

Slovak Republic, Rajecké Teplice,
21. – 22. October 2020

The 20th International
Conference Globalization and
Its Socio-Economic
Consequences

**The own income of
municipalities as an instrument
for financial independence**





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This report aims to examine the actuality of the issues connected with the financial decentralization of municipalities and the existing problems is indisputable, as the analysis and the assessment of the financial independence of municipalities are made according to a basic index – their own income. The main problem that is connected with the independence of municipalities-lack of enough own income requires the exertion of serious efforts in order the financially weaker and local communities to be protected. The globalization and the free movement of people have an adverse effect on the own income of the municipalities in the country because of their depopulation and to a large extent, they depend on the state subsidies and transfers which seriously limits their independence.

RESEARCH METHODS

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The methodology of the study includes a ***comparative legal analysis of the constitutional and legal framework of municipal budgets*** in the Republic of Bulgaria and in countries chosen for the purposes of the study, as well as an analysis of the structure of their own revenues and their connection with the national gross domestic product and budget subsidies of the central budget.

Eastern European member states chosen for the analysis

In order the analysis to be made, the following Eastern European member states are chosen: the Republic of Bulgaria, the Slovak Republic, the Republic of Latvia, the Republic of Lithuania and the Republic of Slovenia.

- They have relatively similar budget systems and similar problems in local government and local finances;
- These are countries with decreasing population - less than 10 million, with the exception of Slovenia and Slovakia;
- All countries which are chosen for the purposes of the study have recently become members of the EU – 2004-2007;
- The principle of local self-government is determined by the constitutionally determined in the studied countries.

In Bulgaria...

Bulgaria is a unitary country and therefore its budget system should have two main subsystems: state budget and local budgets. The municipality is entitled to its property which it shall use in the interest of the territorial community. It is written in the constitution that the municipality has an independent budget, as the permanent financial sources of the municipality are determined by law (art. 141, par. 1 and par. 2).


The last decade has been a period during which extremely limited results have been achieved in terms of both financial independence and sustainability of the municipal budget, as well as the opportunities for the municipal budget to influence on the regional development beyond the frameworks of state transfers and European funds.

The Strategy for Decentralization 2016-2025, adopted by the Ministry of Regional Development and Public Works, sets guidelines for continuing the decentralization process, including the increasing of the own revenues by increasing the local tax revenues, restructuring of the tax system and introducing of new local taxes.

The main division between the municipal revenues in the countries which are subject of the research is their division relating to their own revenues and the state transfers. The chosen for the comparison indicators are:

- ✓ 1. Local revenues and their connection with the gross domestic product;
- ✓ 2. Share of local revenues in the budget and share of state transfers;
- ✓ 3. Share of local tax and non-tax revenues in total revenues.

According to the **Local Taxes and Fees Act**, in the budgets of the Bulgarian municipalities local taxes and fees are collected as own revenues. The municipal fees include local fees for: household waste; for using of markets, marketplaces, fairs, sidewalks, squares and streets; for using of creches and other.



Non-tax revenues include revenues from interests, penalties, revenues from the sale of non-financial assets, revenues from donations, etc. Revenues from transfers include revenues from common countervailable subsidy, revenues from subsidy for activities delegated by the country and revenues from subsidy for financing of capital expenditures. . During the financial year the Bulgarian municipalities receive the so called extraordinary transfers which in certain cases constitute a significant share of the local revenues.

In different countries, local communities are divided into municipalities, regions, urban municipalities, districts and others.

In Slovak Republic...

The acting constitution of the Slovak Republic (Adopted in 1992) states that Slovakia is a parliamentary republic. Administratively and territorially, the country is divided into 8 regions (Bratislava region, Trenčín, Žilina, Tarnava, Prešov, Nitra, Bansko-Bistrica and Košice), which in turn are subdivided into 79 municipalities / regions and municipalities /.

The constitution of the country regulates the financing of local government structures, the ways for their provision with the necessary funds for efficient operation and support, etc.

The municipality is the main element of territorial self-government. Territorial self-government includes a municipality and a higher territorial unit.

The provision of art. 65 of the constitution introduces the operational financial independence of the municipalities, specifying that the municipality and the higher territorial unit are legal entities which under determined by the law conditions independently manage their own property and financial resources. They finance their needs mainly from their own revenues, as well as from state subsidies.

In Republic of Latvia...

The Law on Local Authorities also states that the economic basis of the local self-government is property, including the financial resources, which consists of: tax payments to legal entities and natural persons in the local government budget; grants from the state budget and targeted grants; loans; local fees and other payments in the local government budget; fines which are transferred to the local government budget revenues from the management of local government property and from the economic activity of local government enterprises; voluntary payments to legal entities and natural persons for the achievement of specific targets, etc. (art. 76).

The constitution of the Republic of Latvia also does not contain provisions relating to the budget system. There is a special law regulating the procedures for formulation, approval and implementation of the state budget and the budgets of the local self-government and the responsibility in the budget process – Budget and Finance Management Act.

In Republic of Lithuania...

The Republic of Lithuania is a semi-presidential republic. The territory of Lithuania is divided into 10 regions which are divided into 60 municipalities.

The constitution regulates the way of financing the municipalities in the Republic of Lithuania. They prepare and approve their own budgets.

Constitution describes the budget system of the Republic of Lithuania. According to the text, it consists of the independent state budget of the Republic of Lithuania and independent municipal budgets. State budget revenues are collected from taxes, compulsory payments, levies, state property revenues and other revenues. Taxes, other payments to budgets and levies are determined by the laws of the Republic of Lithuania.

In Republic of Slovenia...

The acting constitution of the country says that Slovenia is a parliamentary republic. Its territory is divided into 212 municipalities. Eleven of them are urban municipalities (local municipality).

Citizens of Slovenia exercise local self-government in municipalities and other local communities. Municipalities are self-governing local structures.

By law, the country may transfer to the municipalities the implementation of specific obligations within the state competence. This can only happen if the country provides financial resources to ensure the implementation of the delegated obligations.

The constitution of the Republic of Slovenia also regulates the issue connected with the municipal revenues. The municipality is financed from its own sources. Municipalities that cannot fully ensure their funding and cannot ensure the fulfillment of their obligations due to insufficient economic development receive additional funding from the country in accordance with the principles and criteria provided by law.

The provision of art. 146 of the constitution of the Republic of Slovenia sets out the ways for ensuring the public finances of the country and the municipalities: the country and the local communities collect funds for the fulfillment of their obligations through taxes and other compulsory fees, as well as from revenues from own assets. The country and the local communities disclose the value of their assets through balance sheets. In addition, the text indicates that the country imposes taxes, duties and other charges by law. Local communities impose taxes and other fees under conditions provided by the constitution and the law.



Analysis of the data relating to the criterion for local revenues and their connection with the gross domestic product

From the Eurostat data it can be concluded that the "richer" European countries also have a higher share of municipal revenues in GDP. According to this indicator, the Scandinavian countries (Denmark, Sweden, Finland) are in the forefront, as they are also characterized with the highest degree of decentralization. Poland is also among the countries with a higher share than the average for EU in relation to this indicator. Bulgaria ranks 17th out of 25 countries. It can be seen that before it from Eastern Europe are all countries except of Slovakia. "The countries after Bulgaria do not conduct policy of decentralization".

The main positive change in Bulgaria during the period of application of the First Program for Implementation of the Decentralization Strategy 2006-2009 is the granting of tax powers to municipalities. The amendments of the constitution enabled the municipalities to conduct a real financial policy from the beginning of 2000 by setting the rates of local taxes within the limits set by the law.

The analysis of the data relating to the revenues of the municipal budget in Lithuania evidences for the good financial independence of the local authorities. However, it would be a mistake to conclude that Lithuanian local authorities are financially strong and that the financial resources are sufficient for the implementation of a predetermined function because in recent years the budget revenues of the local government have been growing in comparison with GDP, as on average basis they are only 10% of GDP, and the budget transfers in the form of subsidies and grants are about 88%.

Table No. 2- Subnational government revenue—2017

Country	EUR billions	EUR per capita	%GDP	% public revenue
Bulgaria	3.7	519	7.3%	20.2%
Slovakia	5.9	1 076	6.9%	17.5%
Litvia	3.3	1 170	8.0%	23.6%
Slovenia	3.6	1 735	8.3%	19.2%
Lithuania	2.7	1 379	10.0%	26.7%

Analysis of the data relating to the criterion for the share of local revenues in the budget and the share of state transfers

Despite the years of attempts connected with the decentralization and increasing the autonomy of municipalities in the Republic of Bulgaria, to a great extent they still remain financially dependent on the central budget. If on the basis of the statistical data an average profile of municipal revenues is made, it will be noticed that about 60% of all revenues are in fact transfers from the state budget. The own revenues of the municipalities averagely amount to only about 35%, where the smaller part of the same have a tax and the greater part have a non-tax origin.

The article examines in detail the structure of own revenues of Bulgarian municipalities; the average share of revenues in total revenues; the share of expenditure commitments in municipal budgets, etc.

Analysis of the data relating to the criterion for the share of local tax and non-tax revenues in the total revenues

In order the powers of the local authorities over the budget revenues to be assessed, it is used a key indicator which is the share of own revenues in all municipal revenues. For the countries studied, it is as follows:

Table № 3- Subnational government tax revenue- 2017 year

Country	EUR billions	EUR Per capita	% GDP	% subnational revenue	% public revenue
Bulgaria	0.5	67	0.9%	12.8%	4.4%
The Slovak Republic	0.4	80	0.5%	7.4%	02.8%
Latvia	1.6	829	6.0%	60.1%	26.7%
Slovenia	1.5	707	3.4%	40.8%	15.6%
Lithuania	0.1	52	0.4%	4.4%	2.1%

It is obvious that in Latvia and Slovenia this indicator is at a relatively good level, but for other countries it is catastrophic - below or equal to 0.5 billion euros. The same finding applies to the indicator measured in euro per capita and the other three indicators. From this indicator it can be concluded that the ability of local authorities to influence on the type and volume of local revenues through local taxes is practically minimal. This limits to a maximum extent the possibility for the municipalities to have their own social, economic or other policy, different or distinguishing from the national one.

Conclusions

- From the analyzed data it can be concluded that in the Republic of Bulgaria the share of local revenues in the budget decreased between 2015 and 2017, both as a percentage of GDP and total public revenues, and this is a trend that still exists now in 2020. In comparison with the other 4 countries and in respect of the indicators selected for comparison, the Republic of Bulgaria is either in third or fourth place - before Lithuania or Latvia. This puts it in an unenviable place even among these countries, and when compared to the leading countries in financial decentralization in the European Union, this position would be more than unsatisfactory;
- The municipalities in Bulgaria are seriously insufficiently self-financing. Their fiscal autonomy is significantly reduced;
- Local authorities in the compared countries continue to face similar challenges for generating their own revenues, regardless of the level of development of their economy and their membership in the European Union;
- The analysis allows to formulate suggestions for legal changes and recommendations for more effective budget relations of municipal budgets with the state budget.



Thank you!