

SUMMARY OF THE NALAS SURVEY:

SOUTH-EAST EUROPEAN LOCAL GOVERNMENTS IN POST COVID-19 SOCIO-ECONOMIC RECOVERY



Network of Associations
of Local Authorities
of South-East Europe

The left side of the image features a teal background with a vertical yellow stripe on the far left. Overlaid on this background are various financial and data visualization elements: a white line graph showing an upward trend, a white bar chart with several bars of varying heights, and a white candlestick chart. In the background, there is a faint, semi-transparent image of a modern cityscape with tall buildings.

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Network of Associations of Local
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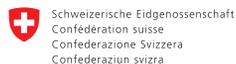
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The views expressed in this survey, represents the opinions of the authors and the results of the online survey conducted by NALAS. They do not necessary represent the views of SDC and ADA.



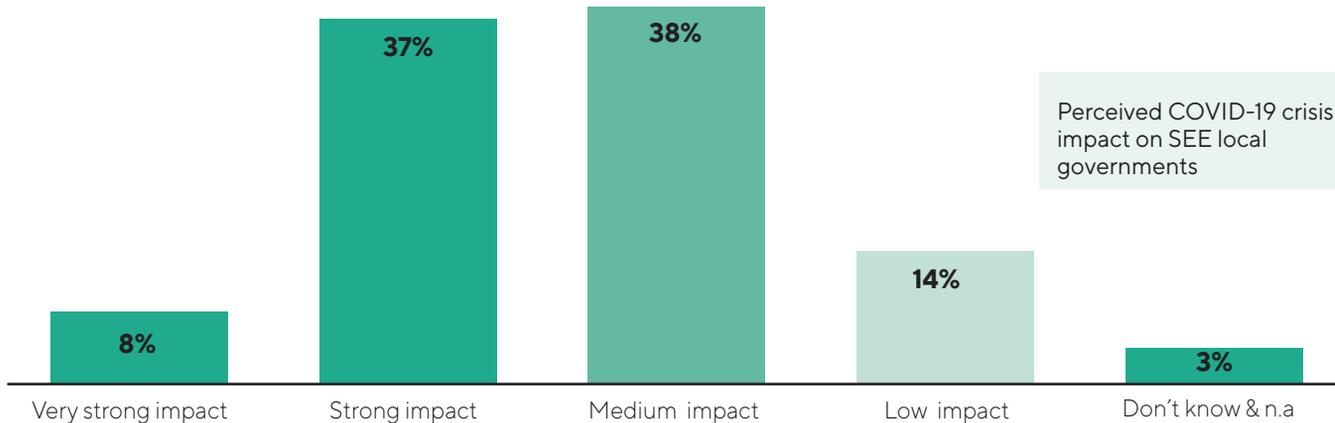
**SOUTH-EAST EUROPEAN LOCAL GOVERNMENTS
IN POST COVID-19 SOCIO-ECONOMIC RECOVERY**

SUMMARY OF THE NALAS SURVEY:

IMPACT ON LOCAL GOVERNMENTS

The COVID-19 pandemic has had a major impact on all local governments (LGs) in South-East Europe (SEE) - 45% of SEE local governments think that the impact from the crisis is strong or very strong, associated with severe service disruptions or even a complete shutdown, inability to perform tasks and lasting structural

damages to the local community and its economy. 38% of SEE LGs perceive a moderate impact which is associated with a disruption of several services and short- and medium-term implications for their communities and economies.



SOUTH-EAST EUROPEAN LOCAL GOVERNMENTS IN POST COVID-19 SOCIO-ECONOMIC RECOVERY

There are differences in the magnitude of the impact within and across local governments throughout SEE. LGs from Kosovo* Albania, Croatia, Bosnia and Herzegovina, Romania and Turkey seem to have experienced a stronger impact compared to local governments in the rest of SEE. To some extent this may be explained by the scale of social sector responsibilities performed by the local level and perhaps also the adequacy of intergovernmental finance systems. Also, to some extent, **larger cities and municipalities are more affected by the COVID-19 crisis**, reflecting the higher concentration of people and economic activity.

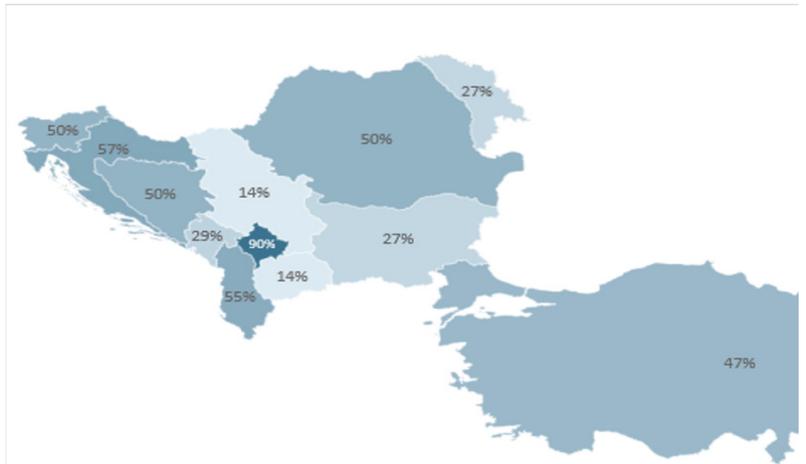
In the immediate pandemic outbreak, the lack of adequate financial resources was the single most important challenge faced by LGs in SEE – 87% of the respondents perceived this as challenging and very challenging, regardless of the size or EU or non-EU member state status. Other key challenges they faced included the lack of legal and regulatory **authority** to take action, lack of clear and coherent **rules**, and lack of sufficient human and technical **resources**.

From a functional perspective, in the immediate outbreak, **local governments' spending priorities** were geared towards **safeguarding citizens' health and lives** and helping those most affected by the lockdown.

As a result, spending for **healthcare, sanitation, social care and protection** and support to **local economy**, have all increased by more than 10% and even 20% for more than 70% of SEE local governments responding to the survey.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

Percent of LGs perceiving a strong and very strong COVID-19 impact in SEE

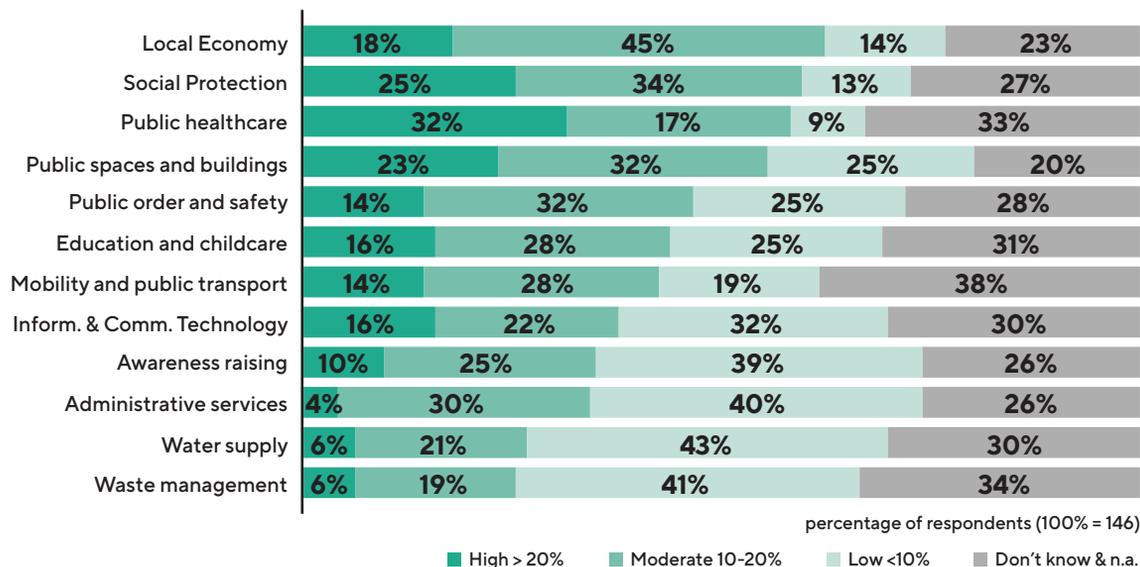


SUMMARY OF THE NALAS SURVEY:

Currently, the key challenge faced by SEE local governments is supporting the reopening and revival of their communities and economies – 79% perceive this as challenging and very challenging. **Spending priorities are expected to be rather similar for the second half of 2020 and 2021:** supporting **local communities** and local **economies**, **social care** and **protection**, public **healthcare** and **sanitation** of public spaces and buildings.

There are, however, differences across different economies in the order and scale of expected increase in spending – related in particular to the differences in the functional responsibilities of local governments. Economies like Kosovo and Moldova, but also Bosnia and Herzegovina, Romania and Slovenia, where local governments have significant responsibilities in healthcare, social services and education expect a stronger increase in spending for these sectors.

Priority sectors expected to require an increase in spending by the end of 2020 & 2021



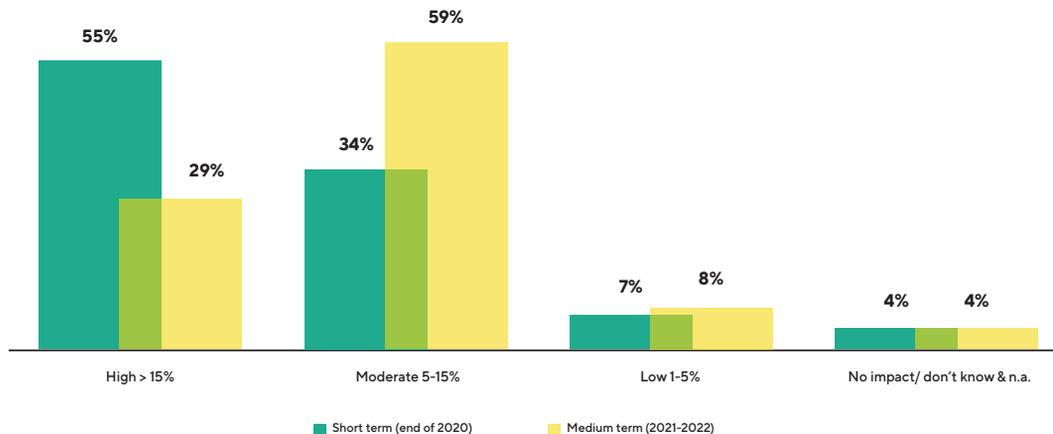
FINANCIAL IMPACT AT THE LOCAL LEVEL AND PROSPECTS FOR THE FUTURE

SEE local governments face and will continue to face unprecedented financial pressures. On the one side, SEE local governments' spending has increased to respond to the crisis and support their local communities. On the other side, their revenues have been falling down because of the lockdown, the fall in economic activity, consumption and jobs, the closure of certain local services and utilities, and also because of the fiscal relief measures adopted to support local economies and individuals.

At the peak of the crisis and during the "lock down" (period March-June 2020) local revenues were severely hit - in 81 % of SEE, local governments' own revenues decreased by more than 10% and 20% in annual terms. Surprisingly, also intergovernmental transfers fell for 65% of SEE local governments during the crisis. As

a result, local capital investments fell by more than 20% in more than a third of SEE local governments. The reduced funding from higher levels of government is very problematic, in particular for the future, as the socio-economic recovery will depend, primarily, on the financial resources that will be dedicated to this purpose. This is an indication that also national governments are operating in the conditions of limited fiscal space and high levels of public debt.

The challenges in local finances are expected to continue also over the short and medium term. Most SEE local governments expect a pessimistic or very pessimistic outlook for the years 2020 to 2022. Up to 90% expect that revenues will experience a high or moderate fall. For 2020 - 55% of the respondents expect local revenues to experience a high fall by more than 15% compared to 2019 while another 34% expects a fall within the range of 5-15%, in annual terms. **SEE local governments' expectations are more pessimistic than those of local governments from the EU and OECD.** In fact, in Austria, local governments expect a fall in



Expected impact on local finances over the short and medium term

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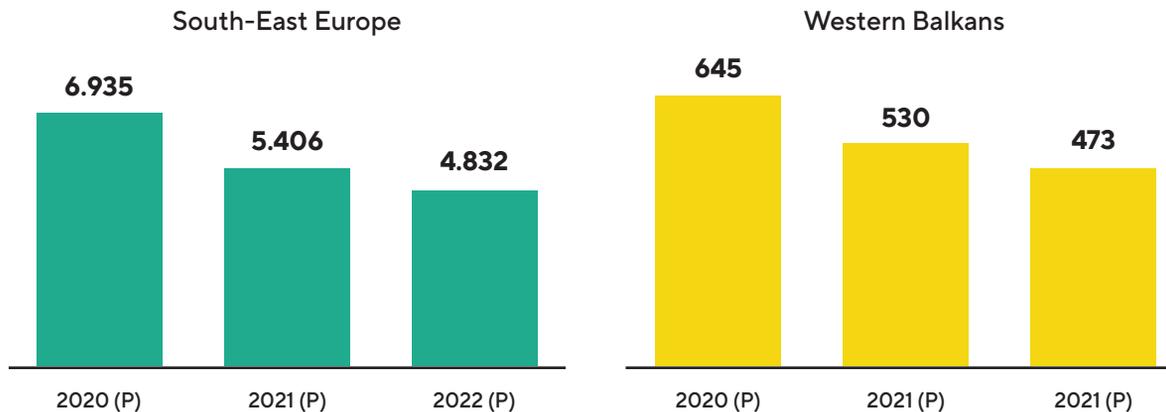
local revenues by 5-11%; in Switzerland by 6-8%; in Finland, 4%; in Germany, 15%; in Italy, three possible scenarios are forecasted with a revenue fall of 9-24% (OECD, 2020).

For the period 2021-2022, 59% of SEE local governments expect that their revenues will experience a more 'moderate' fall between 5-15%, without a scenario of a second wave of infections. From the perspective of the size of municipalities, when it comes to the very 'pessimistic scenario', it seems that smaller and larger sized municipalities expect a more significant drop in revenues compared to middle-sized ones.

Based on the *NALAS Statistical Brief: Local Finance Indicators for South-East Europe for 2019*, a mere 5 % decrease would imply a 2.9 billion Euro fall in revenues for SEE local governments, while a decline of 15% implies an 8.7 billion Euro fall of local revenues. If the

expectations of SEE local governments that responded to the survey are accurate and representative, it is estimated that **in 2020 only SEE local governments risk losing 6.9 billion Euro compared to 2019** and **Western Balkans (WB) local governments risk losing 645 million Euro**. This would correspond to a shortfall of 12% in the first year only. If not reversed by additional policy measures SEE local governments may lose additional 5.4 and 4.8 billion Euro over 2021 and 2022.

Overall, **cumulatively, by 2022 SEE and WB local governments may lose up to 30% of their revenues compared to 2019** for a total estimated loss of 17 billion Euro and 1.6 billion Euro respectively for SEE and WB local governments, which would have **devastating effects for local governments and will compromise their ability to provide services and improve infrastructure**.



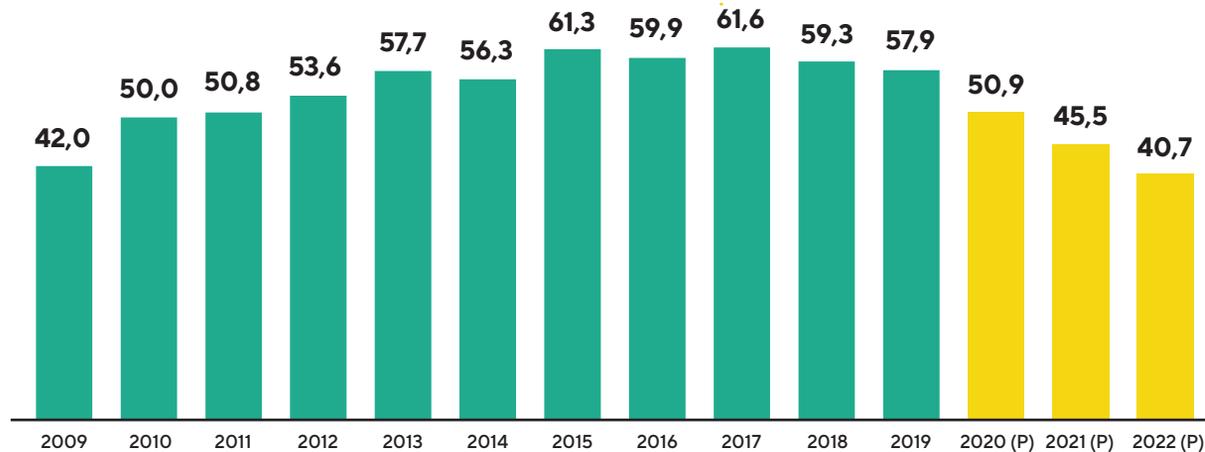
Estimated decline in local revenues over 2020-2022, in million Euro

SOUTH-EAST EUROPEAN LOCAL GOVERNMENTS IN POST COVID-19 SOCIO-ECONOMIC RECOVERY

If no additional measures are taken, by the end of 2022, SEE local revenues may fall from 57.9 billion Euro to 40.7 billion Euro, which is lower than the level of revenues that SEE local governments had in 2009 at the outbreak of the global financial and economic crisis. In other terms, **if not adequately addressed, this unprecedented crisis, will jeopardise all successes achieved over more than a decade of local government finance reform.** Similarly, in WB, local revenues could fall from 5.5 billion Euro in 2019 (the highest level

registered), to 3.9 billion in 2022, which would correspond to local government revenues in 2014.

In the pre-COVID-19 period, local government budgets in SEE grew on average by 3-8% in annual terms. This would suggest that in a pre-COVID-19 period SEE local governments would have needed 4 to 10 years to recover from a 30% drop in revenues. **In the post-COVID-19 period, it would take more than 4-10 years for SEE**



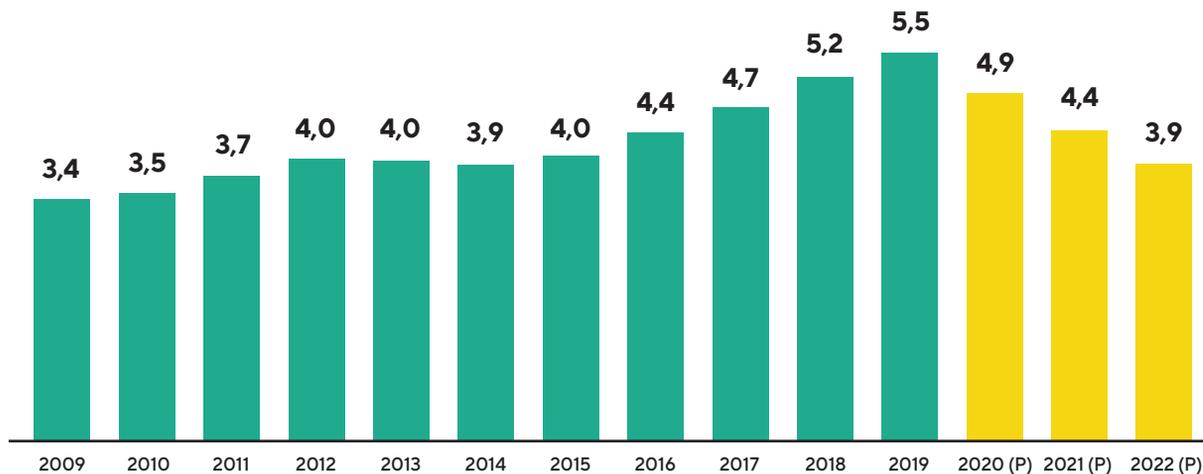
SEE Local Government
Revenues and
Projections for 2020-
2022, in billion Euro

SUMMARY OF THE NALAS SURVEY:

Local governments to recover from a cumulative loss in revenue by 30%.

While very important, local borrowing cannot play a key role in financing the recovery measures of SEE local governments. Up to 24 % of all responding local governments have already increased

borrowing or are planning to do so, while about half of SEE local governments have not increased borrowing and are not planning to do so. In many SEE economies, local borrowing is limited either legally or institutionally by higher levels of government.



WB Local Government Revenues and Projections for 2020-2022, in billion Euro

SOCIO ECONOMIC RECOVERY MEASURES UNDERTAKEN BY SEE LOCAL GOVERNMENTS

The social, economic and financial impact of the COVID-19 pandemic will stretch over the medium and long term and will pose significant challenges for local and national governments in the years to come. **Efforts at national and local level must now focus on measures aimed at managing the social, economic and public finance crisis.** These include economic recovery policies, support for SMEs, public investment incentive plans, targeted measures for the most affected areas, or most vulnerable groups, policies to support the compensation of reduced local revenues and increased costs, municipal debt management, reorganisation of the administration and staff providing public services, and reorganisation of coordination mechanisms between different levels of government for crisis response.

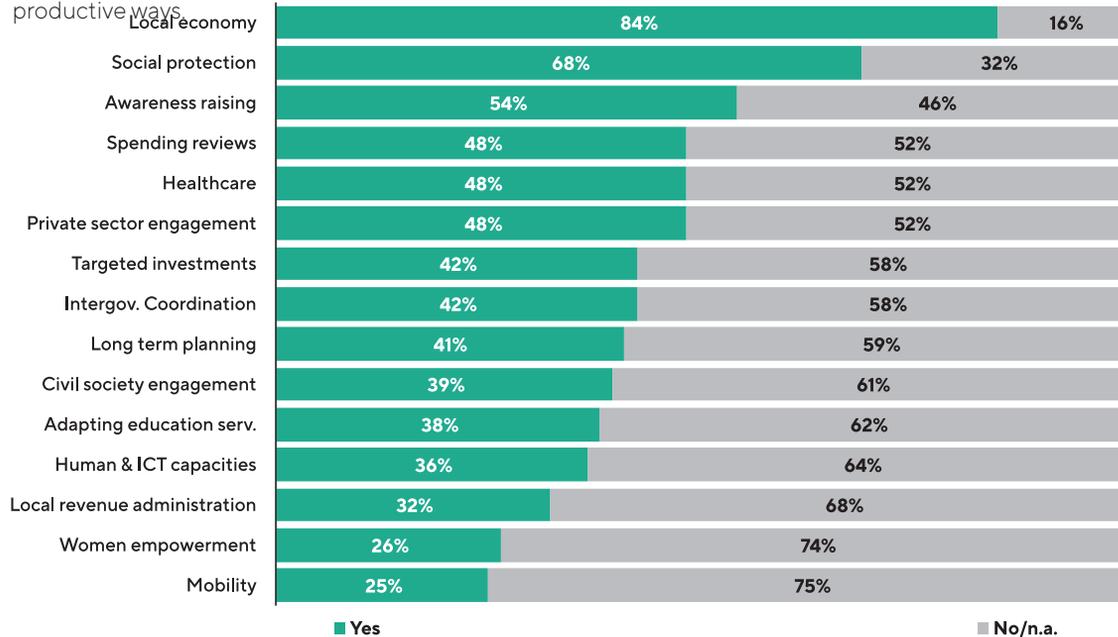
The types, the consistency and the timing of the recovery measures expected to be adopted and implemented in the coming months, will play a crucial role in the social and economic recovery. Local governments have a key role in successfully designing and implementing such recovery strategies as they are best positioned to better and more quickly understand local community needs.

The core elements of these strategies are the **support of local economy actors most affected by the crisis, as well as of vulnerable groups with increased and improved social services.**

In fact, 84% of the responding local governments implemented or plan to implement measures to support local economy actors and 67% have or plan to implement social care and protection measures

SUMMARY OF THE NALAS SURVEY:

for the most affected by the crisis. Very importantly, 48% of them are planning to conduct spending reviews – to revise local budgets in order to increase spending efficiency and effectiveness. This is crucial to prioritising the utilisation of scarce resources to the most productive ways



Key areas of intervention of adopted socio-economic recovery strategies

SOCIO ECONOMIC RECOVERY MEASURES ADOPTED BY SEE LOCAL GOVERNMENTS

With expected second wave of infections, and the understanding of the long-term implications of this crisis, **efforts must now focus on the recovery**. Governments at national, regional and local level, must work together to adopt economic recovery policies, support for SMEs, public investment incentive plans, targeted measures for the most affected areas, or most vulnerable groups, policies to support the compensation of reduced local revenues and increased costs, municipal debt management, reorganisation of the administration and staff providing public services, reorganisation of crisis management and response coordination mechanisms, etc.

To help creating a better understanding of the impact and identify successful social and economic recovery measures, to inform the advocacy efforts of LGAs and local governments with regional experiences, NALAS has collected a series of 79 recovery measures adopted by 31 SEE local governments to support their communities

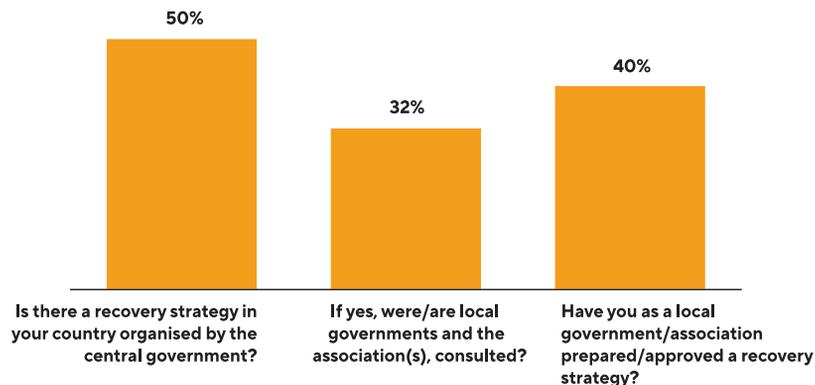
and economies. These practices are included in the full *Report: survey on the social and economic recovery at the local level in South-East Europe in the framework of the COVID-19 pandemic*. Overall, 30% fall under the **Economic Support and Fiscal Relief Measures** cluster, about 28% under **Social Care and Protection**, and about 16% under **Ensuring Citizens Healthcare** and 13% on **Digitalisation**.

Very importantly, with all the uncertainties about the future - the crisis has brought to light also positive developments in local communities such as **strengthened local solidarity** for citizens in need, the most vulnerable and those that lost or were at risk of losing their jobs; a **quick switch to digitalisation of local services**, which has been both a challenge per se and a response to the crisis, and **promotion of regional/local products**, both as a means to secure supplies and support local economies.

SUCCESS FACTORS FOR DEVELOPING A SUCCESSFUL RECOVERY STRATEGY

The five key factors for a successful recovery strategy according to SEE local governments are the following, in order of importance:

1. **Intergovernmental coordination:** this unprecedented crisis requires more than ever a well-coordinated response from all levels of government, in particular given the fact that local governments have a better understanding on the needs and priorities of local communities.
2. **Adapting measures to the local situations:** COVID-19 has had a differentiated impact at the territorial level in individual economies and SEE as a whole. From this perspective, recovery measures must be tailored to local specificities, needs, challenges and opportunities.
3. **Strengthening intergovernmental finance systems:** Local governments will not be able to implement local recovery strategies if they are not provided with the necessary financial means. Equally important, they cannot be expected to replace the role of the national government in leading the recovery effort.
4. **Involvement of the local community and the business sector:** Local communities and the business sector have also a very important role in the success of the recovery efforts in prioritising the utilisation of scarce resources to the most productive and effective alternatives and even financing or co-financing of specific measures.



Percent of economies, LGs and LGAs that have adopted recovery strategies and intergovernmental consultation

SUMMARY OF THE NALAS SURVEY:

GOVERNANCE IMPLICATIONS IN MANAGING AND RESPONDING TO THE COVID-19 CRISIS

The magnitude and extent of the COVID-19, will depend very much also on measures that will be adopted to revive local communities and businesses. All levels of government need to continue to work together to mitigate the impact and consequences of this crisis. Given their extensive social and economic responsibilities, SEE local governments will remain at the forefront in the response to the COVID-19 crisis.

This unprecedented crisis calls for effective and efficient policies that are planned, developed, consulted, coordinated and implemented together with local governments – that have the key knowledge of the local and territorial needs, challenges and opportunities. Therefore, the inclusive cooperation and coordination between all levels of government and stakeholders remains essential. It is important to highlight that, differently from what is expected by SEE local governments, it results that in only 50% of the SEE, national governments have adopted *official* recovery strategies. Local governments and LGAs were consulted in only 32% of the cases. On their end, 40% of SEE local governments and LGAs have prepared and approved *official* recovery strategies.

WHAT LOCAL GOVERNMENTS CAN DO ON THEIR OWN?

Given the high level of risks and uncertainties, SEE local governments should plan and revise their budgets with a view of continuing to focus on **safeguarding citizens' health and lives, helping the most vulnerable** and supporting the **survival of local economies** and creating **emergency funds**. Local governments may develop local **Economic Recovery Strategies** providing **fiscal relief measures** and **economic and financial incentives** to promote employment and job preservation and at the same time to ensure the survival and revival of local SMEs, microenterprises, self-employed. Well **targeted capital infrastructure investments** along with support **policies for particularly affected industries** are also very important to help saving jobs and protect the social and economic tissues. In the area of **healthcare**, local governments could continue to **support local hospitals** with protective materials and medical equipment, the adaptation of local hospitals, increasing number of healthcare personnel, etc. In the area of **education**, local governments could take active measures to **adapt classes and classrooms** in schools and at the same time create the necessary **IT infrastructure, equipment** and **skills** for distance learning, with a special focus for underprivileged children and students. In the area of **social protection**, local governments will have to plan for continued **support to the most vulnerable** through social care and protection services, including the supply and distribution of food, sanitary products and medicines. Local governments may take additional steps to **digitalise services**, increase number of online services, establish new and safe working arrangements, facilitate the exchange between citizens and municipal personnel, etc.

WHAT LOCAL GOVERNMENTS EXPECT FROM HIGHER LEVELS OF GOVERNMENT?

Well-planned and targeted policies by central governments is perceived as a key priority supporting the socio-economic recovery. From this perspective local governments consider intergovernmental **consultation** and **coordination** as critical. Equally important, they expect **changes in the legislation** regulating local government responsibilities and finances. More specifically they call for increased **functional and financial decentralisation** with stronger local taxing governments, higher local own revenues, improved revenue administration and higher intergovernmental grants, transfers and subsidies. Understanding the challenges also faced by national governments, the local level also calls for more **flexible rules for local borrowing** in particular as an effective short- and long-term financing means – while safeguarding overall fiscal stability. In short, SEE local governments expect the national governments to allocate **more funds for the social and economic recovery** of local communities and businesses, through different financing instruments, among others, aiming at supporting employment and job retention.

More **financial support** is expected also for **healthcare, social protection** and **care** for citizens in need and the most vulnerable and affected. The **future of education** from kindergartens to universities rests on the development of the necessary digital infrastructure, tools and capacities of both teachers, pupils, parents and students. Digitalisation of education may play a key role in reducing the unequal access to education in urban and rural areas over the long term. From a broader perspective, **enhancing digital infrastructure, adopting new software** and **applications and connecting different databases** remain critical for both responding to the pandemic and improving efficiency and effectiveness of **service delivery over the longer term**. Remote working practices also require the review of the current laws and institutional rules and regulations. This extraordinary crisis has brought to light also the need for **increased capacities and skills in crisis management** and in some instances also **reorganisation of the civil protection system** to ensure an effective coordination in response measures.

SUMMARY OF THE NALAS SURVEY:

THE ROLE OF LOCAL GOVERNMENT ASSOCIATIONS

Local Government Associations (LGAs) play a key role in the coordination and cooperation across levels of government and therefore have an irreplaceable position in the response to the pandemic and in planning and implementing the social and economic recovery. Nevertheless, only in a third of SEE economies that have prepared official recovery strategies (50%) - local governments and their LGAs were consulted in the development of recovery measures and strategies.

Coordination and communication between central and local governments, raising awareness on the needs, concerns, challenges and priorities of local governments and ensuring coordination of national policies with local needs and challenges, facilitating exchange of information, best practices and experiences among local governments have been mentioned as the main tasks for LGAs in the management of the crisis. The results of the survey underline the great importance of the municipalities as first contact point and crisis manager closest to the citizens.

CONCLUSIONS AND RECOMMENDATIONS

The COVID-19 pandemic has brought an unprecedented challenge for all levels of government and societies, with devastating multidimensional consequences. In only six months it has transformed into the most tragic global health, social, economic and financial crisis in a century.

SEE local governments are at the frontline of the management of the crisis. In addition to adjusting the delivery of basic services, such as water supply, waste management and public transport, SEE local governments have extended responsibilities also in the social sector: in education, social protection and healthcare. All these areas have huge COVID-19 implications.

All SEE local governments have been greatly impacted by the crisis. However, the magnitude of the impact at the local level varies significantly within and across economies in SEE. The survey indicates that the scale of the impact, apart from social and economic factors, depends also on the size of local governments (in particular on larger cities and municipalities), dependency on tourism sector, the scale of local governments' responsibilities in the social sector as well as the level of funding of local governments.

Local governments face extraordinary levels of uncertainty and have to make difficult emergency budget rationing decisions, in a context of expected declining revenues and extremely limited room for manoeuvre. The key spending priorities remain focused at safeguarding citizens' health and lives, supporting the most vulnerable and reopening and reviving local economies – although

all these are constrained by available human, technical and financial resources and governmental support.

SEE local governments will continue to face unprecedented financial pressures over the short and medium term. In 2020, SEE local governments may lose, on average 12% of their revenues compared to 2019. By 2022, they may lose up to 30% of their revenues, for a total estimated loss of 17 billion Euro and 1.6 billion Euro respectively for SEE and WB local governments. These expectations are much more pessimistic than those of EU and OECD local governments. If materialised, SEE local revenues in 2022 will be significantly lower than in the case of the 2008 global financial and economic crisis. The successful local finance reforms undertaken in more than a decade will be put in jeopardy.

SEE local governments also expect changes in the legislation calling for increased financial decentralisation, stronger local tax powers, higher intergovernmental transfers, more flexible rules on local borrowing, etc. SEE local governments also expect a higher level of engagement of the national government in enhancing digital infrastructure and digitalisation of services. While very important, local borrowing seems to not be able to play a key role in financing the recovery measures of SEE local governments. In many SEE economies, local borrowing is limited either legally or institutionally by higher levels of government.

The strong territorial dimension of the COVID-19 crisis poses great challenges for policymakers and will require more than ever the active cooperation, coordination and consultation between levels of government and local government associations in planning, developing and implementing ‘place-based’ social and

economic recovery measures. The types, timing and consistency of these measures will play a key role in the actual recovery.

The survey shows that **only half of SEE economies and 40% of SEE local governments have developed official social and economic recovery strategies**. It is important to highlight that although SEE local governments have a key role to play in the social and economic recovery, they need the support of higher levels of government to do so, in particular in the form of increased funding, improved coordination and consultation and adaptation of policies and measures to local realities, needs, challenges and opportunities.

Local Government Associations (LGAs) play a key role in the coordination and cooperation across levels of government and therefore have an irreplaceable position in the response to the pandemic and in planning and implementing the social and economic recovery. So far, however, only 32% of economies that have developed recovery strategies have been consulted and coordinated with local governments and their associations. Clearly, there is room for improvement.

On a positive note, with all the uncertainties about the future - the crisis has brought to light also positive developments in local communities such as **strengthened local solidarity** for citizens in need, the most vulnerable and those that lost or were at risk of losing their jobs; a **quick switch to digitalisation of local services**, which has been both a challenge per se and a response to the crisis, and to some extent, the **promotion of regional/local products**, both as a means to secure supplies and support local and regional economies.

SUMMARY OF THE NALAS SURVEY:

RECOMMENDATIONS

Looking forward, the COVID-19 pandemic will continue to affect all levels of government and society. Establishing or strengthening **effective intergovernmental policy consultation and coordination mechanisms**, allowing LGs and LGAs to suggest local adaptations to nationally adopted recovery policies will be essential for the recovery and effective utilisation of resources. LGAs must be supported in their task of coordinating multiple policies with multiple actors at the national level in the framework of very limited time and resources.

LG finances must be strengthened and fiscal decentralization must be enhanced. This is key to countering the dramatic impact of the crisis on local finances and therefore on service continuity and ability to support local economies. A wide variety of financial and tax instruments could be considered, adapted and employed by SEE national and local governments in this regard.

LGs must develop consistent social and economic recovery plans and measures. As the level of government closes to citizens, they have a key knowledge about local challenges, needs, priorities and opportunities. A proactive position from LGs will certainly facilitate the recovery and opportunities for complementarities with national level support policies.

LG efforts to support their economies and communities must be supported from higher levels of government – this is in particular needed the survival and revival of local economies and communities, in particular in critically affected sectors; LGs cannot be expected to be able to lead the social and local economic recovery on their own with their already limited and challenged resources.

LG responsibilities for local economic development must be strengthened both in terms of functions and resources. **Increased focus should be provided to the rural and agricultural sector**, supporting food production and local farmers as critical examples that have shown resilience.

LGs in South-East Europe must be supported in implementing their extended responsibilities in education, social protection and healthcare. Additional funding from higher levels of government is key to addressing the challenges faced by citizens in these three key sectors. Active measures to equip schools with infrastructure, tools and teachers with skills for online/distance learning are critical.

Both levels of government must continue work to enhance digital services through digital infrastructure and capacities, adopting new software and applications and connect databases etc. This is key in particular for the future of education from kindergartens to universities.

EU funds and recovery programs play a critical role in the recovery of LGs from both EU and candidate countries. Additional efforts are needed to ease access to EU COVID-19 recovery programs. Similarly, additional efforts are needed to strengthen the LG capacities to absorb and manage EU funds.



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