

Third SEE Good Governance Report

STATE CAPTURE AND CORRUPTION RISKS IN FISCAL TRANSFERS AND PUBLIC PROCUREMENT AT THE LOCAL LEVEL IN SOUTHEAST EUROPE



- » Public finances in Southeast Europe (SEE) are highly vulnerable to corruption and state capture, posing severe economic security risks;
- » Addressing these vulnerabilities is crucial for SEE's integration into the EU and preserving European democratic traditions;
- » The third See Good Governance Report analyses the risks in fiscal transfers from central to local governments in nine SEE countries;
- » Corruption risks are compromising the rule of law, affecting intergovernmental transfers and leading to fund misallocation or diversion;
- » Cumulative distortions are observed from misallocations at national and cross-border levels;
- » It is important for public authorities to cooperate with civil society to apply regular risk monitoring and evidence-gathering for informed prevention policies.



Fiscal decentralization needs a strong revenue base

- » Fiscal decentralization is key to Southeast Europe's public finances;
- » While there has been progress in the last decade, fiscal decentralization remains challenging in all SEE countries;

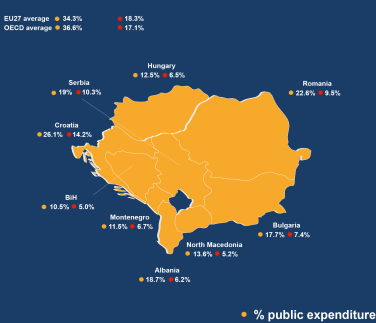
Most local governments remain highly dependent on the central government with a significant share of transfers compared to tax revenue. Their revenues represent an insignificant part of their countries' GDP, ranking below the EU and OECD averages. The same goes for local expenditure levels as a share of total government (public) expenditure and GDP.

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- » In all SEE countries except Montenegro, the distribution of transfers from the central government is the main instrument keeping local services functioning.
- » Significant funding through transfers can undermine local fiscal autonomy.

Subnational government expenditure as a share of public expenditure and GDP in SEE



Implemented by:



The R2G4P project, coordinated by the Center for the Study of Democracy, Bulgaria benefits from a € 1.5 million grant from Iceland, Liechtenstein and Norway through the EEA and Norway Grants Fund for Regional Cooperation. The aim of the project is to implement shared anti-corruption and good governance solutions in Southeast Europe through innovative practices and public-private partnerships.