5.

expenditure was particularly high. However, a look at the various social benefits yields a much more diverse picture. The structure of the benefits and the proportion of the changes reflect very different welfare state policies. While Ireland and Romania increased their expenditure significantly more than average in all aspects of social benefits, Germany and Slovakia introduced significant cuts in all areas except pensions. Some countries increased certain benefits while others cut them.

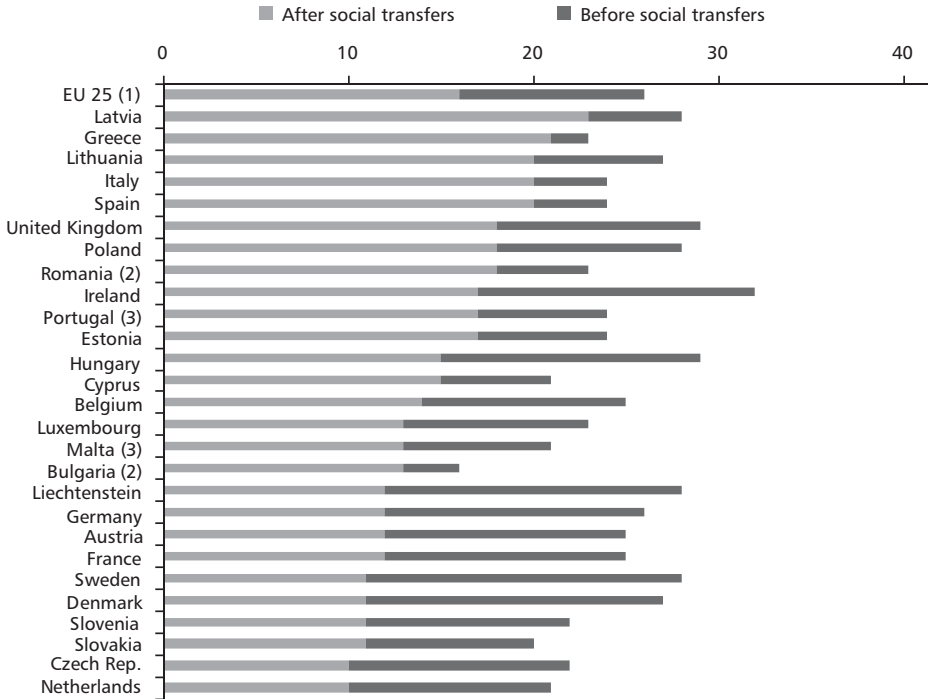
Table 10.
Changes in Social Benefits from 2000 to 2006

	Old-age and veterans	Sickness/health care	Disability	Family/children	Unemployment	Housing and social exclusion
Particularly high growth	Cyprus, Estonia, Greece, Hungary, Ireland, Romania	Ireland, Hungary, Latvia, Romania	Czech Republic, Cyprus, Denmark, Estonia, Ireland, Lithuania, Luxembourg, Hungary, Romania	Cyprus, Estonia, Ireland, Latvia, Luxembourg, Hungary, Netherlands, Romania, Spain	Belgium, Cyprus, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Portugal, Spain	Germany, Luxembourg, Romania, Slovenia, Spain
Reduction		Germany, Slovakia	Austria, Belgium, Germany, Netherlands, Poland	Germany, Malta, Slovakia	Denmark, Germany, Poland, Romania, Slovenia, Slovakia, Sweden, United Kingdom	Denmark, Estonia, Lithuania, Slovakia, Sweden

Pension expenditure increased everywhere, but two countries reduced health care expenditure, four cut benefits for people with disabilities, three brought down benefits related to maternity and children, and eight diminished jobless benefits. The largest increase in the EU 25 was in funding for assistance, but in contrast with Romania, where growth was exceptionally high (35.5%), five countries cut their assistance spending.

Of itself, the amount of funding for assistance yields little information on the effectiveness of the aid, and on whether their primary goal—to alleviate poverty—was achieved.

Figure 11.
Persons at Risk of Poverty, 2006 (Percent of Total Population)³²



Source: Eurostat (tsisc020 and tsisc030).

Note: (1) Estimates calculated population-size weighted averages of national data. (2) Source: National data (HBS 2006). (3) Provisional.

There was a sharp decline in poverty in 2006 in Ireland, Hungary, Finland, Belgium, Germany, Austria, France, Sweden, Denmark, Slovenia, Czech Republic, and the Netherlands, while the social assistance provision system was expressly poor in effectiveness in Latvia, Greece, Lithuania, Italy, Spain, Romania, Cyprus, and Bulgaria. The graph shows that the most effective way of alleviating poverty is not through assistance, for if we look at welfare expenditure, there appears to be no connection between the amount of funding devoted to assistance and poverty reduction as an outcome. (There are countries devoting both more and less than average to this end among the ones with effective poverty reduction programmes as well as among the ones where outcomes are poor.)

We have to conclude that given the vast differences in systems, uniform solutions appear impossible, while at the same time it is particularly important to increase the efficiency of protection systems given the pressures of the economic downturn.

³² *Key Figures on Europe*. 2009 edition. Eurostat Pocketbook, p.90.

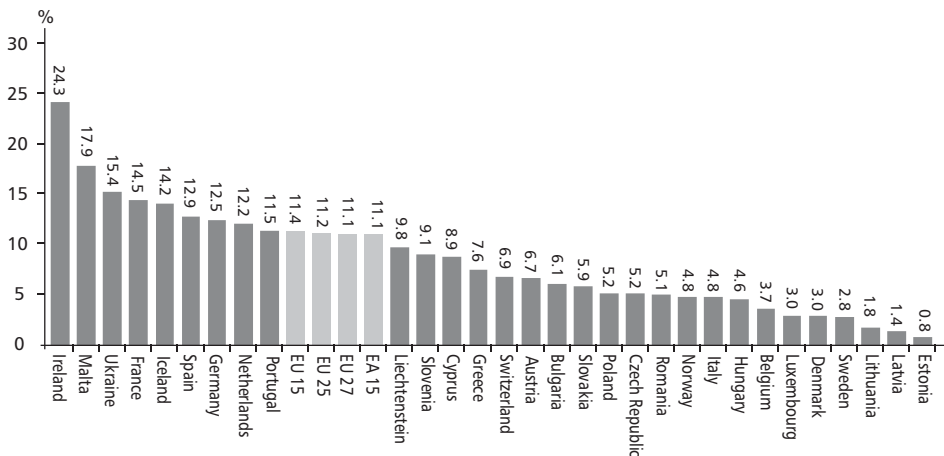
6.2. Social Assistance Systems and Responses to the Crisis

The European social assistance systems differ widely, not only in whom they target but also in their poverty-alleviating effects and the size of budget funds they employ. One very significant difference from the point of view of our subject relates to whether they have any general basic form of assistance dependent only on the size of family incomes (e.g., Romania, Bulgaria, Serbia). Another significant difference is whether the institutional system operates with central government funding and the aid is provided by a deconcentrated body (as Bulgaria, Serbia, Bosnia and Herzegovina, and Armenia do) or it is decentralised. In the latter case, alternatives range from local governments simply distributing the central funds, through operating in a decentralized system with resources coming from the central government but with local governments making the decisions (e.g., in Hungary, the Czech Republic, Italy, Iceland) to local governments not only making the decisions but also providing the lion’s share of the funds (Sweden, and Slovakia).

These differences are significant regarding responses to the downturn, for they determine the actors that have to deal with the distress.

When considering ways to improve targeting, we often believe that community resources should be limited to people in real need, and often the large systems financed through taxes and contributions (social security, health care, maternity, and family benefits) provide support to people who would otherwise be able to mobilize their own resources.

Figure 12.
Means-tested Social Benefits, 2006 (as Percent of Total Social Benefits)³³



Source: Eurostat.

Note: The percentages in this figure are calculated out of data expressed in euro.

³³ Antonella Puglia (2009) “Population and Social Conditions.” *Statistics in Focus* 40/2009, p.9.

Many people see the way to overcome negative effects in expanding the circle of means-tested benefits. In all EU member states, people in need of assistance can access the vast majority of welfare benefits without means testing. In some countries means testing—including income and assets—is a requirement not only in determining aid to alleviate poverty, but also in granting other types of entitlements. For instance, in Serbia entitlement to family allowances is means tested.

Poor targeting cannot be reduced to the problem of leaky funds. In the countries where many people are poor, the other side of the targeting—that not all people who need it can receive social assistance—is a huge problem.

Many features of the social protection systems can lead to good or poor outcomes. “Where social assistance programs are not fully funded, as is the case for the vast majority of programs, errors of exclusion will occur because of the caps put on enrollment to keep programs within budget allocations.”³⁴ Lack of information and high transaction costs (such as the stigma attached to applying for assistance) lead many people who would be entitled to assistance to fail to apply for it. “In a study of Eastern Europe and Central Asia cash transfers, child allowances, and social pensions (...), the mean coverage rate of the first quintile is 42 percent. A study reviewing experience in a small number of Organization for Economic Co-operation and Development (OECD) countries was able to model take-up more closely among eligible individuals, and concluded that take-up rates typically are between 40 and 80 per cent for social assistance and housing programs.”³⁵

Relying on available international statistics and responses of national specialists to a questionnaire, we can conclude that in most countries local governments have not seen any substantive moves being taken to alleviate the social outcomes of the downturn. This is true even though, for instance, the Committee of the Regions³⁶ wrote: “the financial crisis and its negative impact on economic growth and employment will increase demand for assistance, social aid, public services preferential tariffs, and local and regional authorities are in the front line regarding these expectations...”

The initial phase of the crisis was apparent primarily in a vast increase in the number of people applying for unemployment benefits. Only after these benefits expire will the effects be measurable on the level of the aid system and the local governments.

³⁴ Margaret Grosh, Carlo del Ninno, Emil Tesliuc, and Azedine Ouerghi (2008) *For Protection and Promotion: The Design and Implementation of Effective Safety Nets*. The World Bank, p.90.

³⁵ Conditional cash transfers reducing present and future poverty. Ariel Fiszbein and Norbert Schady with Francisco H.G. Ferreira, Margaret Grosh, Nial Kelleher, Pedro Olinto, and Emmanuel Skoufias (2009) *The International Bank for Reconstruction and Development*. The World Bank, p.73.

³⁶ Resolution of the Committee of the Regions on the financial crisis (2009/C 76/13).The committee of the regions. The Official Journal of the European Union of 31.03.2009. 23. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:076:0063:0065:EN:PDF>

The crisis can have two different effects on public welfare expenditure. On the one hand, reductions are recommended to manage public finance shortfalls, while on the other, increases are needed since the number of people who need assistance is bound to rise.

As far as the amount of social spending is concerned, there have been no significant changes in any country.

Table 11.
Changes in Social Protection Expenditure

Social protection expenditure		
No downturn linked changes in general	Changes were introduced, but indications are only of cost-cutting and more careful spending	Changes were introduced—mainly proactive (including possible budget tightening)
Armenia, Czech Republic, Estonia, France, Poland, Romania, Slovakia, “the former Yugoslav Republic of Macedonia”	Bulgaria, Hungary, Russia	Finland, Hungary, Ireland, Russia, UK

In Russia, for instance, the federal government in its April 2009 resolution provided for an additional 34 billion rubles to be allocated to Russian Federation subjects as unemployment support while at the same time decisions were taken to cut the budgets of several cities and local government bodies have been asked to develop antirecessionary measures.

Ireland is clearly attempting to expand its resources. It seeks to alleviate the effects of the downturn principally by reshaping the jobless benefit system. “Nationally, the cost of social benefits has risen sharply—the budget for 2009 is already 20% more than what was spent in 2008. Total gross spending on social welfare is expected to account for 29% of gross total government expenditure in 2009” (National expert).

In Slovakia: “The Parliament enacted the new law on social services in October 2008 which forces local governments to increase social expenditures. This trend set up by the government is not sustainable so they changed some terms of entering some parts of law into force (they postponed some terms to 2013). We do not consider this approach as responsible even though the government’s social expenditures were comparably lower than those of local governments. Postponing of the term of entering a law into force is not a systematic approach” (National expert).

At the same time, we rarely see a case in the countries under investigation when a general cut in social expenditure or a reduction in a specific form of welfare expenditure

becomes a tool to achieve macroeconomic equilibrium. Hungary, however, cut its central budget expenditure on social services by 6%.

In some countries, local governments, particularly in cases when social service funding comes from the central budget, have tried to pressure central governments to increase resources. In Poland, for instance, “representatives of Polish cities asked the central government to prepare an anti-crisis package for local governments,” but failed to receive it.

Table 12.
Changes in Financing of Social Assistance and Social Services

Change in social assistance only —increased (spending)	Croatia, Finland, France, Poland, Romania, Russia, Slovakia
In services only, new/expanded	Estonia
In both—increase	—
Negative reaction: fewer resources for aid	—
Negative reaction: fewer resources for services	Armenia, Hungary
No change	Bosnia and Herzegovina, Bulgaria, Luxembourg

Some countries (Estonia, Bosnia and Herzegovina, Serbia, and Ukraine) responded to the downturn by slowing down or postponing scheduled reforms in their social systems.

During a crisis, the ratio of poor people who can access the support, in other words, the take-up rate, is very important.

Table 13.
The Method of Allocation and Prioritising the Needs of the Poorest Households

Priorities-targeting	Obstacles to poor households receiving social assistance		
Priority (stronger) to poorest households —due to the crisis	No (no need, works satisfactorily)	No, bad targeting	Yes, mentions reasons
Estonia, Ireland	Finland, France, Luxembourg, Poland	Bosnia and Herzegovina, Romania, Serbia, Ukraine	Bosnia and Herzegovina, Estonia, Finland, Romania, Russia, Serbia, Ukraine

Traditional welfare states have responded to the social challenges of the downturn by operating existing systems of institutions. As the Finnish expert noted when responding to our questionnaire: “The legislation of the social sector is working properly and there

is no need to update it in this phase. There have been lately several updates to indexes to make allocations better, usually by 3–5% rise.” As the expert from Luxembourg wrote: “Well-targeted, no need for special measures.”

However, there have been no changes in the assistance system even where there are serious problems in targeting, such as in Bosnia and Herzegovina, Romania, and Ukraine. In Russia, the main problem according to the national expert is not that the assistance does not reach the poor, but that the resources evaporate.

When asked to mention a reason why it is hard to get the aid to the poor, the Estonian expert saw the most important problem in entitlement conditions. (The local government may refuse the assistance, if the applicant refuses work offered). In Bosnia and Herzegovina, administering the application causes problems in remote areas. The Finnish expert referred to the usual waiting time, while the Russian expert noted the long queues for documents when applying for cost-of-living support.

Regarding social services, there are even fewer noticeable positive or negative changes. Estonia is the only country where we know of proactive tools, where there are more social work places and meals on wheels. Hungary was the only country to cut expenditure (minus 6%), while in Armenia, the national expert cited the consequences of the devaluation of the national currency.

The NGOs can play roles in distributing services either from their own resources or as the contracted partners of the local self-governments. There is no indication in the country reports that central or local governments willingly choose this method of crisis management which involves shifting responsibility. The French expert is quite explicit: “Numerous associations in France aim to fight poverty by legal means. A number of them benefit from subsidies and request public funding but they have never been used by government or by local authorities to reduce the costs of social services.”

In several countries that have transformed their social welfare systems in recent years, the development of NGOs and their provision of services are still in their infancy (for instance: Bosnia and Herzegovina and Ukraine).

“Ukraine’s government continued to develop reforms in social service provision (to strengthen the role of community services) at the routine speed, without specific response to crisis-related pressures” (National expert).

In Slovakia, the NGOs have taken unique action—they are calling for EU funding to cover the build-up and more powerful role of the sector.

6.3. Workfare and/or Welfare?

A key to the sustainability of the European welfare states as well as to boosting their competitiveness and bolstering their social cohesion is increasing the number of people with jobs as well as the proportion of the working population. Unquestionably, the most effective way to alleviate poverty is for people to have work.

There are three buzzwords in use to describe employment promotion, albeit with slightly different content. They are “activation policies,” “workfare,” and “welfare-to-work.”

“*Activation*” as a socio-political labour market strategy is an umbrella concept. “The term is broad and refers to a wide range of policies that, i.e., are targeted at people receiving public benefits, and/or in danger of being excluded from the labour market (...). Goals and measures may differ; the goals may be (re)entrance into the labour market, the development of work related skills, etc., while the measures may vary from voluntary training to obligatory work programmes. Other instruments may be job creation, wage subsidies and financial incentives.”³⁷

The essence of this concept is to replace passive labour market tools (such as various cash supports) with measures to improve job skills.

*The workfare*³⁸ (“work-for-your-welfare”) model rests on the assumption that when people of active age receive aid, the outcome is welfare dependency. The belief is that they no longer want to work because they receive the aid without doing anything. This approach, which originated in the United States, sets conditions (such as training courses, rehabilitation, mandatory community service or taking a communal job) as the prerequisite to receiving a minimum subsistence level of social support. Since the belief is that the biggest obstacle to work for this group is the attitudes of the jobless themselves, workfare advocates use the social assistance system to put pressure on the people outside the workforce to accept any job opportunity. This attitude differs from the traditional tenet of the welfare state in that it does not consider provision of minimum subsistence conditions as basic right of all citizens.

The *welfare-to-work* concept was introduced to Europe by the UK, where it was part of Tony Blair’s “New Deal” programme. While it offers a wide range of human capital development tools to unemployed people of various ages to promote success on the job market, it is similar to workfare in that refusal to participate can result in a loss of benefits.

All three concepts employ both the carrot and the stick, but to different extents and with differing consequences.

The activation approach relies primarily on labour market and employment policy means, while workfare and welfare-to-work connect labour market and income maintenance tools.

“Another feature of European welfare policies is the general trend of the reforms; towards active measures rather than passive, sanctions rather than incentives, duties rather than rights. Further trends include the approval of a public contract approach

³⁷ Nanna Kildal (2001) *Workfare Tendencies in Scandinavian Welfare Policies*. Geneva: International Labour Office, February 2001, p.2. <http://www.ilo.org/public/english/protection/ses/download/docs/workfare.pdf>.

³⁸ US terminology uses the word “welfare” as a synonym for social assistance.

rather than a rights-based approach and an emphasis on selectivity rather than universality. (...) Thus, there seems to be a kind of convergence both in the interpretation of political challenges and in the political answers, irrespective of national institutional preconditions. This tendency towards convergence in national welfare policies is, it is true, mixed with divergent trends in other respects.”³⁹

We did not have the capacity to conduct extensive research for this study, in that we were unable to study the legislative environments and systems of institutions of each country. Therefore, we were forced to rely on the MISSOC database and the isolated comments included in responses of experts to the questionnaire. Our overview of the occurrence of the various ways of managing social assistance is therefore incomplete.

Table 14.

Orientation of the Activation Measures Directed to People on Social Assistance

Focus is more on heightening capabilities	Focus is more on employment policy
Czech Republic, France, Georgia, Iceland, Ireland, Luxembourg, Slovenia	Denmark, Finland, Hungary, Slovakia

As already mentioned, the activation measures can include training and retraining, provision of work experience, or participation in one form or another of community or public work, as well as the capability development solutions that rely on social work tools. The difference—among others—lies in the nature of the organizations responsible for the activation. Are they exclusively or primarily employment services or does some social institution also play a substantive role? Another factor behind differing work methods and interests is that employment services are for the most part large and centralized institutions operating within hierarchies and maintaining uniform orders of procedure, while social services are generally within the purview of local governments that attempt to ascertain the specifics of individuals and work with them in mind. Their clients are families, not just working-age social assistance recipients.

One form of aid that has been introduced in a growing number of countries is the conditional cash transfer (CCT). The “condition” is not necessarily work-related. In some developing countries for instance, it is connected to major social policy goals such as sending children to school or the fulfilment of health care requirements. “Many social policy analysts also see a parallel in the move to CCTs in developing countries and the welfare-to-work agenda in the United States and Europe, as embodied by reforms that led to the Revenu Minimum d’Insertion in France, the Temporary Assistance for

³⁹ Nanna Kildal (2001) *Workfare Tendencies in Scandinavian Welfare Policies*. Geneva: International Labour Office, February 2001, p.2. <http://www.ilo.org/public/english/protection/ses/download/docs/workfare.pdf>, p.1.

Needy Families (TANF) reforms in the United States, and the New Deal in the United Kingdom. Like CCTs in the developing world, all of these programs require ‘desired behaviour’ in exchange for income support. In settings with highly informal labour markets, the conditions on children’s health and schooling are easier to monitor than job search and work requirements and thus are sensible adaptations of the basic notion of linking social assistance to positive behavioural change.”⁴⁰

Methods like this, which limit personal and family autonomy, are nontraditional in the European welfare states, but they do crop up from time to time. In Hungary, for instance, although statistics show that irregular school attendance is negligible, and although there are institutional ways of achieving adherence to the statutory obligation of attending school, some local governments would like to link assistance to the verified school attendance of children. Another example is Latvia, where there is a requirement for “Acceptance of medical treatment and rehabilitation (for example, in the case of alcohol or drug abuse) and participation in measures promoting employment (for example, retraining, paid temporary jobs, etc.).”⁴¹

Table 15.
Activation and the Safety Net

Stick		Carrot
Aid may be halted completely if recipient does not accept activation measures	Aid may be reduced if recipient does not accept activation measures	Aid is withdrawn in gradual increments if recipient gets a job
Bulgaria, Estonia, Hungary	Denmark, Sweden	Cyprus, France, Georgia, Hungary, Ireland, Latvia, Malta, UK

Many analysts see the main reason why living on assistance is a counter-incentive to taking a job is the poverty trap, that is, that the income coming from work is not appreciably larger than the amount received as aid, while taking a job increases expenditure. The problem can be resolved by gradually reducing but not eliminating the benefit, when cutting it off completely might jeopardize subsistence or by gradually tapering off the benefit once a person begins to work. There are several examples of the latter in Europe.

⁴⁰ Ariel Fiszbein and Norbert Schady, with H.G. Francisco Ferreira, Margaret Grosh, Nial Kelleher, Pedro Olinto and Emmanuel Skoufias (2009) *Conditional Cash Transfers, Reducing Present and Future Poverty*, The World Bank, p.33.

⁴¹ MISSOC database. Mutual Information System on Social Protection http://ec.europa.eu/employment_social/spsi/missoc_en.htm.

Workfare, which pulls the social safety net out from under recipients, which punishes people who do not or cannot participate in activation programmes along with their families who are not responsible for rejecting the activation programmes, clearly casts doubts on whether social rights exist at all. Denial of the aid punishes not only the person from whom it is withdrawn, but, for example, all children living in the family as well. The intensity with which this type of sanction is applied varies. In some places the amount of assistance is reduced, while elsewhere it is completely cut off for longer or shorter periods of time.

In the United States, when workfare was introduced, the majority of welfare recipients were African-Americans. In Europe today, Roma (in Hungary, Romania, Bulgaria, and Serbia) and immigrants from ethnic minority groups are overrepresented among the targets of activation measures. This strongly suggests that efforts to introduce workfare are racist in motivation. Even if they are not, when evaluating the method, we cannot ignore the extent to which they affect different ethnic groups.

The reasons some people are unable to break into the labour market are more than personal ones that could be remedied through employment policy and social means. The operation of the labour market itself and its workforce needs also play roles. Activation measures are different when they include job opportunities even for people with low education levels and no skills, when flexitime is widespread, and when there is a social economy as against where and when there simply is no place to reintegrate the jobless.

In times of downturn, with narrowed-down labour markets and growing unemployment, the question becomes particularly acute: can a phenomenon that is economic and structural in nature be blamed on the individual? Studies by experts in the countries under scrutiny simply suggest that there has been a rise in the number of aid recipients, that spending on assistance has increased, but fail to mention whether any system-wide changes had been introduced, even temporarily.

6.4. Lessons

To date, most countries have not attempted to alleviate the budget ills caused by the downturn by cutting social expenditure.

Information received to date suggests that no country has introduced system-wide measures to alleviate the social effects of the crisis. Nor have we found any example of a country taking advantage of the crisis-induced situation to implement hitherto postponed structural reforms. Instead, we tended to see the suspension of planned or barely begun reforms in welfare systems.

Obviously, the drop in employment exacerbates problems with financing social security-based pension systems. In countries where there has been a sizable rise in unemployment, it is still a bit early for the aid systems to feel the hit they have taken.

In strongly centralized social assistance systems, government measures alone determine the amount of funding available and the circle of possible beneficiaries. Big government bureaucracies are slower to move and less able to introduce differentiated solutions than decentralized systems in which local communities can calculate the situations of individual groups in shaping their systems and regrouping their resources. However, the decentralized systems also can find themselves in trouble, for it is easy to blame the local government if central financing does not keep up with the change in the number of applicants. In countries where local decision-makers enjoy a high level of discretion in awarding the assistance, growing public dissatisfaction can be dissipated by excluding ethnic minorities, which in turn can lead to ethnic conflict.

Setting conditions on receiving benefits, particularly if the conditions are aimed at testing willingness to work, that is, deservingness, is very risky when it is obvious that under the conditions of the economic downturn there is no chance of any long-term reintegration into the workforce.

The pilot study on which this analysis rests is quite adamant in pointing out that often the statistical data collection systems used to ascertain the social circumstances and welfare supply systems of the public are inaccurate and slow. Thus, they are incapable of providing sufficient reliable information on which to make well-founded decisions.

Annex I

Bulgarian Experiences in Promoting Municipal Efficiency

Introduction

In the last 10 years, Bulgaria has gained some experience in the assessment of municipal services from the point of view of efficiency. Several pilot projects funded by the USAID and the Open Society Institute–Sofia were carried out, which drew some experience from the international academic research but the concrete task was practically oriented—to provoke a policy debate on municipal efficiency by demonstrating that municipalities face a wide variety of unit costs.

The projects found out that there were wide variations in unit costs for different services across municipalities in Bulgaria. For each variety in the unit costs, there may be some reasonable explanation, but what is sure is that it needs to be explained. In the Bulgarian case the idea was not to use a very complicated methodology, to keep the conclusions simple and suitable for a policy debate.

Two attempts for comparative assessment of efficiency carried out by the Open Society Institute–Sofia built upon previous work funded by USAID. USAID supported the elaboration of a special Manual for Evaluation of Local Service Performance (Markov and Tafradjiiski 2007). The pilot project collected empirical data to check the methodology described in the manual. For this purpose four typical local services were selected: Street Cleaning, Solid Waste Collection and Transportation, Landscaping and Street Lighting. The Manual was developed by Angel Markov from the Local Government and Public Service Reform Initiative and Borislav Tafradjiiski from Club Ekonomika 2000. The project was carried out in six Bulgarian municipalities: Kardjali, Razgrad, Sliven, Mezdra, Karlovo, and Dobrich.

The manual uses the concept of service performance, which is very close to the usual concept of municipal efficiency but is based more on the target of achieving certain benchmarks defined as standards for the provision of the corresponding service.

When overseeing the service improvement strategies, the manual uses the concepts of efficiency and effectiveness, trying to integrate them into a single framework of analysis.

The following questions were asked to outline the understanding of the two basic concepts:

- Effectiveness—is the quality of the existing service measurable and good?
- Efficiency—are the available resources used in the best possible way?

The manual develops also some basic tools for full costs accounting and programme-based budgeting for local authorities.

Some Pilot Municipal Efficiency Experiences from Bulgaria

The next important step in developing the methodology for assessment of municipal efficiency was a pilot survey carried out in fifteen Bulgarian municipalities. It was organized by the Resource Centre for Decentralization and Municipal Development⁴² to determine and compare the unit costs for four local municipal services: garbage collection, street cleaning, planting, and street lightening and two delegated services. The main factors analyzed are the scope and quality of the services. The main target of the project is to make the services in the different municipalities comparable, set benchmarks based on the best cost-benefit ratio, and initiate a discussion on how these benchmarks can be met.

The monitoring of municipal services based on predetermined efficiency and effectiveness factors allows the tracking of different processes taking place at the municipal level, especially those related to their financial situation and the management of the services. These indicators allow a better understanding of the challenges that the municipalities may face in the provision of services.

Participation in the monitoring was on a voluntary basis, which guarantees the reliability of the information provided. Fifteen Bulgarian municipalities participated in the project: Pleven, the town of Dobrich, Kardjali, Pazardjik, Troyan, Mezdra, Tervel, Zlatograd, Stara Zagora, Gabrovo, Kozloduy, Belene, Kneja, Koprivshtitsa, and Tryavna. The survey included four local option services (financed by the municipalities own revenues)—garbage collection and transportation, street cleaning, landscaping and street lighting—and two delegated services (services mandated by the central government)—mainstream schools and kindergarten. The survey uses data for 2006 and 2007.

The services were assessed against preliminarily defined indicators of efficiency and effectiveness, which allowed tracking different processes taking place at the municipal

⁴² The Resource Centre for Decentralization and Municipal Development is an organization comprising the Open Society Institute–Sofia and Partners for Effective Solutions Ltd.

level related to the financing and management of services. These indicators highlight the main challenges faced by municipalities in the provision of the corresponding service.

Collecting comparative information on the provision of services across municipalities is an important step toward their better understanding. This also is a way to improve quality and coverage and make expenditure more transparent. Such comparisons also allow municipalities to set strategic priorities through benchmarking.

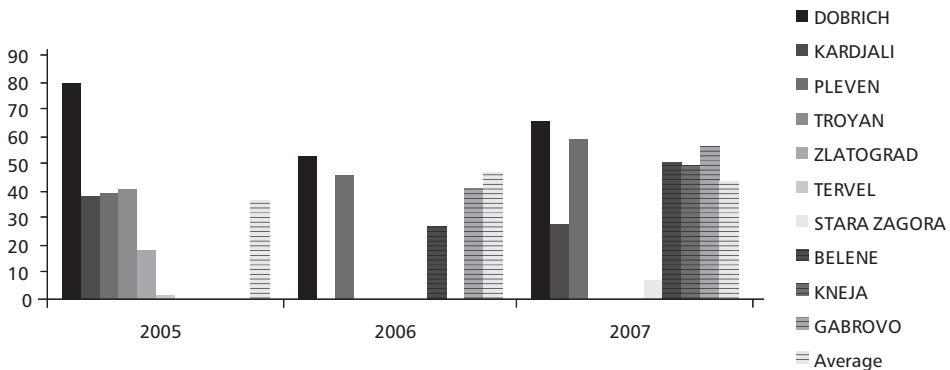
The main indicators for each service were listed and defined and a data collection form with a manual of explanatory notes was made. The main focus of the project was on the presentation of the data and the dissemination of good practice.

Below we give the list of the main indicators used for each service:

Street Lighting

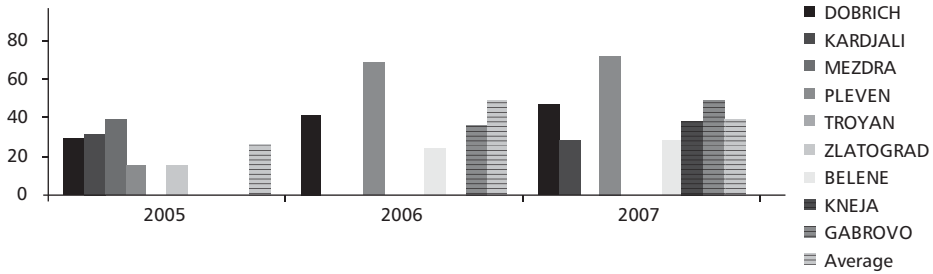
Indicators of Effectiveness

Figure 13.
Operational Costs/Total Number of Lights



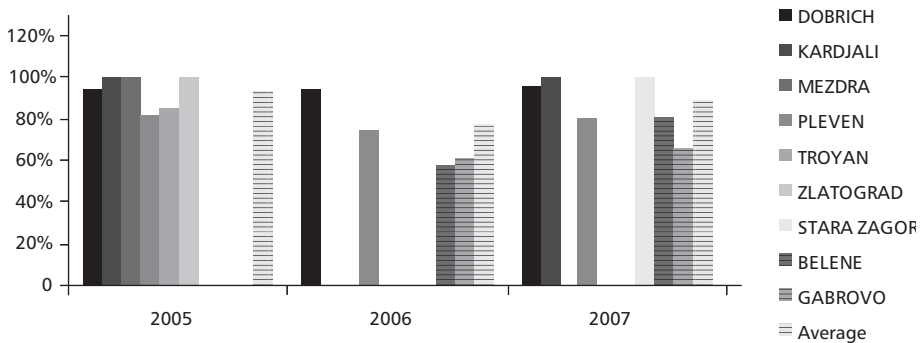
This indicator shows how much an illuminant costs to the local government. This is a typical unit costs indicator, which shows how cost efficient is the provision of street lighting in general.

Figure 14.
Energy Costs/Total Number of Working Lights



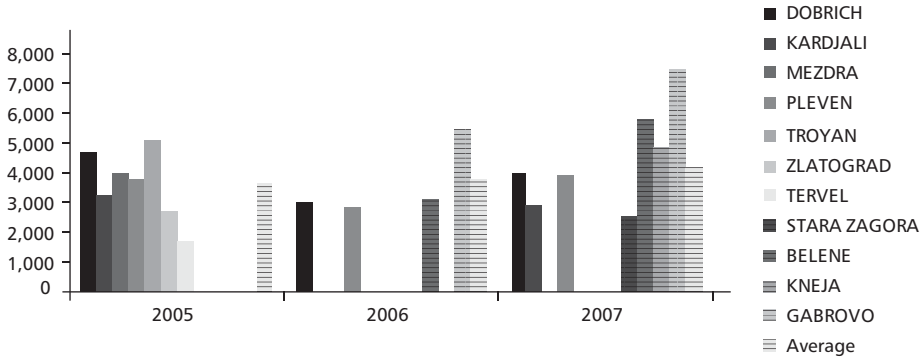
This indicator shows how much the municipality pays for electricity per illuminant. It is a unit cost indicator, which shows specifically how energy efficient is the street lighting.

Figure 15.
Energy Saving Lamps as a Percent of the Total Number of Lamps



This indicator shows to what extent the local authority provides the service in a more technologically advanced way and to what extent it has invested in technological improvement.

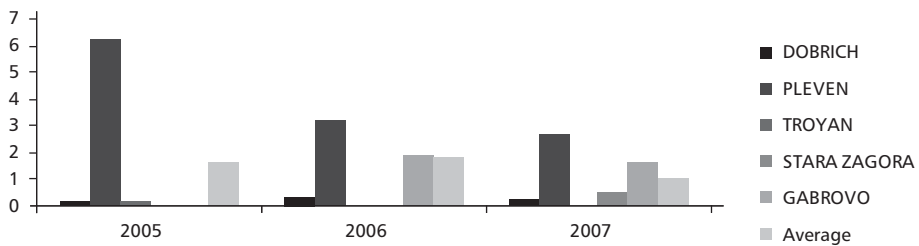
Figure 16.
Street Lighting Costs per 1,000 Inhabitants



This is a unit cost indicator, which shows how efficient the local government is in providing the service to each inhabitant. But the indicator does not tell about the quality of the service.

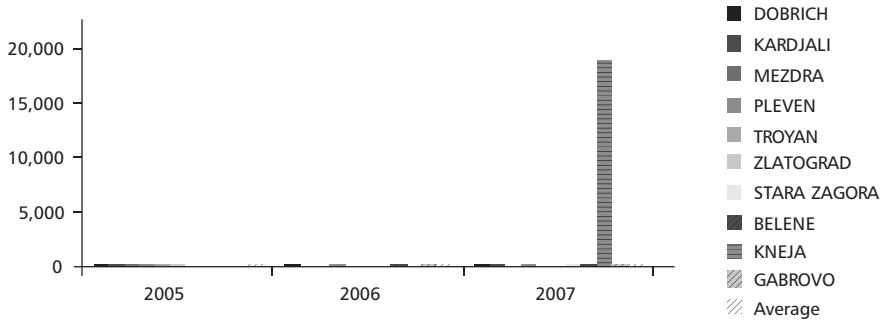
Efficiency and Quality Indicators

Figure 17.
Number of Complaints/1,000 Inhabitants



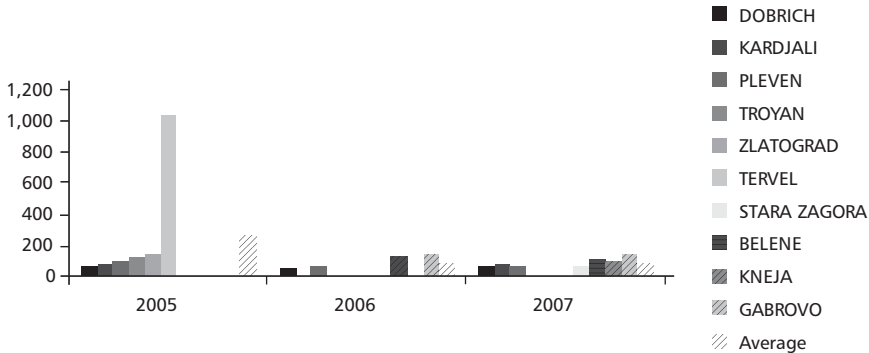
This is a typical consumer satisfaction indicator, which should demonstrate how dissatisfaction of the population drops.

Figure 18.
Illuminated Street Network as a Percent of the Whole Network



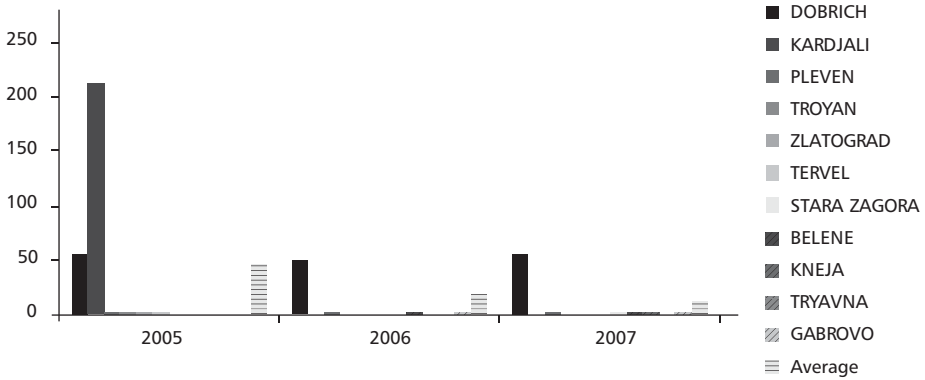
This indicator measures the quality of the service. More illuminated streets mean better quality but higher costs. So it is important to use this and the next indicator in conjunction with the unit cost indicators to guarantee that what appears to be efficiency does not come in the shape of very poor quality of the service.

Figure 19.
Number of Lights/1,000 Inhabitants



This indicator like the previous one measures the quality of the service. It has to be used together with the unit cost indicators. It can be used with almost any local service.

Figure 20.
Number of Lights/Total Surface of the Populated Area

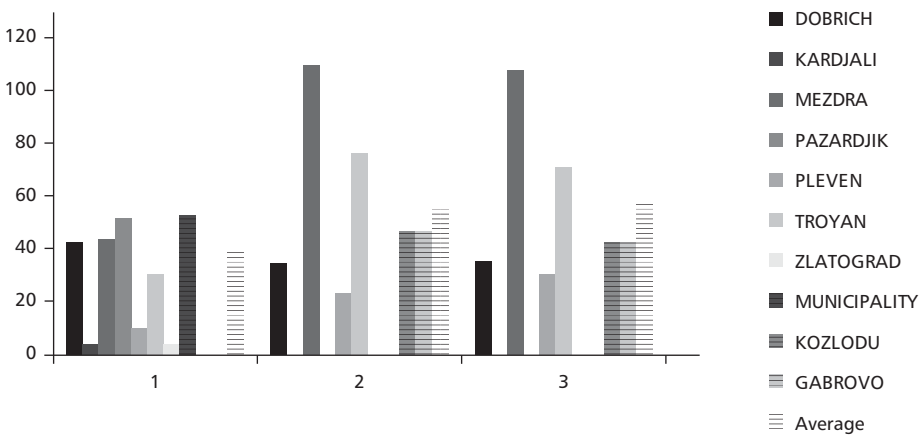


This is an indicator of technical efficiency, which shows how efficiently the lighting of a territory is organized. But it does not tell if this is a result of good design or just of poor quality of the service—too few street lamps. So this indicator has to be used together with some quality indicators like beneficiary satisfaction.

Garbage Collection

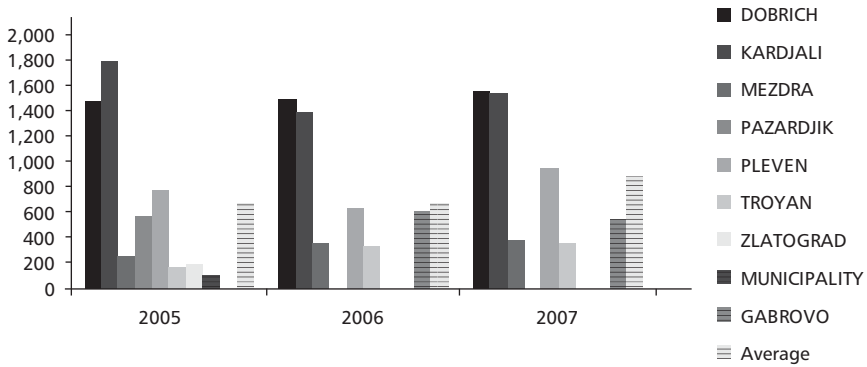
Indicators of Effectiveness

Figure 21.
Operational Costs/Collect Waste (Tons)



This is typical unit cost indicator, which indicates the overall cost efficiency of garbage collection so it should be used in conjunction with the previous indicator.

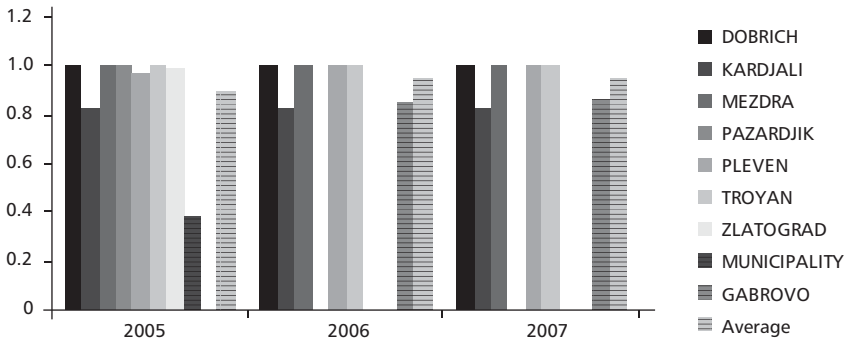
Figure 22.
Operational Costs/Total Volume (m³) of the Waste Collection Container



This is again a unit cost indicator, which indicates the cost efficiency in the management of available assets. But it does not tell if these assets are too big or too small.

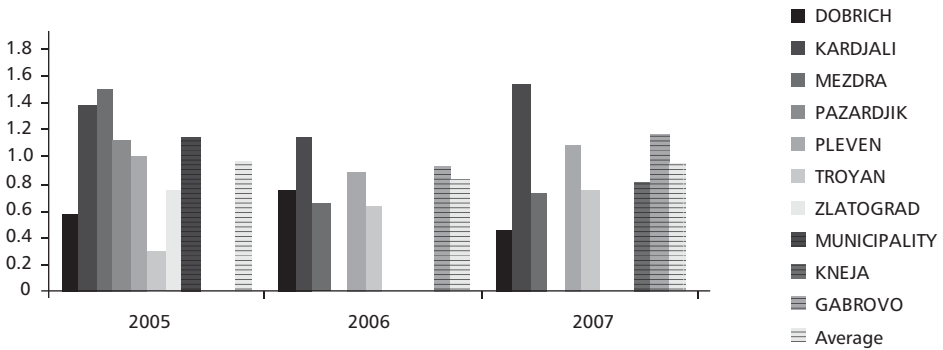
Efficiency and Quality Indicators

Figure 23.
Attended Population/Total Population



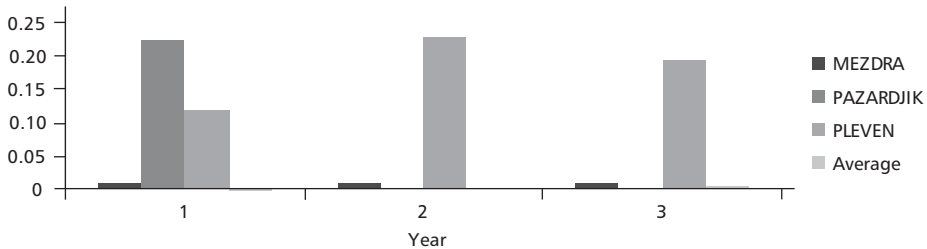
This is an output indicator which shows the scope and coverage of the service and its accessibility.

Figure 24.
Household Waste Fee Revenue/Cleaning Activities Expenditures



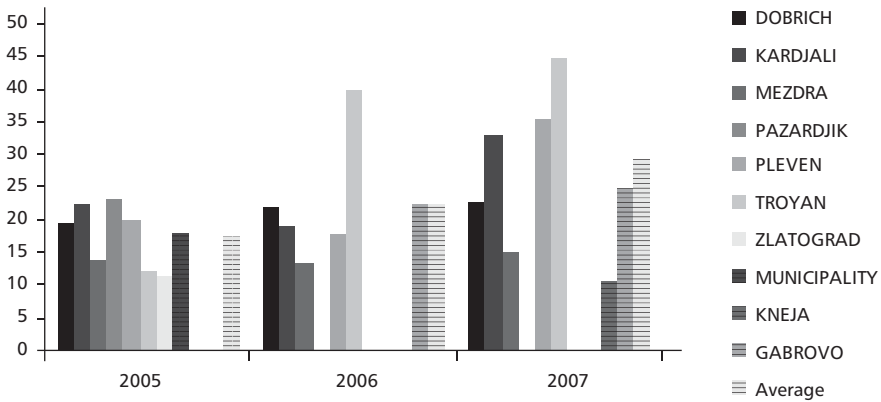
This indicator shows if the service is financially sustainable. If revenue is much lower than the expenditures this may be due to a high rate of subsidizing the service or to very low cost efficiency. This indicator can be misleading if used as a stand alone but quite revealing in a package with other indicators.

Figure 25.
Recycled Water (Tons)/Total Collected Waste



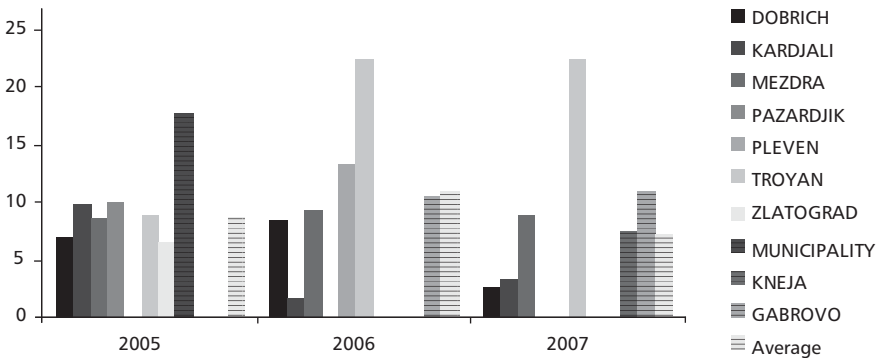
This is an indicator of the quality of the service in terms of reducing the ecological damage and other positive externalities.

Figure 26.
Household Waste Fee Revenue per Inhabitant



This indicator shows how “expensive” the service is to the inhabitants. It is a unit price indicator (or a proxy for a unit cost indicator), which has to be used together with quality indicators.

Figure 27.
Household Waste Fee Revenue from Physical Persons per Inhabitant

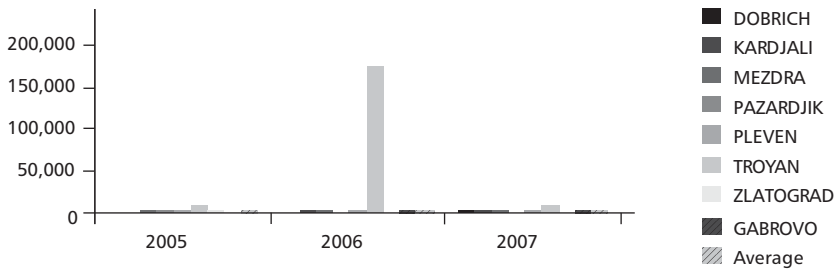


This is the same indicator as the previous one but excluding legal entities (businesses, etc.).

Street Cleaning

Indicators of Effectiveness

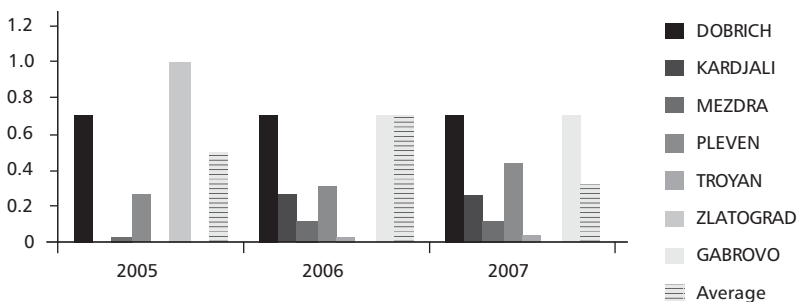
Figure 28.
Operational Costs/Cleaned Areas



A typical unit cost indicator using natural units. It shows the overall cost efficiency of the service production.

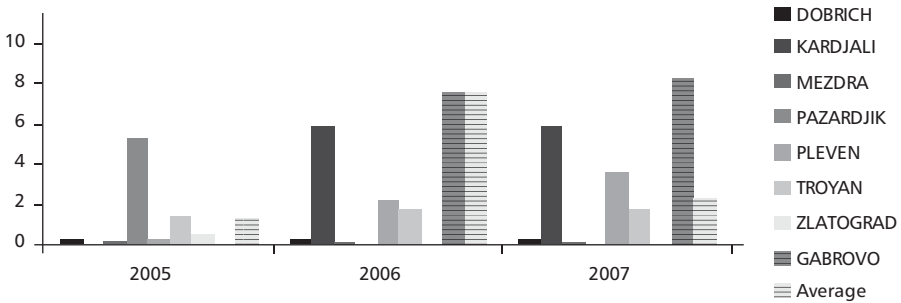
Efficiency and Quality Indicators

Figure 29.
Kilometres of Cleaned Street/Total Kilometres of Street



This indicator shows the quality of the service. More cleaned streets mean a larger scope of service and can be even regarded as a better quality if we take the cleaning of the city to be an integral task. So it is important to use this indicator in conjunction with the unit cost indicators to guarantee that what appears to be efficiency does not come in the shape of very poor service quality.

Figure 30.
Decares Cleaned Streets per Year/Total Number of Working Days

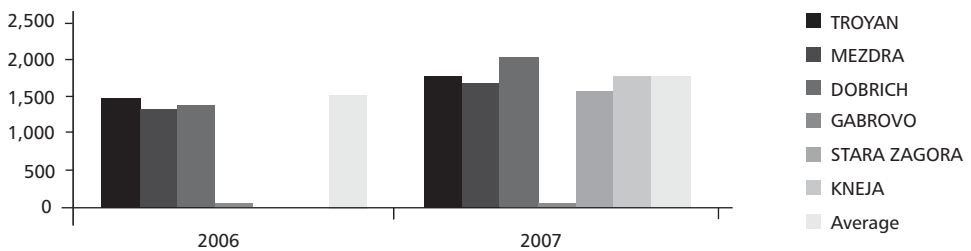


This is indicator of technical efficiency, which shows how technologically advanced the production of the service is. It may also show, other things equal, how well the service is managed and whether there is redundant staff.

Kindergarten

Expenditures

Figure 31.
Per Child Costs in Kindergarten



Maintenance costs of the kindergarten per child

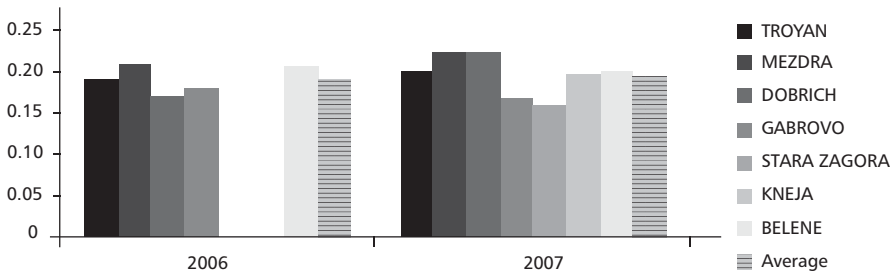
- Share of the maintenance costs of the kindergarten in the total current costs
- Share of the labour costs of the kindergarten per child
- Share of the labour costs of the kindergarten in the total current costs

- Costs for additional provision of pedagogical services per child in the kindergarten
- Share of the costs for additional provision of pedagogical services in the kindergarten in the total current costs
- Capital costs in the kindergarten per child
- Share of the capital costs in the kindergarten in the total costs

These are indicators of the overall service provision and of specific aspects of cost efficiency. These indicators should be used together with quality assessment indicators and interpreted with care. For example, a high share of the labour costs and low share of maintenance and capital costs may indicate that there are too many teachers per child or that the service is underfunded.

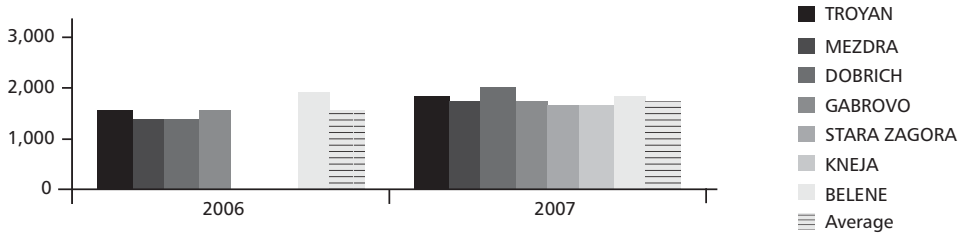
Indicators of Effectiveness

Figure 32.
Number of Children per Employee in Kindergarten



This is an indicator of technical efficiency. Like all similar indicators it should be used together with quality assessment indicators to guarantee this high technical efficiency does not come at the expense of overcrowded classes and poor teaching. In the above case not just the pedagogical but the whole staff is considered.

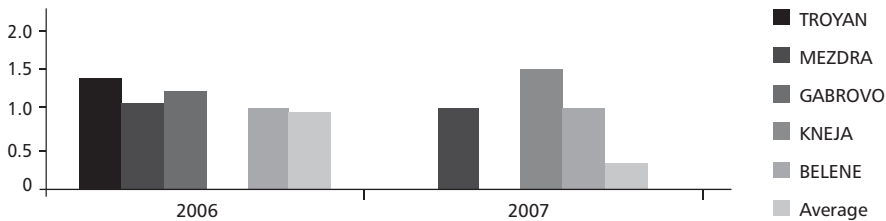
Figure 33.
Current Costs per Child in Kindergarten



A typical unit cost indicator focusing on operational costs. Low operational costs per child again may be a sign of good management but can also be a result of underfunding if they come at the expense of an essential deterioration of the quality of the service.

Efficiency and Quality Indicators

Figure 34.
Share of Kindergarten-age Children Who Attend Kindergarten
in the Total Number of Kindergarten-age Children

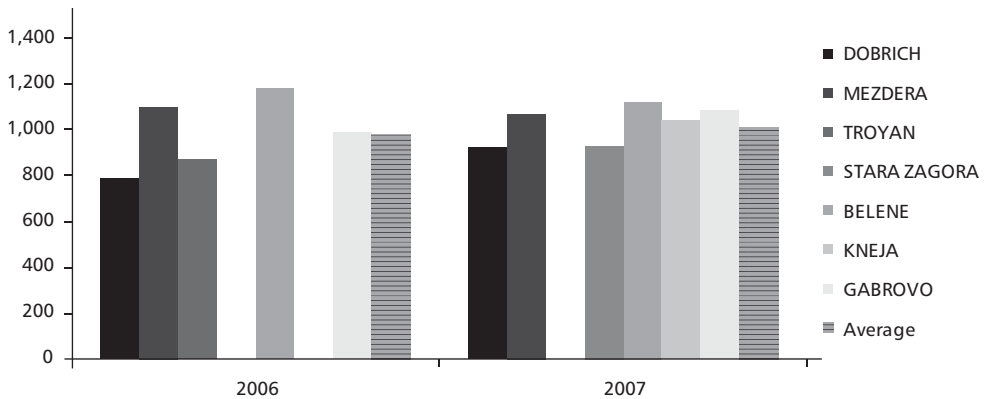


Enrollment rates are a key indicator of the quality of educational services, as well as of access and equity. So they should always be used together with cost efficiency indicators.

Schools

Expenditures

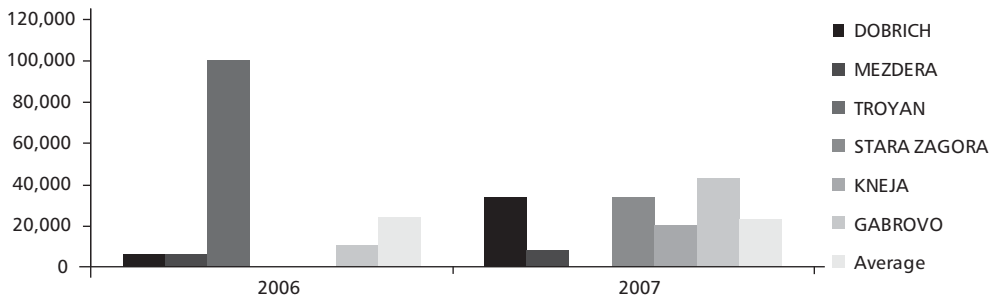
Figure 35.
Total General Secondary School Expenses per Student



This is the classical cost efficiency indicator in education.

- Share of the labour expenses of the general secondary schools per student
- Share of the labour expenses of the general secondary schools in the total current expenses
- Share of the expenses for additional pedagogical services (including free choice subject) in the general secondary schools in the total current expenses
- Capital expenses of the general secondary schools per student
- Share of the capital expenses of the general secondary schools in the total expenses

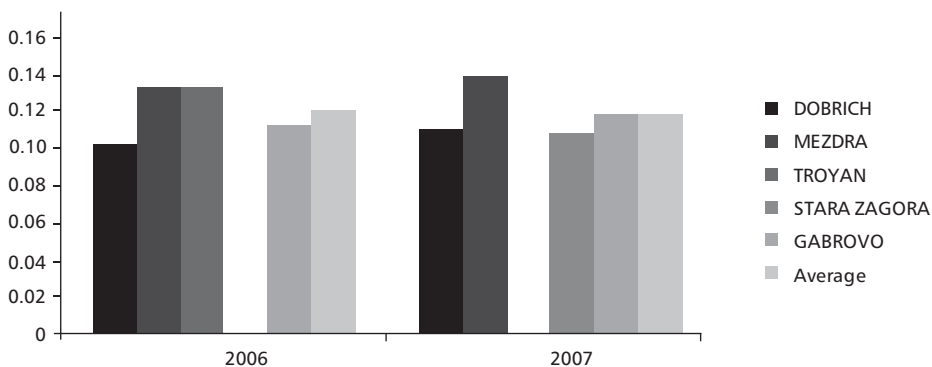
Figure 36.
Capital Expenses per Student



As in the case with kindergartens, these indicators should be used together with quality assessment indicators and interpreted with care. For example, a high share of the labour costs and low share of maintenance and capital costs may indicate that there are too many teachers per child or that the service is underfunded.

Indicators of Effectiveness

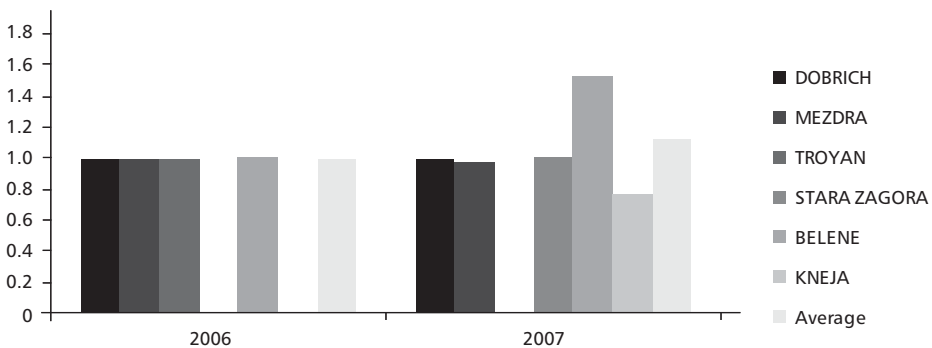
Figure 37.
Number of Students per Employee in the General Secondary Schools



This is an indicator of technical efficiency. Many indicators of technical efficiency show if a certain service is produced with more or less physical inputs measured in natural units. Usually technical efficiency translates into cost efficiency, although there are exceptions. The teacher/student ratio is one of the most closely monitored indicators in education. In this case again, efficiency gains have to be weighed against quality benefits. A low teacher/student ratio may sometimes be a sign of too low workload for the teachers but it may also be a chance for more individual work with the students and better student outcomes.

Efficiency and Quality Indicators

Figure 38.
Share of the School-age Children Enrolled in Schools
in the Total Number of School-age Children



Enrollment rates for school-age children are one of the major indicators of how the education system performs. No cost efficiency indicator should be used without checking it against the potential impact on enrollment rates. For example, the recent abrupt introduction of per student funding at very low rates led to the closure of more than 300 (more than 12% of all) schools in Bulgaria in a single year. But this cost efficiency dividend came at too high social cost, abruptly decreasing enrollment rates.

The results from the survey were discussed at a roundtable with the participating municipalities to have their feedback on the interpretation of results. Then the final document was presented to the administration of each municipality by highlighting the main relevant findings, especially the areas where, according to comparative benchmarking in the corresponding municipality, there is room for improvement.

Another example of an analysis of municipal efficiency from Bulgaria focuses on the revenues and expenditures of the large cities, which function as territorial govern-

ments. Five-year time series (2003–2007) of main revenue and expenditure budgetary items were collected and analyzed for four large cities—the capital Sofia, Plovdiv, Varna, and Bourgas. Plovdiv is the second biggest city in Bulgaria after the capital located in the south-central part of Bulgaria. Varna and Bourgas are the third and fourth biggest cities in Bulgaria both located on the Black Sea coast. The analysis demonstrated that the revenues of these largest municipalities grew at the same pace as the rest of the municipalities in Bulgaria with the exception of the municipality of Varna, but it was due mainly to an increase in their own revenues with constant or decreasing subsidies from the central government.

Figure 39.

Consolidated Budget Revenues of the Municipality of Sofia 2003–2008

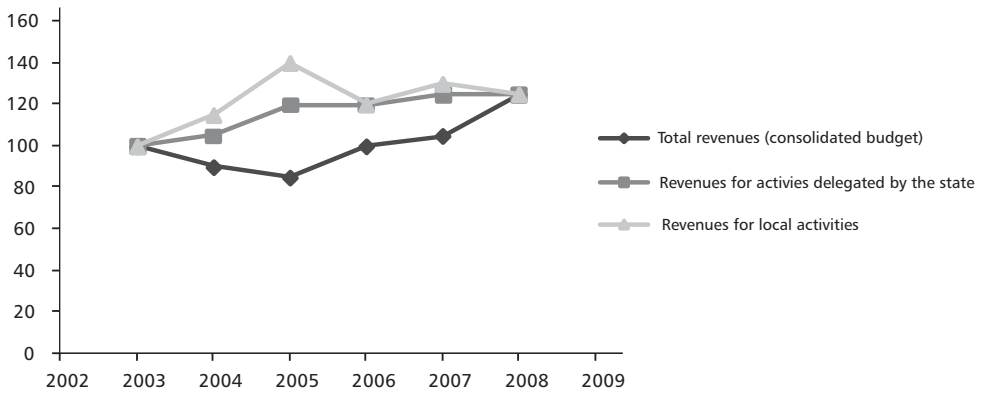
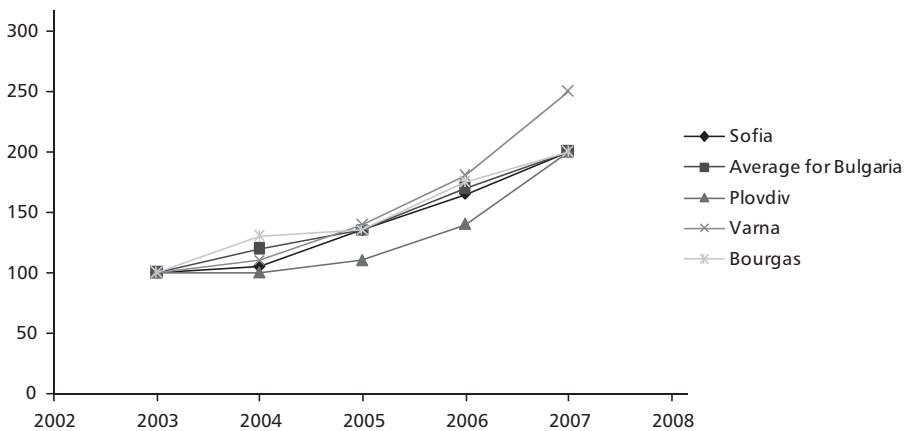


Figure 40.

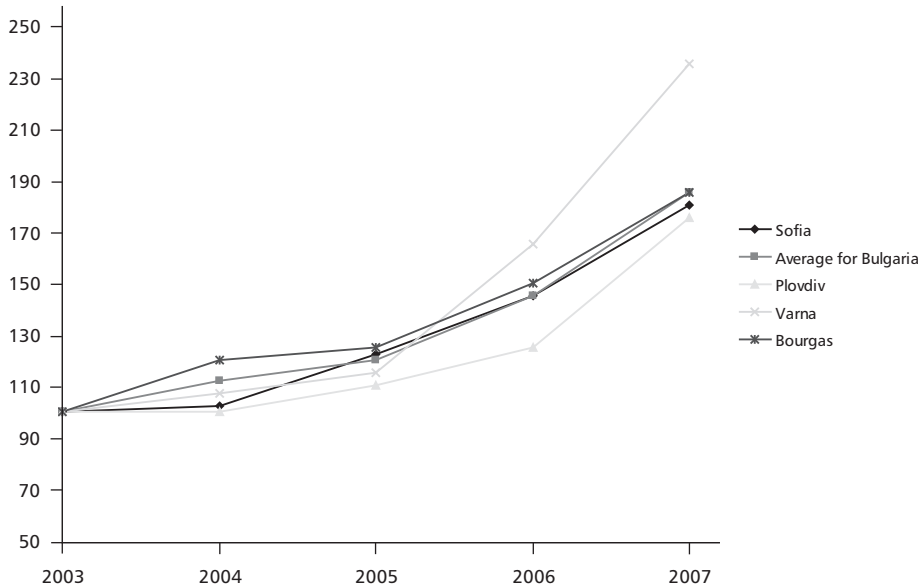
Consolidated Budget Revenues 2003–2007 (Four Cities and Average for Bulgaria)



The biggest decrease was in the transfers for capital investment.

On the expenditure side again the four biggest cities were no different from the average municipality in Bulgaria in terms of per capita expenditures and expenditure growth.

Figure 41.
Consolidated Budget Expenditures 2003–2007
(Four Cities and Average for Bulgaria)



Policy Alternatives

The difference between what was done before the crisis and what will likely be the priorities now in terms of municipal efficiency can be illustrated by the following matrix of policy options. To keep things simple, the matrix is two-dimensional, containing only generalised input and output. Both the input and the output side can, of course, be broken into lower order items.

Input	Output		
	Compromise	Same	Increased
Reduced	X (1)	X (2)	O/X (3)
Preservation	Business as usual		O
Increased			O

Notes: O—before the crisis, X—during the crisis.

Inputs in this case refer to all resources, which are used to produce an output. This includes all operational costs and investments. Outputs are local goods and services. For the sake of simplicity and clarity both growing output volume and improving quality count as increased output.

When we discuss the policy approach to efficiency the usual dilemma is whether we should be concerned mostly with inputs or outputs.

The usual target in less turbulent times is to improve the quality of the services even if this is related to increasing costs or making additional investments. In times of crisis as budgetary constraints become tighter, inputs will likely become the major priority. So the main concern of those responsible for the funding, organization, and delivery of services at the local level will now become how to keep costs from rising or how to reduce them without too much compromise. Any increase of inputs whether in the form of additional costs or new investment is quite unlikely.

During a crisis there are three options:

Option 1.

Minimize the compromise on outputs resulting from forced expenditure cuts and thus reduce the social cost of the crisis. This is the most typical situation when decisions have to be taken under pressure, when budgetary constraints have started to work already. The main question is how to reduce costs without making too much of a compromise with quality. This can be achieved through wrapping up less essential services or cutting the costs, which will marginally have a lesser effect on the volume and quality of the services provided.

Option 2.

Keep the quality and reduce costs. The reduction of some costs may not affect the volume and quality of the services at all. Such costs are unnecessary but in affluent times there is sometimes little incentive to look for them. Identifying which costs can be reduced harmlessly is a matter of performance measurement. The identification of such costs usually requires comparative studies across local authorities using benchmarking or unit cost analysis.

Option 3.

Reduce costs and improve quality. There are some cases when it is possible to improve quality and reduce inputs at the same time. This is usually related to technological improvement and requires a substantial investment, which takes some time to pay back. This is hardly the first thing that anyone would risk doing during a crisis. But still if a countercyclical intervention can be combined with efficiency gains in the long run, it might work well during a crisis. In some cases, however, the mere improvement of the management of services, identifying and propping cost “leakages” through performance evaluation, can produce a similar effect.

Annex II

Benchmarking Water Supply Management in Hungary

The Benchmarking Club of the Hungarian Waterworks Association was founded in 2007. While water and wastewater service providers had for some time already been planning to start process benchmarking in Hungary, the impetus came after the International Benchmarking Network for Water and Sanitation (IBNET) survey was successfully completed and participating companies could start to compare their performance to that of their peers.

The IBNET survey in Hungary was carried out by the Hungarian Environmental Economics Center (abbreviated in Hungarian as MAKK). MAKK cooperated with the Hungarian Waterworks Association in order to identify water and wastewater utilities which would properly represent the water utility sector in Hungary. The sample included mid-sized and large utilities from all seven regions of Hungary, with a mix of government-owned regional utilities, local-government-owned utilities, and privately operated companies.

Water utilities in Hungary have long been contributing data to a wide range of surveys, including mandatory data provision to government agencies and authorities, and voluntary participation in industry surveys and chamber of commerce data collections. The companies, however, rarely received a structured feedback with analysis of the collected data. As part of the IBNET exercise, they were promised a report describing the results of the survey, and each participating company would also get a set of diagrams showing the performance of the company in specific areas compared to the whole sample.

Twenty-two companies decided to take part in the survey, while data on two privately operated companies, which refused to participate, were collected from public sources, including their websites, annual reports, and media articles. The experts of MAKK created an English language report to accompany the data sent to the World Bank, and produced, in Hungarian, a report as well as the company specific diagrams. The results of the IBNET survey were also presented at the annual gathering of the chief financial officers of the main water utilities of Hungary.

The feedback from the IBNET survey was appreciated by the participating companies as well as the officers of the Hungarian Waterworks Association. Besides receiving useful results, the IBNET benchmarking exercise also served as an example showing how a benchmarking process can be executed in practice.

The IBNET survey was a good start, but some of the companies wanted to go even further. They sought to collect additional data, some of it rather country-specific, compute additional indicators, and start an actual exchange of best practices. Thus, in early 2007, the Benchmarking Club was founded.

Participating Companies

While the Benchmarking Club operates under the aegis of the Hungarian Waterworks Association, membership in the Club is optional to its members. At the beginning, 18 companies chose to participate, while additional utilities indicated that they would consider membership after the first year of operation. In early 2008, two more utilities signed up for membership.

Member utilities provide about 60% of all drinking water service, and collect a little over 25% of all wastewater generated in Hungary. There is substantial diversity among members. The smallest utility sells about 1.3 million m³ of water annually, while sales at the largest one exceed 150 million m³/year. Some of the companies operate in a major town—with or without serving neighbouring smaller communities—while seven of the participating utilities serve smaller settlements, with the average number of inhabitants below 2,000 per settlement.

Hungary has flat as well as hilly terrain. Again, there is substantial geographical variation among members of the Club. Some of the members serve just one or two larger towns in a flat terrain, while others serve dozens or even hundreds of small villages in hilly and mountainous areas. The source of water is also diverse for the companies; some get their water primarily from bank filtered wells, while others use deep strata water or carstic supplies.

The large diversity of conditions under which the companies operate is appealing when one would like to understand the operation of the whole water and wastewater utility sector of Hungary. Nevertheless, this variety also has a shortcoming; comparison of performance indicators among companies needs to be done with caution, carefully considering differences in operating conditions.

Rules of Operation

The Benchmarking Club has a management board with five members, who are elected for a period of three years and represent member companies. A mixed board of financial experts as well as engineers is preferred. The management board meets about six times a year, and its main responsibility is to make sure that the Club is operated smoothly and in a professionally coherent manner.

The following eight thematic working groups have been set up to define the data to be collected and the performance indicators to be computed.

1. Operating conditions
2. Water service
3. Wastewater service
4. Customer relations
5. Human resources
6. Investments
7. Corporate management/Strategy
8. Finance/Accounting

Each working group has four or five members, who are experts of the member companies in the field of interest to the group. The groups also provide whatever theme-specific assistance is needed within the Benchmarking Club.

The actual benchmarking process is carried out by independent experts. The Hungarian Waterworks Association decided to contract the same experts from MAKK who originally carried out the IBNET survey. Since these people have since moved to the Regional Centre for Energy Policy Research (REKK) at Corvinus University in Budapest, REKK was contracted to provide the professional services to the Club.

REKK, in cooperation with the thematic working groups, develops the data collection methodology, including an Excel-based questionnaire. The questionnaire is to be reviewed and updated annually in the spring, based on experience gained during the previous year. The questionnaires are filled in by the utilities during May and June and then they are returned to REKK, where the received data is screened for errors, and then inserted into a database. REKK then computes indicators and also compiles summary tables of those data of which indicators are not computed, e.g., information on the strategic planning processes applied by the companies. The companies receive the first results of the benchmarking exercise early in the autumn, just in time to use them for their annual fiscal planning.

An important rule within the Benchmarking Club is that of the confidentiality of individual company data. Within the Club only average figures are shared and the companies receive only their own individual indicator values, but not that of the others.

The main cost related to the operation of the Benchmarking Club is the consultant fee paid to REKK. Utilities pay a Benchmarking Club membership fee to the Hungarian Waterworks Association, and the Association will then pay for the services of REKK. Additionally, the Association provides the meeting rooms and other infrastructure needed for Club meetings, and assists in administrative matters, such as correspondence and keeping minutes.

Annual Results

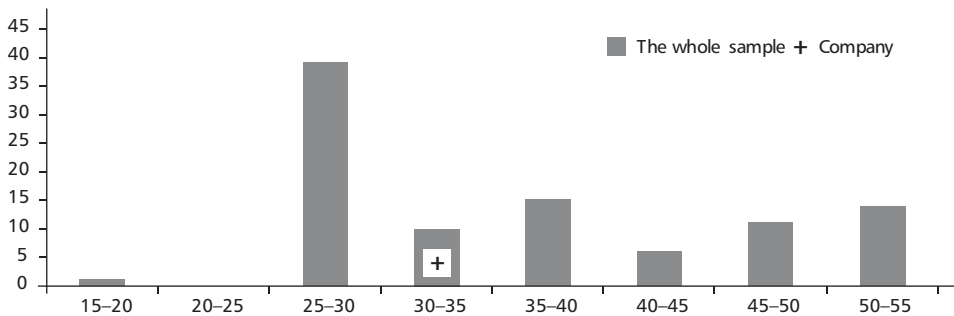
At the end of the annual benchmarking survey, member companies of the Club receive a company-specific document with over 200 charts and tables, illustrating the relative position of the company in comparison with the rest of the companies.

During the first year of the Benchmarking Club, 150 indicators were computed for two years of data. These indicators were designed by the working groups and the experts of REKK together, partly based on international experience (e.g., IBNET website, IWA publications). For financial indicators until now only nominal values were computed, but in the future inflation-adjusted real values will also be calculated. Indicators on the operation of wastewater treatment plants were computed separately for small, medium, and large plants, because of the differences in technologies and economies of scale. While the surveyed data was thoroughly defined in order to ensure consistency across the sample, the results showed that some of the data needs to be further defined, for instance, costs relating to maintenance vs. repairs, outstanding revenues, and the number of drinking water samples satisfying specific standards.

For each of the indicators, a chart depicted the distribution of the values of the whole sample as well as the company's own value, as illustrated in Figure 42. The document also included a table with the average and standard deviation figures for all indicators, as well as the company's own indicator values. This feedback provides utility managers a chance to observe the performance of their company in comparison with others, without seeing the individual indicator values of all the other companies, keeping with the data confidentiality rules of the Club.

Figure 42.

The Position of the Company Compared to the Distribution of the Indicator Values of the Sample



By mid-2008, three years of data was available (2005–2007) for many of the indicators, making it possible to generate time series in addition to annual indicator values.

Companies often prefer to compare themselves to a subset of the whole sample—utilities operating under similar conditions. Therefore, utilities are assigned to groups based upon specific criteria, and the indicator values for each of these groups and for all indicators are also computed. The table below includes the average values of selected groups for one of the indicators, the unit operating cost of water service.

Table 16.
Unit Operating Cost of Water Service in Selected Group

Group	Indicator value (HUF/m ³)
Average number of inhabitants per town —below 3000 (small towns)	224
Average number of inhabitants per town —above 3000 (larger towns)	170
Standard deviation of the altitude above sea level of the service area— above 30 meters (relatively hilly area)	237
Standard deviation of the altitude above sea level of the service area—be- low 30 meters (relatively flat area)	162
Volume of water sold per km of water network (m ³ /km/year)—below 6500 (sparsely populated area)	220
Volume of water sold per km of water network (m ³ /km/year)—above 6500 (densely populated area)	167
Population served with drinking water —less than 85,000 (smaller company)	207
Population served with drinking water —more than 85,000 (larger company)	179
Volume of delivered water —less than 10 million m ³ /year (smaller company)	203
Volume of delivered water —more than 10 million m ³ /year (large company)	180

Note: In March 2008 the USD–HUF exchange rate was at around 167.

Another type of output that companies receive is the distribution of the values of a given piece of data. For instance, a company may compare the age composition of its wastewater network to the average age composition of the sample companies, as illustrated by below.

Table 17.
Example for a Distribution Table

Age distribution of the wastewater network as of 31 December 2006	Average of the sample	Company
0–10 years	46.6%	22.2%
11–20 years	26.7%	31.0%
21–30 years	10.8%	2.8%
31–40 years	8.6%	7.1%
41–50 years	5.0%	33.5%
51–100 years	2.2%	3.4%
>100 years	0.1%	0.0%
Total	100.0%	100.0%

Lastly, information was collected about the practice of corporate management and the processes and tools used for strategic planning. This information, by its nature, is not numerical, and instead of computing indicators, summary tables were assembled showing, for instance, the number of companies using certain standards, or a list of the strategic objectives set forth by the management.

In addition to the company specific documents, an annual report is also compiled and shared among members of the Club. While this report does not include individual utility data, it contains all the average and standard deviation values, summary tables compiled from the responses of the companies, the methodologies used during the benchmarking exercise, and conclusions reached through analysis of the data. This document is available to all the members of the Club, but not to external utilities and organizations.

Results are used by the companies in a number of ways. The most typical is identification of areas where performance can be improved, i.e., where other companies with similar operating conditions operate more efficiently or at a lower cost. Benchmarking also provides feedback on the success of strategic initiatives—whether they ensured top performance among companies. Once time series of indicators are available, management can gauge the impact of changes in the company's operations, such as organizational or process reforms, new technologies, or acquisitions. One of the utilities mentioned that they used the results from the first year of the Benchmarking Club to justify the proposed tariffs when they had to be approved by the municipal owners of the utility. Another utility used the results to discuss the potential for cost reduction, again, with municipal decision-makers.

Sharing Best Practices

Getting information on the relative performance of a company is useful in itself, but knowing which companies are best in a field, and the reasons for their good performance is even more attractive. Since company specific data is handled confidentially, a mechanism was devised to unveil companies with good performance. For each indicator the three companies with the best indicator values were identified, and were asked if they were willing to disclose their identity. Since companies are not “ashamed” by their good performance, they usually agreed to reveal their names and indicator values.

After the list of good performance is compiled, it is shared with all member companies so that they can select those companies, the experience of which they would like to hear about, with regard to specific fields of operation. After the feedback from all companies has been compiled, it is the task of the management board of the Benchmarking Club to organize meetings where best practices are shared via presentations and discussions. The first such meeting took place in March 2008, and three topics were presented and discussed:

- Ratio of electricity costs among the operating costs of water production.
- Leaks and other technical problems of the water network.
- Cost savings and enhanced biological pollution reduction through improved wastewater treatment techniques.

Sharing of best practices may also take place on company grounds, especially when newly introduced technologies are displayed to the members of the Benchmarking Club.

Future Plans

The Benchmarking Club of the Hungarian Waterworks Association took a promising start in 2007. By the end of its first year, the Club had a thoroughly designed set of operating rules, a dedicated management board, thematic working groups which created and then refined the benchmarking survey and the indicators to be computed. The participating companies, for the first time ever, received a large set of data and charts illustrating their positions compared to all other water and wastewater utilities within the Club.

In February 2008, member companies adopted the 2008 work plan, which called for revision and more precise definition of some of the data to be collected, international cooperation, more active exchange of good practices, and initiatives to recruit additional member companies. Some of these items are detailed below.

In many ways 2007 can be viewed as an experimental or pilot year of the Benchmarking Club. The data survey was ambitious, and in the beginning it was unclear if certain pieces of data can be collected with ease or not. By now there is a good understanding of the data generating capabilities of the member companies, and subsequently, the survey can be adjusted and specific pieces of data will also be redefined.

Some of the companies expressed their desire to gain an international perspective of their performance. Therefore, in 2008 the indicator values of foreign utilities, especially other Central European utilities, were computed and used as part of the benchmarking exercise. The necessary data was gathered from international benchmarking surveys, such as the IBNET. There are also discussions of cooperating with other water utility associations in the region, with the vision of setting up an international benchmarking program.

One of the strategic goals of the Club, for 2008 and beyond, was to recruit additional members. This goal was partly driven by the desire to improve the statistical significance of results, and to allow advanced statistical analysis of the data set, which requires a larger sample size. A larger membership would contribute to wider application of prevailing good practices among Hungarian water and wastewater utilities.

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Quelles ont été les répercussions de la récession sur les budgets locaux ? Et, plus important, comment les collectivités locales européennes font-elles face à l'actuelle crise budgétaire ? Que peut-on faire, le cas échéant, pour atténuer l'impact de la crise sur les services publics que les collectivités locales assurent ?

Toutes ces questions sont examinées dans cette version actualisée d'un rapport soumis aux ministres responsables des collectivités locales et régionales lors de la 16e session de la Conférence du Conseil de l'Europe, qui s'est tenue à Utrecht en novembre 2009.

La présente analyse a été préparée par une équipe réunie par la LGI (Initiative de l'Open Society Foundations pour la réforme des collectivités et des services publics locaux) et le Comité européen sur la démocratie locale et régionale (CDLR) du Conseil de l'Europe dans le cadre de leur collaboration existante. Elle est fondée sur les données définitives pour 2009 d'Eurostat et sur une étude des réponses politiques réalisée par des observateurs dans les pays membres du Conseil de l'Europe.

Rien ne permet de prévoir dans quelle mesure et à quel rythme la situation va s'améliorer. Les craintes d'une récession à double creux s'estompent, toutefois, l'expérience a montré que les effets les plus négatifs des précédentes récessions ne se sont répercutés sur les budgets locaux que deux à trois ans après la reprise générale de l'économie, au moment où les gouvernements nationaux tentent de rétablir leur situation budgétaire et diminuent leurs transferts vers les collectivités. Ces dernières peuvent craindre que ce scénario ne se reproduise en 2011 ou en 2012. De même, une hausse à long terme des dépenses du fait du vieillissement de la population européenne et des mesures prises pour lutter contre le changement climatique est à redouter.

Ce rapport a été présenté lors de la conférence « Collectivités locales: Réponses à la récession en Europe » tenue à Strasbourg en octobre 2010. Cette conférence a réuni les experts des organisations intergouvernementales, des gouvernements centraux, des associations des collectivités locales, en provenance des 47 Etats membres du Conseil de l'Europe.

Le rapport examine la manière dans laquelle les collectivités locales cherchent à faire face aux tensions qui continuent de s'exercer sur leur fiscalité.

