# The Impact of the Global Crisis on Local Governments

United Cities
and Local
Governments

Cités et
Gouvernements
Locaux Unis

Ciudades
y Gobiernos
Locales Unidos

# The Impact of the Global Crisis on Local Governments

United Cities and Local Governments
Cités et Gouvernements Locaux Unis
Ciudades y Gobiernos Locales Unidos

Carrer Avinyó, 15
E–08002 Barcelona (Spain)
Tel +34 933 428 750
www.cities-localgovernments.org



**Disclaimer**
"The terms used concerning the legal status of any country, territory, city or area, or of its authorities, or concerning delimitation of its frontiers or boundaries do not necessarily reflect the opinion of United Cities and Local Governments. The analysis, conclusions and recommendations of this report do not necessary reflect the views of the all members of United Cities and Local Governments."

**Picture cover:**
Fotolia

**Design and Layout:**
STV Disseny

**Printed in:**
Cavagraf (China)

October 2009

# Index

# Introduction

This document is a first attempt to create a global vision of the impact of the crisis on local authorities around the world. It responds to the request expressed by the World Council of United Cities and Local Governments (UCLG) in Istanbul, in November 2008.

This document is divided into three parts. The first section summarises the results of a survey carried out between July and September 2009 among our members (67 countries), with the support of our regional sections and the Federation of Canadian Municipalities.

The second section presents a quick overview of the crisis from the perspective of the large cities. It also makes reference to information collected by the members, the European section of UCLG, the Council of European Municipalities and Regions, and the National League of Cities our member in the United States.

Finally, the third section presents the responses received from the six regions in the form of profile-summaries. These six regions are: Africa (11 countries), North America (2 countries), Latin America (11 countries), Asia-Pacific (11 countries), Eurasia (4 countries) and Europe (28 countries).

Among the main issues raised, a few points are of particular interest:

1 Firstly: when local authorities are given the means and the possibility of managing their resources in keeping with local priorities, they are effective partners in combating the crisis by supporting economic activity and job growth.

   This role deserves to be highlighted by bringing together a G20 of cities to ensure that these experiences are followed up on and to show the value of the contribution made by local authorities to jumpstarting the world economy.

2 Secondly: the crisis also demonstrates failures in decentralisation processes. The weak level of control that local authorities have over their own resources and their strong degree of dependence on transfers from the State makes their situation even more fragile in times of crisis, since for budgetary reasons, national governments reduce, slow down or simply eliminate the amounts allocated for local authorities.

   Thus, under the pretext of crisis, in different countries in the South and most notably in Africa, the growing risk of neglect, or even regression, with respect to decentralisation processes has been noted. On another scale, developed countries can also be confronted with questions about their sources of revenue.

3 Thirdly: local authorities feel that the crisis will take time to overcome. This observation leads us to redouble our efforts to advocate in favour of decentralisation. In fact, local authorities are part of the solutions to the crisis and, if they have the means, offer an effective lever for promoting development.

These are the impressions left by a survey that had no pretensions of being exhaustive, even more so in that certain countries, and not the least important, could not be included.

We would like to thank all members, and in particular our sections which participated in this survey; the Federation of Canadian Municipalities which encouraged this initiative and also participated in collecting information; and the experts who contributed to the document (Greg Clark, Jorge Martinez, Paul Smoke and François Vaillancourt). Special thanks go out to our European section, the Council of European Municipalities and Regions, which sent us the conclusions of its own survey, conducted over the course of summer 2009.

**Elisabeth Gateau**
Secretary General

# The Impact of the 2008-2009 Global Economic Slowdown on Local Governments

**Note prepared by**
**Jorge Martinez (Georgia State University), Paul Smoke (New York University) and François Vaillancourt (University of Montreal),**
**with the support of the World Secretariat of UCLG**

# The Impact of the 2008-2009 Global Economic Slowdown on Local Governments

## I
## Experiencing a deep and prolonged economic downturn

The world is experiencing a deep and prolonged economic downturn that some observers have labeled as the Great Recession. Compared to the Great Depression of 1929-1939 and previous major downturns, however, the current recession is occurring in a much more economically integrated and financially complex world. Global patterns of trade flows and foreign direct investment have allowed reduced aggregate demand and financial wealth in OECD countries to lead to lower exports and investment inflows in practically every economy in the world. The results have been generalized decreases in economic activity and higher unemployment.

**One of the important consequences of the world financial crisis has been the serious deterioration of the fiscal position of governments around the world**. Budget deficits have mushroomed as most taxes have yielded lower collections, while expenditures have increased to finance the additional social spending needed to alleviate the effects of the crisis on ordinary citizens and the large economic stimulus packages that many central governments implemented to soften the impact of the recession.

The ability to weather this crisis, as in previous crises, has been different for central governments and subnational governments. While the former can incur large deficits financed by debt, the latter (outside of a number of generally federal or quasi-federal countries) are often very constrained by law and financial market realities in terms of the extent to which they can run budget deficits and borrow. Without sufficient ability to borrow, subnational governments facing some combination of lower own-source revenues, cuts in transfers from higher levels of government, and reductions in the value of their assets will find themselves in a very difficult position. The situation is likely to be most serious for local governments (middle and little cities, municipalities, villages, etc.) because of their often heavy dependence on transfers as well as their more limited fiscal autonomy and ability to manage external shocks.

**"Central governments, especially but not exclusively in less developed countries, may also use the crisis to justify questioning or slowing down in-process decentralization or even instituting recentralization."**

**There is reason to be concerned that the crisis may have a negative impact on decentralization and local governance in some countries**. If budgets are reduced due to revenue shortfalls, local governments will be less able to meet their important responsibilities and will face an erosion of citizen trust. Central governments, especially but not exclusively in less developed countries, may also use the crisis to justify questioning or slowing down in-process decentralization or even instituting recentralization.

**At the same time, some countries have recognized the need to keep resources flowing to local governments during the crisis because of the important roles they play in service delivery and the promotion of economic development**. This has been particularly the case in more developed countries, including Australia and several European and North American countries, although some developing or middle income countries are trying to provide more resources to local governments. If local governments have some discretion in how these additional resources from the center are spent, they may be able to play an important role in shaping counter-cyclical policy.

**"They may be able to play an important role in shaping counter-cyclical policy."**

This note tentatively considers, given the limited information available, the reported and potential impact of the 2008-2009 crisis on local governments around the world. The data used here are mainly drawn from responses to a survey sent out by United Cities and Local Governments (UCLG) to its constituent associations of local governments around the world, complemented by various documents sent by survey respondents either as a complement to their answers or in place of such answers.

The survey from UCLG asked questions on: (i) the impact of the global financial crisis on "your" local governments; (ii) the types of measures that have been taken in reaction to the crisis; (iii) the kinds of recommendations that have been proposed to central upper-level authorities (regional, central and multinational); (iv) the types of international programs that may now be needed to combat the crisis; and (v) relevant information from central or other sources that could be taken into account to address the crisis[1]. The exact language used in the questionnaire is reproduced in the Appendix. The note is organized along the issues raised in the questionnaire and it closes with some concluding thoughts. Since the types and levels of detail of the information provided vary considerably, the note is necessarily uneven in coverage and impressionistic.

## II
## The immediate effects of the global crisis on local governments worldwide

A priori, it can be anticipated that **the most significant direct impact of the crisis has been on the level and composition of local government finances on both the revenue and expenditure sides of the budget. The responses received to the UCLG survey confirm that, but with a number of important nuances**. The ways in which and the reasons for which revenues change, of course, reflect the formal structure of revenue sources of local governments in any particular country and also the nature of the economic system. In some cases, counter-cyclical efforts by central governments to assist local government finances have also been an important factor underlying how local governments have behaved.

Some factors that affect local governments in a crisis can be complex and not necessarily obvious. For example in Nepal, the decline in economic activity has been associated with a decrease in remittances from Nepalese citizens working in other countries, and the impact has been felt through a reduction in new buildings and municipal revenues from building permits. Declines in remittances and associated impacts are likely to be a problem in many other developing countries in Africa, Asia and Latin America. In some countries, such as Korea and Ukraine, substantial reductions in the value of the national currency have adversely impacted local governments, while often severe declines in the value of assets have been a problem in a number of countries, including Iceland, the UK, Belgium, and the Netherlands.

**Although it is generally reasonable to expect decreases in revenues and expenditures in local government budgets, there is little reason to expect that they will be the same across the board.**

- In some cases, own revenues have declined faster than revenue sharing and other forms of transfers, while in other cases the opposite has occurred. Again, this depends on the structure of local revenues and transfers. Own revenues that are dependent on more stable bases, such as property taxes, may decline proportionally less than revenue sharing of transfers that are dependent on the level of exports and international prices of natural resources.

- On the expenditure side, a priori one might expect capital expenditures to decrease faster than recurrent expenditures since the former tend to be more discretionary and deferrable. In some respondent countries, however, local capital expenditures have actually experienced increases because local governments have participated in national economic stimulus programs that have targeted local infrastructure projects as a quick way to disburse money with a significant multiplier effect on local economic activity and employment.

In the paragraphs below we summarize some of the early reported impacts of the crisis on local revenues and expenditures.

**Changes in own revenues and transfers**

The impact on revenues of local government results from six direct causes:

1 ***Reduction in own revenues obtained from own taxes, fees and charges***. This problem is identified by numerous respondents. In particular, the results from the survey of municipal associations of European countries indicate that 61% of respondents have experienced a drop in own revenues (more exactly 61% for taxes and 42% for fees). In the USA, a survey of local governments[2] shows an expected drop in revenues of 0.4% in 2009. But while revenues from sales taxes and income taxes are expected to drop in 2009 by 3.8% and 1.3%, respectively, property tax revenues are expected to hold up. For developing and transitional countries, decreases in own revenues are expected, for example, in Belarus, Burundi, Uganda, and Ukraine. Particular cities in Asia – e.g., in Seoul and in Taipei, also expect decreases in own revenues.

Although many respondents indicate that own revenue decreases result from reduced economic activity and tax bases, some countries also expect decreases from tax evasion and general difficulties with tax compliance (e.g., Australia, Ghana, New Zealand and Uganda).

**"A significant number of respondents mention revenue declines from shared taxes as a source of fiscal stress."**

2 ***Reduction in yields of specific tax shares***. A significant number of respondents mention revenue declines from shared taxes as a source of fiscal stress. The results from the European municipal associations, for example, indicate that 36% of respondents have experienced a drop in revenues from shared taxes. Significant reductions in revenue sharing from natural resources are reported by Bolivia (20 %) and Peru (30 %). Among transitional countries, Ukrainian municipalities also report a drop in shared taxes.

3 ***Reduction in transfers from the national budget***. A CEMR survey[3] of European municipal associations indicates that 55% of respondents experienced lower intergovernmental transfers. In Baltic countries, Estonia reports a 41 million euros drop in municipal transfers and Latvia reports full loss of preschool teacher salary grants. In Latin America, Mexico reports a 20% reduction in municipal transfers, and Nicaraguan municipalities report transfer losses of $12.5 million. Senegalese municipalities reported a 10% drop in grants that finance transferred functions. In some countries, such as Nepal, reduced transfers have not occurred but are anticipated.

Since the explicit reduction of fiscal transfers and increases in responsibilities (unfunded mandates) have been important central government policies during past crises (e.g. the Asian crisis in the later 1990s), it is important to carefully monitor developments in this area.

Real cuts in transfers also may take place in other forms. For example, the Belgian (Flemish) response indicates that even though nominal transfers for police services have grown, they finance a lower share of costs than previously because of the rate of growth of wage costs.

4 ***Constraints on local government access to their own revenues***. Inability to access revenues already collected or appropriated is reported by countries in West Africa where the unitary treasury system is used, in particular Benin, Mali and Niger. The lack of overall liquidity due to a drop in both national and local revenues has resulted in the treasury system of these countries giving priority to national expenditures and the diversion of local revenues (cash) to finance them.

5 ***Reduction in revenues from capital holdings***. This is infrequently mentioned as a source of decreased revenues, but Australian local governments, for example, expect lower interest revenues, while Belgian and French municipalities indicate that their revenues from owned shares in Dexia Bank will drop.

6 ***Loss of assets/deposits***. Local governments in a number of European countries, including Iceland, the UK and the Netherlands, lost substantial assets in the form of resources deposited in banks that failed during the crisis.

**Varied revenue impacts**

Municipalities in some countries, such as Estonia, have been hit by drops in both transfers and own revenues. Others have been primarily affected by one or the other. In several countries, including Australia, Canada, Denmark, Finland, Norway, Spain and the USA, but also in Latin America (Colombia, Chile, Brazil, Mexico) transfers to municipalities have been increased to compensate for lower own tax revenues or additional resources have been made available as part of economic stimulus packages. Still other countries, such as Switzerland, have built-in stabilizers in their tax laws, with the use of previous year values as the property tax base, which helps to protect yields from the property tax. Of course, such mechanisms should be expected to have negative implications in subsequent years. A similar situation exists in the USA, where property tax revenues are expected to decline for three years starting in 2010 as lower property values are reflected in city property tax rolls[4].

**Changes in recurrent and capital expenditures**

As in past financial crises of a regional nature or in particular countries, capital expenditures may be expected to be cut more drastically than current expenditures because they are more easily interrupted or postponed. The responses to the survey generally seem to confirm those expectations. But given the size and dimension of the current crisis, **local governments in many countries have also been forced to reduce current expenditures not only for maintenance and operation but also for some categories that have been relatively unaffected in past crises, such as social services and employment**.

**"Local governments in many countries have also been forced to reduce current expenditures."**

1 ***Reductions in capital spending***. These are reported in a number of countries, including Bulgaria, Mexico, Nicaragua, Philippines, Russia, Senegal, Ukraine and the U.S. In Senegal, the reduction in capital transfers to cities has led to a cutback in local investments since these transfers are used to fund the municipal matching share of specific projects for which financing is also received from a national fund supported by multinational institutions.

***Some countries, however, report no decreases or even increases in local capital expenditures***. Surveys of European municipal associations indicate that 42% of

**"For some categories that have been relatively unaffected in past crises, such as social services and employment."**

countries have experienced no change, while 23% (many in Western Europe and in Scandinavian countries) have seen increases. Increases in municipal capital expenditures are also expected in Canada and Colombia.

2 ***Reductions in recurrent spending***. These are reported in several cases, including Spain and Sweden in Europe. In Mexico, Nicaragua and Peru, current spending also has or is expected to decrease.

**But, as in the case of capital expenditures, a substantial number of countries report increases in recurrent expenditures**. The European survey results indicate that 33% of respondents have increased recurrent spending, mainly in Western Europe and Scandinavia. In the USA, recurrent spending is forecast to increase 2.5% in 2009. In Belarus, Chile, Colombia, France, Iceland, Japan, Portugal, Switzerland and the UK, current municipal expenditures are also expected to increase.

**View of the Banks**

The effects of the crisis are diverse:

- 3 countries do not observe an immediate impact of the crisis on sub-national governments:
  - Morocco: low exposure to the international financial market
  - Israel: local authorities are marginally affected
  - South Africa: no immediate effects but expected difficulties
- Scandinavian countries (except Iceland) were less affected
- Countries which were largely exposed to the crisis do report -or at least forecast - difficulties for sub-national entities to find funding or meet their engagements.
- Local and regional authorities are playing a counter-cyclical role thanks to central governmental measures as well as actions taken on their own
- In that respect, facing the economic crisis has particularly involved:
  - Cost cutting and rationalization programs
  - Programs to foster employment

*Sources: International Center for Local Credit Survey – October 2008 to July 2009*

## III
## Policies implemented by local governments to cope with the crisis

### Expenditure increases

As noted above, **quite a few countries report increases in expenditures despite the crisis**. In many cases, these expenditures are targeted **at investments that are expected to help improve the local economic development climate**. In some cases, recurrent spending increases are intended to offset the impacts of the crisis. In Colombia, France, Iceland, Japan, Switzerland and the UK, for example, social oriented spending is expected to increase. In Portugal expenditures are expected to increase property tax relief and subsidies for reduced water rates for the poor (tax expenditures) as well as spending on medication.

How local governments have been able to manage these increases is not always clear, except in the countries in which local governments have benefitted from increases in transfers or national fiscal stimulus packages, or where local governments can borrow relatively freely (see below). Presumably local governments can increase priority (e.g. social oriented) spending by reducing other expenditures. They can also raise new revenues (see below), although this is problematic in a recession, or they can draw down reserves or sell assets if they have them. The survey responses provide only limited information about how reported expenditure increases were realized.

**New revenues**

A potential response of local governments to deteriorating revenue collections and unchanged or increased needs for expenditures is to introduce new taxes and fees or increase the rates of existing ones. However, the vast majority of responses to the UCLG questionnaire indicate no such action. It is of course problematic to raise taxes in a recession, but the lack of action also likely reflects the often weak degree of autonomy of municipalities in setting tax rates of existing taxes and even greater lack of autonomy in introducing new taxes. Even for those municipalities with some degree of autonomy, it is likely to be politically difficult to raise taxes in socio-economic environments marked by increased unemployment and generally lower incomes among their residents; raising local taxes may also conflict more or less openly with central government policy on the overall tax burden in the country.

Nevertheless, local governments in a few countries report some increases in taxes and fees. Ukraine, for example, reports increases in utility fees, and Uganda has instituted some new taxes (although this reform was initiated before the crisis). In the U.S. 45% of respondents[5] reported increases in existing fees while 20% reported having introduced new fees. On the tax side, 25% of cities increased property tax rates but only 5% increased sales taxes and 1% income taxes; these lower percent increases may reflect the greater degree of tax competition associated with the sales tax and the smaller number of cities that tax income in the first place. Some cities that wished to increase property taxes may have been constrained by state level property tax limits.

**What Mayors have said**

***Bertrand Delanoë, Mayor of Paris and President of UCLG (May 2009)***
*"Paris, like all of our country is directly affected by the global crisis, which was primarily financial, before becoming economic, and now social. The most vulnerable are worst affected, and the middle classes facing the threat of downgrading. The priority of our city has a name: solidarity."*

***Richard Daley, Mayor of Chicago (July 2009)***
*"These tough times demand that we roll up our sleeves and redouble our commitment to address our challenges head on. Because the measure of government isn't how it performs when times are good, but how it responds when times are hard." "Through our Tax Increment Financing program we've leveraged more than USD 10 billion in private investments through less than USD 1.8 billion in public investments. These funds help create jobs, sustain businesses and strengthen neighbourhoods."*

***Obed Mlaba, Mayor of Durban (June 2009)***
*"The Municipality's… manifesto focused a lot on poverty alleviation and job creation. To this end, the Municipality has decided to pump significant funding into projects that will create jobs… The 2010 infrastructure developments, Dube Trade Port and Bridge City have been given more attention because of their potential to create employment opportunities which, in turn, will lead to poverty alleviation. Our Municipality has also seen the need to provide some free basic*

*services. Water, for instance, is a basic need for human existence. That is why our Municipality has decided to provide 9,000 litres of water free of charge. This is aimed at helping those who, under normal circumstances, would go without clean, drinkable water."*

Source:

- http://www.paris.fr/portail/accueil/Portal.lut?page_id=1&elected_official_directory_id=8814&document_id=68197&portal_component=17&actormandate=31";
- http://chicago.about.com/od/governmentandmedia/a/DaleySpeech2009.htm;
- http://www.durban.gov.za/durban/government/mayor/mayors-blog

**Borrowing and the balance sheet**

Many local governments across the world have no access to credit and in some cases they are prohibited from borrowing. But even when allowed and available, the "golden rule," which is followed widely, states that borrowing should take place only for capital investment. For those governments that can borrow, the issue becomes whether they can and will do so and at what price. In the U.S. it is noted that *tightened credit markets have made it increasingly difficult for cities to maintain debt–funded projects, particularly for infrastructure, and have resulted in higher debt costs*[6]. In Spain it has been difficult to borrow due to the constraints of existing laws (including consolidated public sector limits arising from the EU Maastricht Treaty); similar concerns are raised by Italy and Latvia.

Other responses are more optimistic. In some countries, such as Portugal, local governments have increased borrowing. In others, some constraints on local borrowing have been overcome with central government support; for example, in Norway, the problems faced by one lender (Kommunekredit) have been mitigated by the policies of the central government, which owns the other major lender (Kommunalbanken). In other countries some innovation is taking place; for example, New Zealand reports the development of a new type of borrowing instrument, the bond bank.

**It is, however, important to note that borrowing and the associated debt is only one aspect of the balance sheet of local governments**. Large declines in the value of assets, for example, were noted above to be a major problem for Belgium, Iceland, the Netherlands and the UK. Another point worth noting is that, in U.S. cities, the ending balances (annual surpluses transferred to the next year) are expected to drop from 25.2% of general fund expenditures in 2007 to 20.8 in 2009, for a dis-saving rate of 17%. One last issue of concern is the possible impact of the financial crisis on local governments' pension funds, especially when such funds are fully funded. This issue was raised as a concern by Australia and Norway, but also holds much relevance for many Canadian and U.S. local governments.

## IV
## Remedies proposed to central governments and international organizations

Beyond the impacts of the crisis and measures implemented by local governments in response, the UCLG survey asked what measures local governments had proposed to national authorities and international organizations. These include proposals concerning new taxes, increased transfers and actions to expand local access to credit.

**Underlying these proposals is an explicit or implicit assumption that local governments can play a stronger role in mitigating the impacts of financial and economic crises than is traditionally believed**. In some cases, local governments may be willing and able to raise more resources, although doing so in an economic downturn raises risks of aggravating the crisis, depending on the sources of the revenues. Even if local governments must rely on the center for counter-cyclical funding, however, they may

**“They may be able to better prioritize and target expenditures.”**

be able to better prioritize and target expenditures in their jurisdiction for both relief and stimulation purposes.

In addition to seeking more immediate remedies to offset the downturn, local governments on all five continents are taking advantage of the crisis to take a harder look at intergovernmental relations. They are also asking for reforms, either because aspects of the system have aggravated the consequences of the current crisis or simply because they may sense that this is a good time to ask for structural changes.

**Increased financing in the form of new taxes, increased transfers and debt measures**

- Involvement of the central government in facilitating access to capital markets: Austria, Spain
- Takeover of some communal expenses by central government: Austria (part of interest payments)
- Full and/or more timely or frequent payment of transfers by the central government: Bulgaria, Ghana, Ecuador, Senegal
- Access to a larger percent of shared taxes or larger transfers; Finland (vehicle tax, fuel tax, waste tax); Sweden (transfers); Niger (transfers)
- Reduction in municipal share of co-financing of projects : Lithuania
- Strengthening local revenue mobilization: Uganda, Ghana (improve local collection of taxes)
- Fiscal stimulus packages to cushion effects of the crisis and boost growth (Ghana, Egypt, Morocco, Tunisia, Algeria, South Africa)
- Promote local economic development policies (Bolivia, Mali)

**Structural reforms and other central government programs**

- Simplification of public procurement in the short term: Austria, Luxembourg
- Simplification of legislative framework to improve efficiency: Finland, Italy (national and European level), Senegal (single wicket for funds)
- Increase information from the central government and consultation between central government and local governments: Iceland(consultation), Mali (information), Uganda (consultation)
- Get rid of central government unfunded mandates: Greece
- Strengthening the capacity of local governments and/or providing training and information exchange on international practices: Bolivia, Nepal, Senegal, Indonesia (Batam), Thailand
- General suggestions to improve macro and financial policies: Several respondents
- Deregulate local government investment funds: Mexico
- Promote decentralization and greater flexibility in the legal framework so that local governments can develop counter-cyclical policies: Chile, Colombia

### The role of international organizations

- Increasing funds and/or better coordinating funds that benefit local investments and capacity building: Burundi, Colombia, Ecuador, Nicaragua, Mexico, Nepal, Peru
- Access to funds from international bodies by local governments: Bulgaria (EU funds) Mali (direct access to WB type funds), Senegal, Uganda (budget support)
- Ensure consultation of local bodies when drawing up an agreement with an international body such as the WB or the IMF: Iceland

## V
## Times of crisis – the times for questioning, reflection and system improvement

The world is going through a financial and economic crisis of unprecedented depth in terms of employment, income and financial wealth losses. The crisis has affected practically all central governments and it has affected most local governments in some way as well. But as indicated by the responses to the UCLG survey, there is a great variety in how local governments across and within different countries have fared. **While some local governments have seen their funding cut and all types of expenditures reduced, others have actually experienced increases in funding and have increased certain types of expenditures**.

These differences in experiences are to be expected because of differences in exposure to the global crisis, for example dependency on exports of natural resources, and also because of the different approaches taken by central governments on general economic policies (economic stimulus packages) and policies specific to local governments (increases in shared taxes or transfers). Whether the more positive experiences can be sustained is unclear, but presumably there are constraints on continuing some of the measures that have been taken to avoid major local government revenue losses and expenditure cuts during the crisis. At the same time, **local governments are likely to be learning valuable lessons about how they can play a more productive role in implementing counter-cyclical policies, and these should be documented and disseminated**.

**Times of crisis can be and ought to be times of questioning and reflection on how systems work and if and how they can be improved**. For example, the low level of revenue autonomy and high dependence on revenue sharing and central government transfers that characterize many decentralized systems around the world raise the question: should municipalities, which probably have the least elastic spending among levels of government, fully bear their share of a drop in revenues in consolidated government revenues? This is also a time to take a second look at how current institutions may leave local governments unprotected against arbitrary decisions of central agencies; for example, is this not a good occasion to question the united treasury system use in West Africa that allows “free borrowing” of local governments funds to satisfy the liquidity needs of central governments? Should the Maastricht criterion equally constrain central and local governments in a time of financial crisis?

There is a risk of ill conceived structural reforms being pushed through under the pretext of dealing with the crisis, for example, re-centralizing services or reducing local autonomy for the sake of realizing cost reductions. Such reforms may ultimately undermine the ability of local governments to meet their responsibilities effectively and sustainably. **In some cases, central governments may even use the crisis as a pretext for halting or reversing decentralization processes, a danger that local government associations must be vigilant in monitoring**.

Even though there are signs of some economies turning around, the responses to the **UCLG survey suggest that the financial situation of many local governments around the world may get worse in 2010 before getting better, due to lags in the adjustment of assessed values used in calculating taxes and further central government tightening**. There is a considerable need for more systematic analysis of the impact of the current crisis on local government finances. Such efforts would help central and local governments not only to better understand the depth and nature of the problems being experienced, but also point to innovative ways that have allowed some local governments to cope with the crisis better than others. More work and dialog are also needed to better understand the types of measures that can be adopted in the context of particular countries by central and local governments to improve local revenue and expenditure performance in the near and longer term, as well as to consider how external resources can best be used in developing countries.

**October, 2009**

1 The survey was launched on July 2009 by UCLG, with the support of the FCM. UCLG received answers from the following regions/countries: Africa (Burundi, Uganda, Benin, Niger, Senegal, Mali, Zimbabwe, Ghana, Mali, Burkina Faso, Tanzania); Asia Pacific (Australia, New Zealand, Cambodia, Vietnam, Pakistan, Philippines, Nepal, Korea, Indonesia, Japan and Taipei City); Eurasia (Russia, Belarus, Kazakhstan and Ukraine); Latin America (Bolivia, Brazil, Chile, Colombia, Ecuador, Honduras, Mexico, Nicaragua, Paraguay, Peru) and North America (Canada and USA). A similar survey was conducted by the Council of European Municipalities and Regions (CEMR), the European section of UCLG, during the spring of 2009 and again in September 2009 (28 countries).

2 *City Fiscal Conditions in 2009*, National Leagues of Cities, September 2009.

3 *Impact de la crise sur les collectivités locales et régionales en Europe* Council of European Municipalities and Regions October 2009.

4 *City Fiscal Conditions in 2009*, National League of Cities, September 2009, p 3.

5 *City Fiscal Conditions in 2009*, National League of Cities, September 2009, p 6

6 *City Fiscal Conditions in 2009*, National League of Cities, September 2009, p 7.

# Cities at the Eye of the Global Storm

Greg Clark

# Cities at the Eye of the Global Storm

## 1 Introduction

Cities did not create the current global economic and fiscal crisis, but they have felt the pain. This period in the world economy will come to be seen as not just the moment when capitalism almost collapsed, but a time when the world's cities made a concerted effort to show leadership, adjust to the shock, and use the crisis to pursue reforms and innovations and seek a new alliance with national governments and investors.

The cost of the crisis has been complex and diffuse. Three inter-connected processes have unfolded at different speeds in different parts of the world. First, The Banking Crisis took money out of the system, like oxygen leaving a body, and cities all over the world found that planned investment did not materialise, deals were broken, projects were stalled. Many people living in cities lost their homes. Second, a Global Recession was triggered and deepened rapidly, leaving trade depleted, unemployment rising, demand for services and products depressed, and city revenues slashed. Third, the shift in capital eastwards was accelerated as the weak fundamentals in the west exposed the scale of the challenges and the worsening balance sheets of governments and firms. The three processes are still unfolding. They combine in distinctive ways in different places depending upon the institutional and economic framework locally.

## 2 The details of the global crisis

### Banking crisis and stock market correction

The market value of the global banking industry fell drastically by more than 50 per cent from a high of USD 8.8 trillion in the third quarter of 2007 to USD 4 trillion by the end of 2008 and to make matters worse, it fell by another USD 700 billion in the first three weeks of this year itself[7]. The only four major banks to survive the crisis and retain market values greater than USD 100 billion at the end of 2008 compared to 11 a year ago, are China Construction Bank, Industrial and Commercial Bank of China, HSBC and the US bank JPMorgan Chase[8].

On one day in October 2008, the FTSE 100 fell 7.85 per cent to 4589.19 as the value of shares fell by £93 billion. The Dow Jones Industrial Average fell as much as 800 points and the blue-chip index was down 340.49 points or 3.3%. The Russian stock market saw a fifth of its value wiped away in a single day[9]. The Tokyo Stock Exchange's benchmark Nikkei-225 index dropped 554.76 points or 5.3 percent[10]. Amid the chaos the price of oil fell to an eight month low of USD 86 a barrel while the price of gold rose more than four per cent to USD 870.02 an ounce as investors looked for a safe haven for their money[11].

### Global recession

#### *Trade*

While the share of the United States in India's exports fell from 17.1 percent in 2004 to 15.3 percent in 2007, China's share in India's imports rose from 5.5 percent to 8.4 percent[12]. Remittance flows to developing countries began easing in the second half of 2008 and are projected to slow sharply in 2009[13]. Signs of the sharp deterioration in trade were evident in the latter part of 2008 as demand sagged and production slowed. Although world trade grew by 2% in volume terms for the whole of 2008 it tapered off in the last six months and was well down on the 6% volume increase posted in 2007[14]. The collapse in global demand brought on by the biggest economic downturn in decades will drive exports down by roughly 9% in volume terms in 2009, the biggest such contraction since the Second World War, WTO economists forecasted in March 2009[15]. In developing countries, which are far more dependent on trade for growth, exports will shrink by some 2%-3% in 2009, WTO economists say[16].

**Evolution of Equities in developed markets and emerging markets, commodities and currencies in 2008**


***Number of jobs lost globally***

The OECD average unemployment rate reached 8.5% in July 2009, the highest level in the Post-War period. Since December 2007, about 15.1 million workers have joined the ranks of the unemployed. By 2010, the unemployment rate could approach 10% in the OECD area, an 80% increase and 25 million additional unemployed compared with 2007. By comparison, the unemployment rate rose by 50% during the first oil shock of the 1970s[17].

***Growth of public debt globally***

The crisis has heralded an unprecedented growth in public debt world wide.
October 2009: USD 35.5 trillion.
October 2004: USD 26.1 trillion.
October 1999: USD 19.5 trillion[18].

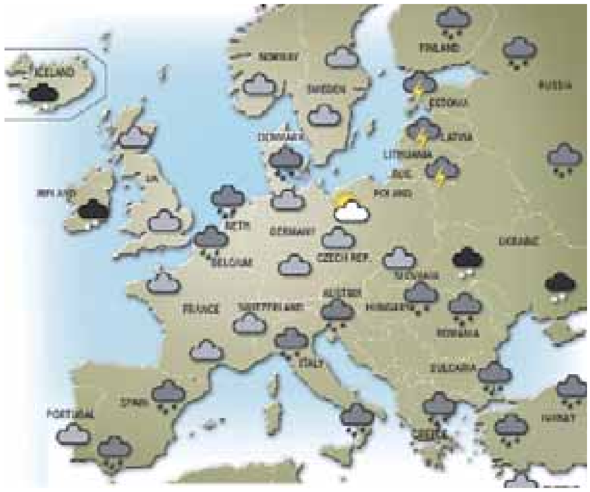
In 2009:
USA had a debt of USD 6.9 trillion (49.2% GDP and 28.6% annual growth).
Argentina had a debt of USD 129 billion (52.1% GDP and -11.6% annual growth).
South Africa had a debt of USD 68 billion (34.5% GDP and 2.1% annual growth).
Australia had a debt of USD 150 billion (17.6% GDP and 24.9% annual growth).
China had a debt of USD 888 billion (18.2% GDP and 19.7% annual growth)[19].

***Shift in capital eastwards***

Among Asian policymakers and economists, confidence is now just starting to grow again. Just a year after the global financial crisis began with the collapse of Lehman Brothers, forecasts for growth in gross domestic product are being revised upwards all over Asia. The World Bank says that China's economy will expand by 7.2% this year, up from a forecast of 6.5% in March. Japan's most recent figures showed a seasonally adjusted expansion of 0.9 per cent in the second quarter, equivalent to an annual growth rate of 3.7%, although deep-seated problems suggest Japan is likely to grow slowly next year.

**The changing economic weather for cities in Europe and in Asia-Pacific**


January 2008




July 2009


January 2008


August 2009

## 3 The impact on cities world-wide

A recent paper for the OECD LEED programme identified the main impacts on local economies and the responses of local leaders from 41 locations across the world[20]. The report categorised the impact of and responses to the crisis into five themes, which are detailed below in the table. The report went beyond negative impacts, suggesting that crisis can bring opportunities for local economies and categorises responses into shorter and longer term.

**Principal negative impacts of and responses to the crisis**

| Theme | Negative Impacts | Response |
|---|---|---|
| People and Labour Market | • Unemployment and job losses<br>• Civic unrest and social problems<br>• Social concerns<br>• Housing repossessions | • Workforce investment<br>• Tax cuts or freezes<br>• Social initiatives<br>• Support to vulnerable people |
| Local Economic Resilience | • Reduced tax revenues<br>• Tourism reduction<br>• Decline in growth rates<br>• Trade reduction<br>• Business confidence reduction<br>• Consumer confidence reduction<br>• Firms closing/downsizing<br>• Worsened business conditions<br>• Financial sector turmoil | • SME support<br>• Tax relief<br>• Tourism promotion |
| Quality of Place | • Property market decline<br>• Lack of public resources for investment<br>• Construction/Investment reduction/pause | • Borrowing to invest where possible<br>• Innovative financing and PPPs |
| Long-term Strategy and Positioning | • Identity, competitiveness or status weakened<br>• Failure of previous economic or investment strategy exposed | • Long-term strategic rethink<br>• Innovation promotion<br>• Green sector investment<br>• Distinctive positioning<br>• Infrastructure investment |
| Local Governance/ Leadership | • Fiscal resources and budget reduction<br>• Uncertainty | • Recession strategy<br>• SPV creation or direction<br>• Budget adjustments<br>• Cost saving<br>• Central and regional government alignment |

The OECD LEED paper is based on evidence from the early part of 2009. The situation has evolved even since then. None the less it is useful to present some of the key data to help make tangible some of the categories introduced above.

| Theme | Positive Impacts | Negative Impacts |
|---|---|---|
| People and Labour Market | • There has been a flux of skilled workers back into countries such as Poland and particularly Warsaw from Western Europe where they were occupying low-skilled jobs at the bottom of the labour market, and with no protection from contracts. | • In March 2009 the unemployment rate in Brussels increased by 6.5% in comparison to the same month in 2008, this growth represents also a month-to-month increase of 1.1%. |
| Local Economic Resilience | • The banking sector in Cape Town and Toronto is shielded by strong regulatory culture, limiting exposure to the global crisis. | • In 2008, the securities industry rewarded USD 18.4 billion in bonuses to its New York City employees, 44% less than 2007 which totalled USD 32.9. Losses are projected to total over USD 35 billion in the sector. |
| Quality of Place | • China's relative economic status has been boosted providing Shanghai with an opportunity to develop itself into a leading international financial centre. | • The redevelopment of Asia's largest slum, the 535-acre Dharavi, has been stalled. Furthermore, a city government project to construct India's first offshore windpower project near the Bandra-Worli sealink has collapsed. |
| Long-term Strategy and Positioning | • Tokyo's 2009 budget has been labelled the largest fiscal budget of any metropolitan government in the world. | • If its financial sector continues to underperform over a long period Zurich may lose its competitive position as the nation's economic powerhouse to its close rival Geneva. |
| Local Governance/ Leadership | • In Bilbao, concern about the downturn created a new spirit of cooperation between the public and private sectors. | • Because the tone of the response to the crisis was set by central government in New Zealand, Auckland and its residents, businesses and organisations were forced to delay their own plans to mitigate the impact of the recession. |

**What Local Leaders have said**

***Shintaro Ishihara, Mayor of Tokyo (May 2009)***
*"The global recession that originated in the United States quickly spread to Japan as well, and in Tokyo, fear over employment is growing with the sudden and drastic contraction of economic activity."*

***Gilberto Kassab, Mayor of Sao Paulo (January 2009)***
*"I am aware that the spectre of an economic crisis worrying round the world"*

***Naomi Long, Mayor of Belfast (October 2009)***
*"At a time when the recession is uppermost in all of our minds, it is hugely satisfying to be able to tell our ratepayers that a new landmark electricity generation facility will bring the council an income of around £1.5 million a year."*

Source:
http://www.administradores.com.br/noticias/kassab_promete_cautela_diante_da_crise_financeira/19872/;
http://www.belfastcity.gov.uk/lordmayor/blog.asp

**The impact of the banking crisis on cities**

In Europe and North America, instability in the financial services sector triggered instabilities in cities whose economies were particularly highly integrated into global financial markets. **Financial hub cities** such as **London, Frankfurt, Chicago** and **New York,** for instance, were over-exposed due to a lack of effective regulation and a disproportionate reliance on the sector for tax and employment generation. As a result, they suffered badly from job losses and reputational damage. The collapse of Lehman Brothers in September 2008 and the rapid devaluation of the FTSE and Dow Jones in early October 2008 were emblematic of this. This impact on the financial services industry in North America and Europe is not universal. Banks and financial institutions in other cities, such as **Toronto,** which took a less aggressive approach to loan making, have been relatively less-badly affected and have repositioned their financial services.

In the Asia Pacific region cities such as **Singapore** and **Hong Kong**, which are highly integrated into global financial markets, suffered rapidly from financial instabilities in Europe and the United States. **Singapore** was the first East Asian country to fall into a recession from the current global economic crisis after July 2008[21]. Its financial services sector was disrupted but recession conditions were primarily driven by a 'fall of the non-oil exports in manufactured goods, as a result of the overall deterioration of economic conditions in the US and Europe.'[22] Effective regulation insulated Singapore from the worst of the effects of the sub-prime crisis. The emergence of **Asian financial centres** such as **Hong Kong** and **Singapore** suggests that these cities are retaining and reinforcing private investment. **Hong Kong** and **Singapore** lead five Asian cities that appear in the City of London Corporation's Global Financial Centres index of competitive cities. The report concludes that as a result of the recession there has been a 'further movement of the financial business centre of gravity towards fast-developing markets - especially in Asia.'[23]

**South Asian cities** have relatively distinct trade characteristics. The growth of **Indian cities** has been driven by the export of modern services and less by goods export. Because the former has been more resilient to recession conditions, cities such as **New Delhi** and **Mumbai** have been somewhat insulated. The World Bank also argues that the globalisation of the service industries in this region is relatively limited. As a result, 'as consumers pull back in the United States, service trade is likely to be less impacted compared to goods trade.'[24]

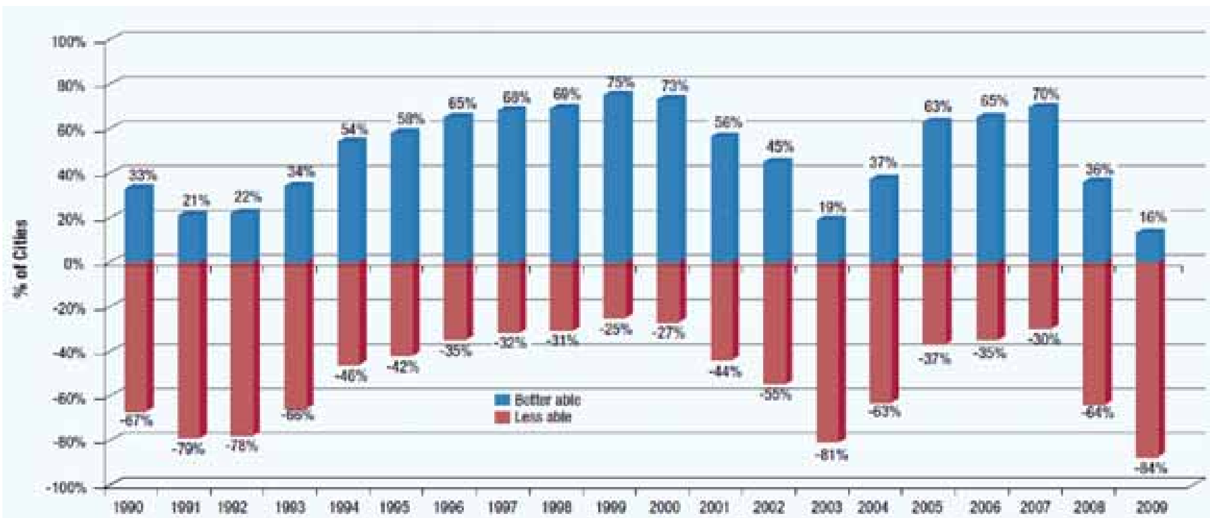
Over the course of 2009, the African Development Bank predicts export growth to 'drop by 7% while import growth will decline by 4.7%, resulting in a deterioration of trade balance for most countries.'[25] This will have significant knock-on effects for many African cities.

In Europe, a lack of credit and the high cost of borrowing are significantly affecting the level of debt finance that European municipalities can leverage and deploy. Surveys of local governments by the Council of European Municipalities and Regions show that even if a municipality has a high credit rating the requested volumes of credit are not available or are at such cost that borrowing becomes impractical. This process is in part made dysfunctional because entities which traditionally provided loans to the municipal sector, have been affected by the crisis (e.g. *Kommunalkredit* in Austria, *Kommunekreditt* in Norway, *Dexia* in Belgium, France and Luxembourg).[26]

In Asia Pacific, growth in **South Asian cities** has been conserved as investments into these cities are largely driven by domestic savings. These cities have avoided a dependence on foreign investment and currency and have built their investment strategy on the attraction of less volatile capital.[27] The **African** Development Bank states that in 2009 FDI is projected to decline by about 18%. This represents a fall from USD 62 billion to USD 50.8 billion.[28] Though there is no doubt that the tax-take of **European cities** has declined, the total actual lost volume is difficult to estimate due to a lack of data. Some local governments, however, can present figures. In the Ukraine, income tax represents 55–70% of revenues of municipal budgets. The volume of the municipal income for 2009 is estimated to drop in as much as 30%.[29]

According to a National League of Cities' (NLC) survey of January 2009 four in five (84%) **American city** finance officers are less able to meet the needs of local populations compared to the same time in 2008. This is up from 64% from January 2008. This is the most pessimistic picture of city fiscal resources in the history of the NLC survey, which dates back to 1985.[30]

**Perceived capacity of US local governments to provide effective local governance**



**What the Banks say**

**Brussels, October 19th 2009 - The International Centre for Local Credit's Conference and General Assembly took place in Brussels on the 15th and 16th of October. This annual meeting has been a unique opportunity for the twenty-three members of the organization to discuss the impact of the financial and economic crisis on public financing and local governments.**

In an exclusive survey of ICLC members, it appears that the autumn 2008 financial crisis has not led to credit crunch on a short term scale for local authorities; however, in the meantime, credit spreads have sharply increased. All the attendees have indicated that public financing has played a key role over the last 12 months supporting economic stimulus plans implemented in most of the countries. Six countries, among them Sweden and Slovakia, are not expected to have increased municipal financing needs due to the crisis; twelve others such as Canada, Denmark, France and Japan expect new financial needs as a consequence of local or national counter-cyclical measures. The representatives of the financial institutions have also tackled the impact of the crisis on the banking sector. 22 out of the 23 members of ICLC are either partly owned by the public sector (state or local) or have benefited from state guarantees.

ICLC has members in 20 countries (Austria, Belgium, Canada, China, Denmark, France, Germany, Iceland, Israel, Italy, Japan, Morocco, The Netherlands, Norway, Portugal, Slovak Republic, South Africa, Sweden, Switzerland). ICLC objectives are to promote local public sector investment financing. On the eve of the crisis ICLC lenders represented 1400 billion euro out of a total of 5000 billion euro of local governments outstanding debt.

Source: Press Release International Centre for Local Credit's Conference in Brussels

**Local economy**

In Europe, **cities with strong public sector presence** were initially insulated from the recession as the private sector suffered from a fall of in credit and consumer demand. Though stabilising, the American economy continued to weaken during the spring of 2009. **American cities** suffered the most from job losses which totalled 1.3 million across the nation in the months of April, May and July 2009. By June, the national unemployment rate had reached its 'highest rate in more than 15 years, at 9.5 percent.'[31] According to the World Bank, the recession has triggered an increase in extreme poverty in **cities and rural areas worldwide**. According to the World Bank, by the end of 2010, an additional 89 million people are likely to be living in extreme poverty (less than USD 1.25 per day), than would have been the case without the crisis.[32] In Europe, disadvantaged areas have been hit the hardest by the recession according to a number of recent studies.[33, 34]

In the Asia Pacific region, a report by Inclusive Cities shows that recession has triggered growth of the informal sector in developing **Asian cities**. This growth is accompanied by an increased level of disadvantage within the sector. Instead of being a cushion for those losing formal employment, 'as more workers crowd into the informal economy, the net result is more and more firms or individuals competing for smaller and smaller slivers of a shrinking (informal) pie.'[35] The very poorest are becoming poorer.

**Ability of cities to address other challenges**

A survey across **24 European local governments** associations showed the pace and scale of development have been reduced as a result of the crisis. The recession is reducing the capacity of municipalities to finance and deliver ongoing investments in infrastructure and development projects. According to the Council of European Municipalities and Regions (CEMR), the 'reduced rate of investments by both the private and the public sectors will result in a general slow-down of local and regional development.'[36]

Signs from **American cities** indicate tentative housing market recovery is underway. Sales of both new and existing single-family homes have been on the rise according to the Metropolitan Policy Program, at the Brookings Institute.[37]

Across **cities worldwide**, migration rates have dampened as migrants are staying put both in their adopted countries and countries of origin. The movement of economic migrants to the major immigrant-receiving **cities and regions of the world** has reduced significantly. According to the Migration Policy Institute, contrary to popular expectations, immigrants are tending to stay in their adopted cities rather than return home despite higher unemployment.[38]

After decades in which a 'brain drain' denied Africa of some of its most talented individuals, there is cause for optimism. Thousands of highly educated professionals are returning to their home cities. For instance, a London hedge fund employee has returned home to **Lagos**, **Nigeria** following the push of lower bonuses in London and the pull of improved quality of life and economic conditions in **Lagos**.[39] In South Africa, relocation companies were handling twice as many people in January 2009 compared to January 2008.[40]

In **Africa**, external lending for development projects has fallen off significantly. To support the development of city and regional infrastructures across the continent, lending through the African development Bank's 'Private Sector window' is projected to reach between USD 2.4 billion and USD 4.0 billion in the medium-term.[41]

## 4 How the cities have participated in the national and global response

**Working with national stimulus programmes**

Often co-ordinated or financed by central government, many developed and developing world local governments are undertaking counter-cyclical policy to mitigate the local impacts of the recession and capture benefits. This can take many forms.

In many cases, local authorities are empowered to bid for and spend central government funding. When President Obama pledged an economic recovery package which will cost a minimum of USD 800 billion over two years, New York drew up a "Financial Recovery Bill: Priorities for the City of New York Report". Mayor Bloomberg also commissioned a Citywide Performance Reporting Online System to allow citizens to track the spending of stimulus dollars.[42] In Spain, central government is providing resources for local authorities to invest heavily in city infrastructures and renovations. With funding time-limited, local authorities are forced to spend money quickly to improve their infrastructure and drive their cities to recovery.

In other cases, stimulus spending is more centralised with national governments co-ordinating spending, which indirectly benefits local authorities. In Europe national government stimulus packages to reinforce socio-economic stability at the city and local level have been common. **French** President Sarkozy announced a USD 25 billion investment fund in November 2008. The bailout is part of a plan launched last month aimed at protecting French companies from foreign take-overs.[43] In the UK, central government has bailed out a number of key employers and financial institutions. In October 2008 for instance, banks such as the Royal Bank of Scotland, HBOS and Lloyds

TSB received a cash injection of GBP 37 billion to prevent their collapse.[44] There is evidence from Asia of national governments injecting high volumes of capital into local economies. The **Japanese** stimulus package of USD 51 billion, for instance, was announced by Prime Minister Taro Aso in October 2008. It included a JPY 2 trillion (USD 20.3 billion) in special benefits to all households.[45] The Chinese stimulus package was introduced one month later in November 2008. Chinese President Hu Jintao announced a 2-year USD 586 billion stimulus package (four times larger than that of America's bailout plan).[46] It focussed heavily on Chinese cities with tax reform, increased spending on education, health, and housing, and major infrastructure projects such as roads, railways, airports, and the power grid.[47]

**Local stimulus initiatives**

In other cases still, stimulus spending is generated at least in part by the cities themselves. Because recessions impact heavily on Council revenues, endogenous spending tends to occur in cities such as Barcelona whose sound fiscal management prior to the recession has left them in a strong position to spend. In other cities, improved cost efficiencies allow cities to self-finance or part finance stimulus spending. In London, the Mayor is looking for efficiency savings of more than GBP 950 million over the next three years across the Great London Authority Group (GLA).[48] As well as spending itself in London, the GLA is receiving sport from central government, particularly around the improvement of London's public infrastructure. Through the Department for Transport, the British Government remains committed to providing GBP 5.1 billion of direct funding to Crossrail, which amounts to approximately one third of the funding package.[49]

**Singapore, a city state**, has been quick to assist key sectors in its local economy. To improve access to credit facilities for local companies, the Singapore government announced a SGD 2.3 billion loan option for local companies through its business financing scheme in November 2008.[50]

Not all cities or central governments, however, are sufficiently well-placed to spend their way towards recovery. For instance, South Asian nations have limited room for fiscal stimulus, given their high debt-to-gross domestic product ratios. As a result, cities are under-resourced to undertake important counter-cyclical economic management.[51]

There are other options though. Cost reductions and wider transformations have created opportunities in **South Asian cities**. For instance, reduced commodity prices have created fiscal space that can be used to fund 'growth enabling infrastructure and safety nets.'[52] At the same time, because **South Asian cities** are undergoing a process of structural transformation towards service-based, higher skilled local economies, the region is 'well positioned to bounce back with global economic recovery.'[53]

Low income countries (LICs) have a lack of fiscal space to stimulate their weakened local economies. According to the World Bank, 'with large portions of their populations clustered around the poverty line, even brief periods of economic slowdown can result in long-lasting impacts on poverty and longer-term economic growth' in **LIC cities**. The World Bank goes on to estimate that financing shortfalls to cover core national spending on health, education, safety nets, and infrastructure total approximately USD 11.6 billion in the poorest nations. Significant progress on poverty, social cohesion and employment could be eroded if such shortfalls are not met. Though the focus here is on central government stimulus, because spending on health, education and infrastructure impacts locally, it is possible to make a strong link between the national and local scales when talking about stimulus packages.[54]

**New strategies and practices**

The World Bank argues for a rapid response unit to shore up developing world national and sub-national economies. In the report '*Protecting Progress: The Challenge Facing Low-Income Countries In The Global Recession*' the pressing need is highlighted for a Crisis Response Facility to deliver effective assistance to LICs following severe shocks or future shocks. Such a facility, it argues would 'fill a critical gap in the global aid architecture which can jeopardize the gains made in many LICs based on recent strong reform efforts.'[55]

In Europe, investing in the **urban economy** of the future was a key conclusion of a recent piece of work on the subject of urban recession and recovery strategy. The Young Foundation argues for adapting recovery plans to put a 'much greater emphasis on future growth industries rather than bailing out failing ones.'[56] Evidence points to future growth areas in the health, science, education, social care, environmental services and tourism sectors. However, many current recovery plans have been 'primarily oriented to sectors with smaller shares of employment and that are likely to further shrink in the years ahead.'[57]

The overwhelming conclusion from the URBACT 'Open Event' is that **European cities** have to be proactive in promoting integration by staying open to the world. 'This early intervention is especially important in a recession where tensions between groups are likely to rise as resources and jobs become scarce.'[58] Sitting back and hoping that situations will fix themselves allows difficult situations to become critical.[59]

According to Latin American participants at the World Economic Forum, tackling this recession requires profound reforms, not stop-gap measures. A more profound approach would allow South American as well as other cities to develop sustainable urban development trajectories.[60]

Large events and infrastructure projects have been recognised as a temporary labour absorption tool for some **South American cities**. 'Temporary employment programs are used to keep very poor, unemployed workers earning a basic income in their home regions. It is a labour absorption tool to deal with a severe unemployment crisis, especially one affecting low-skilled poor workers'.[61]

## 5 In the short term: what cities have done to mitigate the negative impact of the recession

Cities in countries with sufficient resources to mobilise their own short term responses have taken 5 different kinds of short term action.

i *Public communication*. Many cities have produced analysis and reports for public use on the impact of the crisis and the response of the city. For example, in a document called 'Using large events to leverage urban regeneration: the 2010 World Cup in the Cape Town Central City' the city is publicising how it intends to combat the downturn by capturing the benefits of the global event.

ii *Event/Campaigns*. In several cities incentives were provided to get people to spend money to keep shops and services working. Free transport and parking is a common approach. For example, in Glasgow where free parking was provided in all Council car parks on a busy shopping Sunday before Christmas 2008.

iii *Recovery Plans*. Many cities have produced their own recovery plan. For example, the London Economic Recovery Plan produced by the Mayor of London.

iv *Task forces*. Many large cities established special public/private coalitions to monitor the crisis as it unfolded. For example, in Hong Kong: Morgan Stanley Asia Chairman Stephen Roach and Li & Fung Ltd. Chairman Victor Fung were among ten people installed at the head of a public-private task force set up in Hong Kong to respond to the credit crisis.

v *Alignment and collaboration*. Many cities made rapid joint agreements with higher tiers of governments. For example, in Bilbao the city will be strongly influenced by the Economic Acceleration Agreement, signed by the Basque Government and the three Regional Governments of Bizkaia, Gipuzkoa and Alava.

## 6 In the medium term: principles for recovery and reinvestment

In the medium term positive city actions to address the crisis appear to be developing in a number of different ways. The OECD LEED Paper describes these 10 Principles to guide future action (the 'Barcelona Principles' as they were developed and agreed in Barcelona).

**'The Barcelona Principles' for promoting city recovery and reinvestment**

i *'Provide pro-active and collaborative leadership at the local level'*
ii *'Make the case for public investment'*
iii *'Robust long-term economic strategy'*
iv *'Purposeful short-term action'*
v *'Investment attraction and readiness'*
vi *'Relationships matter and need increased attention'*
vii *'Effective public works and major investments'*
viii *'Stay close to the people'*
ix *'Stay open to the world'*
x *'Build national-local alliances'*

## 7 Conclusion

Cities and local economies have been severely impacted by the crisis which has interrupted the business of local government in all corners of the world. The challenges of collapsed tax revenues, unemployment, disinvestment, disruption to municipal services, and the climate of uncertainty have challenged local leaders like few previous crises.

But, local responses to the crisis have also become sites of leadership and innovation. The crisis has given rise to new leadership and new strategies and has 'reinvented local development' in several ways. Many local leaders have seen the crisis as an opportunity to embrace new strategic thinking about the future and focus on building sustainable, adaptable, and more distinctive local economies.

Four main frontiers are seen as the long term implications for city governments:

- **New economic strategies**: many cities, faced with the limitations of previous approaches want a new focus around diversification, distinctiveness, high skills, and innovation. Local leaders have realised that during the last business cycles the nature of external investment was encouraging them to become more similar, and not necessarily to focus on sustainable sectors. Towards the future, it is differentiation, based on a city's unique assets and a diverse economy, which will underpin successful and sustainable local strategy. This form of local strategy is more likely to ensure long-term sustainability through efficient land use, environmental performance and diverse sources of investment.

**e.g. New York**: the city continues to be a leading global financial centre but is now also focussing on a more diverse set of strengths based on its creative economy, culture, and higher education. Through initiatives such as PlanNYC (as well as others), New

York is also embracing a strategy to create jobs in the green economy and enhance quality of life.

- **New investment strategies and tools**: local economies need new sources and techniques for investment not based on the Public Private Partnerships that failed in the last cycle. Innovative approaches to partnering and asset management are being developed. Many cities have reported that they plan to develop new deals with private sector co-investors which will be focussed much more on adaptable partnerships with shared goals rather than individual transactions. Cities, may also seek to negotiate with private investors around broader programmes of investment where city lands and assets may be combined in long-term joint ventures with private investors. At the same time, many cities report a desire to develop financing tools not simply based on future land values, though this will be important, by finding ways to develop new sources of investment not just those focussed on land and property.

  **e.g. Toronto**: The Build Toronto Corporation was created in February 2009. The organisation will receive a stream of high quality land assets from the City Council with the objective of developing and using them for public benefit.

  **e.g. European Urban Investment Network**: Launched in October 2008, the ULI Urban Investment Network is an independent European network designed to promote and facilitate new forms of public and private co-investment in urban development. The initiative was founded by the cities of Barcelona, Edinburgh, Amsterdam and Istanbul, together with Allianz, ECE, Eurohypo and ING Real Estate. It aims to facilitate a continuous dialogue between public and private sector leaders who are seeking to improve their ability to collaborate. It sees public - private relationships with a high level of collaborative working, providing more opportunities to bridge investment gaps and overcome city development challenges.

- **New partnerships with higher tiers of government**: the crisis has revealed the important connection between local resilience and national success and longer term working relationships between cities and higher tier governments based on more flexibility, have been a dividend of working to solve the crisis. The crisis may turn out to have been a catalyst for a number of important reforms, principally reforming the financial flexibility between higher tiers of government and city governments and finding ways to use resources to support vulnerable people in more integrated ways. Because it has been necessary to be flexible during the crisis it has been understood that there are advantages to being flexible in the future.

  **e.g. Barcelona** has used the crisis to drive forward the requirement to have a decisive economic framework at the metropolitan level. Links with, and the participation of the Catalan Government has been essential for this process.

- **There is a renewed focus on public sector efficiency including city government**: with a drive for improved service quality at lower costs. The reality is that public finances will be constrained for several years ahead as they adjust to the cost of the crisis. One implication is that public sector reform will be used to achieve efficiencies but could at the same time achieve other outcomes which are desirable. For example, greater co-operation between neighbouring municipalities within a metropolitan region, or between different levels of government within a metropolitan region, may well be driven by efficiency objectives but also help to achieve better co-ordination.

**e.g. London City Charter** – In June 2008, the first London City Charter was signed as a 'Memorandum of Understanding' between the Mayor of London, the London Boroughs and the City Corporation; a new concordat between the upper and lower tier of city government in London. According to Mayor Boris Johnson and Councillor Merrick Cockell, Chairman of the London Councils, it aims to 'ensure that London's public services would continue to improve and to be delivered as efficiently as possible, and that decisions that affect Londoners would be made as close to the people as is possible.'[62]

**October 2009**

7 The Boston Consulting Group, (2009): Creating Value in Banking 2009: Living with New Realities, (http://www.bcg.com/documents/file15429.pdf)

8 The Boston Consulting Group, (2009): Creating Value in Banking 2009: Living with New Realities, (http://www.bcg.com/documents/file15429.pdf)

9 The Daily Telegraph, (2008): Financial crisis: London stock exchange suffers worst fall in history (http://www.telegraph.co.uk/finance/financetopics/financialcrisis/3147764/Financial-crisis-London-stock-exchange-suffers-worst-fall-in-history.html)

10 The Daily Telegraph, (2008): Financial crisis: London stock exchange suffers worst fall in history (http://www.telegraph.co.uk/finance/financetopics/financialcrisis/3147764/Financial-crisis-London-stock-exchange-suffers-worst-fall-in-history.html)

11 The Daily Telegraph, (2008): Financial crisis: London stock exchange suffers worst fall in history (http://www.telegraph.co.uk/finance/financetopics/financialcrisis/3147764/Financial-crisis-London-stock-exchange-suffers-worst-fall-in-history.html)

12 The World Bank, (2009), World trade volumes contracting, http://web.worldbank.org/external/default/main?contentMDK=20665751&theSitePK=612501&pagePK=2904583&piPK=2904598

13 The World Bank, (2009), World trade volumes contracting, http://web.worldbank.org/external/default/main?contentMDK=20665751&theSitePK=612501&pagePK=2904583&piPK=2904598

14 World Trade Organization, (2009): WTO sees 9% global trade decline in 2009 as recession strikes, (http://www.wto.org/english/news_e/pres09_e/pr554_e.htm)

15 World Trade Organization, (2009): WTO sees 9% global trade decline in 2009 as recession strikes, (http://www.wto.org/english/news_e/pres09_e/pr554_e.htm)

16 World Trade Organization, (2009): WTO sees 9% global trade decline in 2009 as recession strikes, (http://www.wto.org/english/news_e/pres09_e/pr554_e.htm)

17 OECD, (2009): Tackling the Jobs Crisis: the Labour Market and Social Policy Response, OECD (http://www.oecd.org/site/0,3407,en_21571361_43235365_1_1_1_1_1,00.html)

18 The Economist, (2009): Global Debt Comparison, (http://buttonwood.economist.com/content/gdc)

19 The Economist, (2009): Global Debt Comparison, (http://buttonwood.economist.com/content/gdc)

20 OECD LEED Programme, (2009): Recession, Recovery and Reinvestment: the role of local economic leadership in a global crisis

21 East Asia Forum, (2009): Riding the Global Economic Crisis in Singapore, (http://newsletters.worldbank.org/external/default/main?print=Y&menuPK=494553&theSitePK=494545&contentMDK=22160387&pagePK=64133601&piPK=64129599)

22 East Asia Forum, (2009): Riding the Global Economic Crisis in Singapore, (http://newsletters.worldbank.org/external/default/main?print=Y&menuPK=494553&theSitePK=494545&contentMDK=22160387&pagePK=64133601&piPK=64129599)

23 City of London Corporation, (2009): Global Financial Centres Index, (http://www.cityoflondon.gov.uk/Corporation/media_centre/files2009/Latest+GFCI+shows+London+and+New+York+still+ahead+as+Asian+centres+do+well.htm)

24 World Bank, (2009): How Will Changes in Globalisation Impact Growth in South Asia?, (http://www-wds.worldbank.org/external default/WDSContentServer/WDSP/IB/2009/10/14/000158349_20091014162658/Rendered/INDEX/WPS5079.txt)

25 African Development Bank, (2009): Africa and the Financial Crisis: An Agenda for Action, (http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/PB%2013-2009.pdf)

26 Council of European Municipalities and Regions, (2009): The Economic and Financial Crisis: Impact of Local and Regional Authorities, ("http://urbact.eu/fileadmin/corporate/doc/News/CEMR%20CCRE.pdf")
27 World Bank, (2009): How Will Changes in Globalisation Impact Growth in South Asia?, (http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/10/14/000158349_20091014162658/Rendered/INDEX/WPS5079.txt)
28 The African Development Bank, (2009): African Development Bank, (2009): Africa and the Financial Crisis: An Agenda for Action, (http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/PB%2013-2009.pdf)
29 Council of European Municipalities and Regions, (2009): The Economic and Financial Crisis: Impact of Local and Regional Authorities, ("http://urbact.eu/fileadmin/corporate/doc/News/CEMR%20CCRE.pdf")
30 National League of Cities, (2009): Fiscal Outlook for Cities Worsens in 2009, (http://www.nlc.org/ASSETS/1F73FD6DD09249DB9B2FD014AA4D9C16/CFC_InterimSurvey_09.pdf)
31 Metropolitan Policy Program, Brookings Institute, (2009): Tracking Economic Recession and Recovery in America's 100 Largest Metropolitan Areas, (http://www.brookings.edu/~/media/Files/Programs/Metro/metro_monitor/09_metro_monitor/09_metro_monitor.pdf)
32 World Bank, (2009): Protecting Progress: The Challenge Facing Low-Income Countries In The Global Recession, (http://siteresources.worldbank.org/NEWS/Resources/WorldBankG20PaperonLICsSept2009.pdf)
33 Local Government Association, (2009): The growth of claimant unemployment by broad occupation and area, (http://www.lga.gov.uk/lga/aio/1974810)
34 The Work Foundation, (2009): Repeat casualty cities hit hardest by latest recession, (http://www.theworkfoundation.com/pressmedia/news/newsarticle.aspx?oItemId=157)
35 Inclusive cities, (2009): Global Economic Crisis and the Informal Economy, (http://www.inclusivecities.org/global_economic_crisis.html)
36 Council of European Municipalities and Regions, (2009): The Economic and Financial Crisis: Impact of Local and Regional Authorities, (http://urbact.eu/fileadmin/corporate/doc/News/CEMR%20CCRE.pdf)
37 Metropolitan Policy Program, Brookings Institute, (2009): Tracking Economic Recession and Recovery in America's 100 Largest Metropolitan Areas, (http://www.brookings.edu/~/media/Files/Programs/Metro/metro_monitor/09_metro_monitor/09_metro_monitor.pdf)
38 Migration Policy Institute, (2009): Migration and the Global Recession, (http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/08_09_09_migration.pdf)
39 The Financial Times, (2009): Downturn hastens Nigeria's 'brain gain', (http://www.ft.com/cms/s/0/1c0e3c34-8d9d-11de-93df-00144feabdc0.html)
40 The Financial Times, (2009): White South Africans feel pull of home, (http://www.ft.com/cms/s/0/d03327b0-9d65-11de-9f4a-00144feabdc0.html)
41 The African Development Bank, (2009): African Development Bank, (2009): Africa and the Financial Crisis: An Agenda for Action, (http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/PB%2013-2009.pdf)
42 OECD LEED Programme, (2009): Recession, Recovery and Reinvestment: the role of local economic leadership in a global crisis
43 Wide Angle, (2008): Economic Crisis in a Globalized World, (http://www.pbs.org/wnet/wideangle/uncategorized/economic-crisis-in-a-globalized-world/3543/)
44 BBC, (2008): UK banks receive £37bn bail-out (http://news.bbc.co.uk/1/hi/business/7666570.stm)
45 Wide Angle, (2008): Economic Crisis in a Globalized World, (http://www.pbs.org/wnet/wideangle/uncategorized/economic-crisis-in-a-globalized-world/3543/)
46 Wide Angle, (2008): Economic Crisis in a Globalized World, (http://www.pbs.org/wnet/wideangle/uncategorized/economic-crisis-in-a-globalized-world/3543/)
47 Wide Angle, (2008): Economic Crisis in a Globalized World, (http://www.pbs.org/wnet/wideangle/uncategorized/economic-crisis-in-a-globalized-world/3543/)
48 OECD LEED Programme, (2009): Recession, Recovery and Reinvestment: the role of local economic leadership in a global crisis
49 House of Commons Library, (2009): Railways: Crossrail, (http://www.parliament.uk/commons/lib/research/briefings/snbt-00876.pdf)
50 East Asia Forum, (2009): Riding the Global Economic Crisis in Singapore

51 World Bank, (2009): How Will Changes in Globalisation Impact Growth in South Asia?, (http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/10/14/000158349_20091014162658/Rendered/INDEX/WPS5079.txt)
52 World Bank, (2009): How Will Changes in Globalisation Impact Growth in South Asia?, (http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/10/14/000158349_20091014162658/Rendered/INDEX/WPS5079.txt)
53 World Bank, (2009): How Will Changes in Globalisation Impact Growth in South Asia?, (http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/10/14/000158349_20091014162658/Rendered/INDEX/WPS5079.txt)
54 World Bank, (2009): Protecting Progress: The Challenge Facing Low-Income Countries In The Global Recession, (http://siteresources.worldbank.org/NEWS/Resources/WorldBankG20PaperonLICsSept2009.pdf)
55 World Bank, (2009): Protecting Progress: The Challenge Facing Low-Income Countries In The Global Recession, (http://siteresources.worldbank.org/NEWS/Resources/WorldBankG20PaperonLICsSept2009.pdf)
56 Young Foundation, (2009): Fixing the Future: Innovating more effective responses to recession, (http://urbact.eu/fileadmin/corporate/doc/News/Young%20Foundation%20Feb09.pdf)
57 Young Foundation, (2009): Fixing the Future: Innovating more effective responses to recession, (http://urbact.eu/fileadmin/corporate/doc/News/Young%20Foundation%20Feb09.pdf)
58 URBACT, (2009): Migration, cities and the crisis, (http://urbact.eu/en/header-main/integrated-urban-development/understanding-integrated-urban-development/urbact-cities-responding-to-the-crisis/)
59 URBACT, (2009): Migration, cities and the crisis, (http://urbact.eu/en/header-main/integrated-urban-development/understanding-integrated-urban-development/urbact-cities-responding-to-the-crisis/)
60 World Economic Forum, (2009): Implications of the Global Economic Crisis for Latin America, (http://www.weforum.org/pdf/Latin_America/2009/LA09_Report_FINAL.pdf)
61 Cardenas, M, (2009): Addressing the Employment Aftermath: A Perspective from Latin America, Foreign Policy Brookings Institute, "http://siteresources.worldbank.org/INTEMPSHAGRO/Resources/Mauricio_Cardenas.ppt"
62 London Council's and Mayor of London, (2009): London City Charter (http://www.london.gov.uk/mayor/publications/2009/docs/london-city-charter.pdf)

# Summary of the Regional Surveys

# Impact of the Crisis in Africa

The information in this summary document was drawn from surveys and supporting information submitted in response to the UCLG survey circulated between July and September 2009, and covers 10 countries of the region (Benin, Burkina Faso, Burundi, Ghana, Mali, Niger, Senegal, Tanzania, Uganda, and Zimbabwe).

## 1 General Outlook and Expectations

Across Africa decreasing demand for exports, especially in the food and mining sectors so crucial in the majority of African economies, is having a significant impact on livelihoods and decreasing income security. Conjointly the price of commodities, especially that of food and fuel has been rising consistently since 2007, and is leading to increases in the cost of living. In some countries, as in Uganda, these problems, coupled with increases in the cost of government services have lead to strained relations between local governments and citizens.

Many African countries are also experiencing a drop in Official Development Aid and Foreign Direct Investment (FDI). Unemployment in the developed countries has also decreased the remittances sent from citizens living abroad. This is a serious problem as remittances, which have grown from $4.6 billion in 2000 to $20 billion in 2008 in sub-Saharan Africa, are very important for the majority of African economies, often playing a larger role in supporting the economy than foreign aid.

The consequences of the crisis on the distribution of economic activity will be equally important, aggravating disparities within and between local authorities and threatening social cohesion. Economic disparities are becoming entrenched; they will seriously threaten the process of economic decentralization but also hold the potential to strengthen community links.

Several surveys (i.e. Mali) pointed out that both central and local governments were not prepared for the situation they are now having to cope with. Added to this, some countries, have been facing serious political challenges over the past decade.

## 2 Credit crisis and Financial crisis - Impact on Local Government

Reduced access to credit is having a negative impact on those local governments in the region that have the legislated ability to access external credit, however the majority of the countries of the region are severely limited in this field.

Within local communities, small and medium size businesses are having increased difficulty in securing and renegotiating loans which has in turn increased production problems and unemployment.

Nevertheless there have been some exceptions, as in the Tanzanian city of Dar es Salaam, which has managed to successfully implement a city bond program to obtain 20 billion Tsh which will be used to fund construction on key city infrastructure.

## 3 Economic crisis – Local Government Budget Aspects

The decentralization policies pursued by African governments have, in most cases, devolved responsibilities to local authorities without giving them financial autonomy. Shared tax system and state controlled financial transfers are widespread as the main source of local government budget funding, although intergovernmental transfers were rarely carried out on a regular basis, the situation has only degenerated within the context of the current crisis. This is specially problematic in most French speaking countries where the national government assure the transfers of all public funds through the National Treasury.

80% of the surveys collected reported delayed, reduced and canceled transfers as a principal problem being faced by local governments (in West African countries 100% of respondents singled out this issue as the most important problem they are facing in relation to the crisis). This delay or suspension of transfers has also frozen the ability of many local governments to access other funds already committed to their urban development, where other agency contributions and donor aid is linked to their budget contributions. Many local governments feel that it will now be impossible to begin scheduled projects until the crisis has ended.

The financial crisis has also provided the catalyst for some central governments to slow or freeze progress in decentralization; in Senegal for example the crisis has forced the central government to renege on the November 2008 presidential commitment to increase the percentage of the TVA dedicated to the FECL (Fonds d'équipement des collectivités locales) from 3% to 15%.

Income from local taxes that local governments do have at their disposal is decreasing. In many African countries local tax is only paid when strictly necessary, for example to obtain a construction permit or to sell a property. The economic slow down will reduce new constructions and transactions and therefore local revenues. In some countries (i.e. Burkina Faso), it has been reported that local governments have reduced local taxes as a local answer to the crisis. However the own tax powers of local government in Africa are very limited, and there is limited capacity at the local level to access and collect fiscal revenue.

These reductions in income are resulting in a serious lack of liquidity at the local level. local governments in some cases cannot pay debts to water, telephone or electricity providers nor to local private entrepreneurs and business owners, creating an atmosphere of mistrust and leading to the breakdown of systems.

## 4 Economic crisis – Impact on Local Government Public Services

Some countries report cut backs in service provision and/or higher service fees for those services still on offer, and this exactly when citizens have an increasing need for support due to unemployment and reductions in income security. As reported above, in Uganda but also in South Africa as well as other countries of the region this is creating a tense situation between citizens and local governments resulting in increased tax and fee evasion as well as protests and sometimes even violence.

The drop in local authority resources will be that much more damaging in certain countries where local governments facilitate certain social spending; for example: in Mozambique and Malawi where social security and social housing are partially financed by local authorities. We will witness budgets increasingly squeezed on the one hand through an important increase in demand for social spending for the poor due to the crisis in the real economy and on the other a significant drop in the own resources of local governments.

## 5 Programs and Supporting Actions

Initiatives to face the crisis in the region have so far included:

- LGAs are participating in negotiations with central government on impacts of the crisis and how to face them.
  - In Benin the ANCB participate in "the national committee on the international economic and financial crisis on economic and social development in Benin".
  - In Mali the AMM is planning an inter-ministerial meeting at the beginning of 2010 to address impacts on local authorities.

Ongoing lobbying campaigns include the call for:

- Providing full and timely central government transfers allowing local governments to implement development plans and provide services.
- Structural changes and an expanding of funding sources to increase local government's financial autonomy.
- Improving investment in local infrastructure as well as the implementation of sectoral projects (health, education, water) in partnership with local governments to support local development and employment.
- Promoting the local economy (i.e. Benin).
- Looking to internal and regional solutions to fill the expected gap in official development aid while the North recuperates from the crisis (i.e. Burundi, promoting South-South cooperation).
- Channeling development aid directly to local governments.

# Impact of the Crisis in Asia Pacific

The information in this summary document was drawn from surveys and supporting information submitted in response to the UCLG survey circulated between July and September 2009, and covers local governments associations and cities of the region (Australia, New Zealand, Cambodia, Vietnam, Pakistan, Philippines, Nepal, Korea, Indonesia, Japan and Taipei City).

## 1 General Outlook and Expectations

The financial crisis has had a varying impact within Asia due mostly to the varying degree of development and economic integrations of the countries into global financial markets. This in turn has been reflected in the impacts felt by local governments in these countries.

Countries such as Japan, Korea, New Zealand and Australia –OECD countries– have been significantly impacted from the beginning of the crisis, whereas the initial impact in developing countries, such as Cambodia, Vietnam, Pakistan and the Philippines was delayed and has so far been more limited. The Philippines and Vietnam are still experiencing respectable levels of growth (albeit lower than in previous years). This is why the prevailing discourse in local governments in the Philippines is generally optimistic. In Pakistan the overriding problem is a problem of governance: the mandate of the local authorities has been suspended indefinitely.

Local governments in OECD countries have fallen victim to the depreciation of assets, losses in property values and reductions in production, all of which have significantly reduced their revenues, while growing unemployment has increased the need for social programs and support to citizens (Australia, New Zealand, Korea, and Japan).

In developing countries the initial impacts of the crisis have been felt through decreases in exports, foreign direct investment, tourism and reductions of remittances from citizens living abroad. In all countries unemployment is rising significantly (Nepal, Philippines, Vietnam). Many of the responses from the developing countries of the region denoted an apprehension of what an ongoing crisis could entail, stemming from local governments' recent experience during the Asian financial crisis, where both withholding of transfers and the downloading of unfunded mandates were used to balance national budgets.

Local governments across the region, irrespective of the level of impact of the crisis so far, are concerned about the ongoing and unforeseen future impacts.

## 2 Credit crisis and Financial crisis - Impact on Local Government

In many countries, both developed and developing, the difficult access to credit has now become acute, as scarce capital is rationed by financial institutions. In Korea local governments have been significantly impacted by the reduction in issuing of municipal bonds (i.e. Seoul) and in Australia the already small pool of credit is now significantly more difficult to access.

Some local governments however, are using the impetus of the crisis to develop new financial instruments. In New Zealand, for example, local governments have been working with the central government to develop a new structure, resembling a bond bank, to provide councils with credit at a lower than market cost. However, to date, councils in New Zealand have not reported difficulties in raising capital.

## 3 Economic crisis – Local Government Budget Aspects

In OECD countries the impact on the local government budgets has been felt principally through losses in municipal tax revenue, specifically in losses in property tax, the nonpayment of rates and fees and a fall in liquidity due to a decrease in the issuing of bonds. The Australian Local Governments Association reports that their members are also facing greater superannuation commitments to employees, as the investments designed to support these payments have dropped in value significantly.

In non OECD countries the constricting export market has resulted in reductions in business tax, as well as losses in realty tax as foreign investment declines, however the impact varies by country (i.e. the Philippines is as of yet less effected by the crisis). In Cambodia, the reduction of international aid is also affecting local governments.

Many countries of the region are highly dependent on central government transfers. In Nepal, in response to the crisis these transfers have been reduced and other countries of the region are concerned that a prolonged economic crisis will have a similar impact on their national systems (i.e. Philippines).

## 4 Economic crisis – Impact on Local Government Public Services

Local governments in eight countries covered by the survey have been called on to act in the face of growing unemployment. The needs are especially significant in many of the developing countries of the region. In response, many local governments are implementing or increasing job training as well as social support programs in affected communities. In the OECD countries this has also been accompanied by infrastructure investment and other job creation projects. In Hamamatsu Japan, for example, the local government is directly supporting the creation of jobs for unemployed workers. There is also an increasing demand on welfare services (i.e. Hamamatsu; Japan, Australia)

## 5 Programs and Supporting Actions

Initiatives to face the crisis in the region have so far included, in OECD countries:

- Implementing emergency programs to support local economy, investment in infrastructure (i.e. Australia) and local businesses (Hamamatsu, Seoul)
- Increasing guaranteed credit or providing low interest rates loan for small and medium enterprises (i.e. Korea).
- Launching a Relief and Rehabilitation Program and an Industry Stimulation Program in response to the economic slowdown (i.e. Taipei City).
- Prioritizing the use of local materials and business in local government internal purchases as well as development plans (i.e. Hamamatsu).
- Executing early budgetary spending to create jobs and develop job training programs (i.e. Korea)
- In Australia, negotiations between national and local governments resulted in an 800 million dollar package to fund regional and local community infrastructure.

Ongoing lobbying campaigns include the call for:

- Providing the regular and predictable allotment of transfers as well as their timely release (Philippines, Nepal, Cambodia)
- Transferring tax revenues from the national to the regional level (i.e. Hamamatsu).
- Improving taxation powers and eliminating unfunded mandates (i.e. Philippines).
- Bringing national counter-crisis policies closer to the needs of citizens, specifically through the delivering of unemployment insurance (i.e. Vietnam)
- Strengthening decentralization and local government, specifically through the application of decentralization laws (i.e. Cambodia).
- LGAs in developing countries are calling for support to improve their competitiveness to attract more investment and promote local economic development policies (Nepal, Philippines).

# Impact of the Crisis in Eurasia

The information in this summary document was drawn from surveys and supporting information submitted in response to the UCLG survey circulated between July and September 2009, and covers 4 countries of the region (Russia, Belarus, Kyrgyzstan and Ukraine).

## 1 General Outlook and Expectations

Within Eurasia, countries have been differently impacted by the current financial crisis, principally depending on their level of development and access to world markets. Some countries of the region were hit especially hard by the crisis as they were in a critical transitional phase with significant loans from international lenders and in full restructuring of their government systems when it began. The Ukraine, for example, is one of the countries worst effected by the financial crisis, facing a deep recession, a currency that has lost 50% of its value, and the real possibility of State default on international loans. At the other end of the spectrum Belarus, while having suffered sharp decreases in industrial production, retail trade and a delay in economic growth has managed to maintain a growing GDP.

All local governments in the region are facing increased unemployment, as well as a citizenship with reduced real income resulting from enforced holidays and shortened work weeks. Concurrently prices of staples are increasing, as are interest rates, the number of healthy businesses is decreasing, and credit is difficult to access.

However, even before the start of the crisis, the shortage of financial resources in Eurasian countries was a major challenge impeding the execution of local government responsibilities. The current crisis has only aggravated this situation.

## 2 Credit crisis and Financial crisis - Impact on Local Government

The availability of credit for local governments in Eurasia is becoming increasingly scarce. Budget loans from higher levels of government are allowed in all countries of the region apart from the Ukraine, however due to reduced incomes at higher levels these loans are likely to become more and more difficult to obtain. Of the survey responding countries, loans from non-government sources are permitted in the Ukraine, Russia (though not from international sources) and Kyrgyzstan. The 50% loss of value in the Ukrainian currency has had a serious impact on international debts, and current debt sums in Russia have increased 13 times to those of January 2008.

Credit is also increasingly hard to access for local business, which is having a negative impact on local commerce and employment.

## 3 Economic crisis – Local Government Budget Aspects

In Eurasia the main source of resources for local governments are shared taxes and budgetary transfers; amounts are determined by central government, but not always on the basis of clear and predictable rules. In the years previous to the start of the crisis, local budget expenditures in relation to GDP showed a downward trend which has now intensified due to the impact of the crisis. The share of local taxes as a percentage of the local government revenue in the Eurasian countries is extremely low. In the Ukraine, for example, local taxes comprise approximately 2.5% of total budgets of local governments.

Important savings plans are being implemented throughout the region, local governments in Kyrgyzstan have reduced staff, reduced business travel and canceled bonuses all in an attempt to balance their budgets without cutting programs.

In order to maintain local business and employment, local governments throughout the region have implemented a variety of tax and charge measures to take some pressure off local businesses. Those detailed in the surveys are grants for beginner entrepreneurs; deferred rents on government owned properties; moratoriums on inspection of small scale businesses; tax deferment; and release from payment of certain taxes.

## 4 Economic crisis – Impact on Local Government Public Services

The key messages coming out of local governments and LGAs in Eurasia is that the crisis must not be allowed to create deep social problems and that local governments must work together to implement strategies to overcome the current economic problems they are facing.

Along with measures to support local business, local governments across the region are also implementing programs to improve the skills of the unemployed and those at risk of losing their jobs, as well as creating interim jobsites and increased training for graduates.

## 5 Programs and Supporting Actions

Initiatives to face the crisis in the region have so far included:

- Using IMF and World Bank projects as counter-cyclical tools, to support decentralization and local government reform (i.e. Ukraine) and social services (i.e. Kyrgyzstan).
- Providing job training and employment services to the unemployed and those at risk of losing their jobs (Ukraine, Russia, Kyrgyzstan).

Ongoing lobbying campaigns include the call for:

- Increasing support of industries and businesses (Russia, Ukraine, Belarus).
- Preserving (i.e. Russia) and increasing (i.e. Belarus) access to international investors and markets.
- Warning against anti-recessionary policies eclipsing forward-looking priorities such as the search for new markets, optimization of distribution networks, and introduction of modern forms of trade (i.e. Belarus).
- Accelerating the integration of the Commonwealth of Independent States (between Russia, Belarus and Kazakhstan) as a means to opening markets and increasing cooperation between local governments (i.e. Russia).

# Impact of the Crisis in Europe

Survey conclusions provided by the Council European Municipalities and Regions. Countries that have answered the survey: Albania, Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Rep., Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Latvia, Lithuania, Luxembourg, FYR Macedonia, Netherlands, Norway, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine and the United Kingdom

### 1 General Outlook and Expectations

According to Europe's local and regional authorities, the impact of the financial and economic situation has generally worsened over the last 6 – 9 months. That is what 22 out of 31 responding national associations (71%) think, whereas 19% think the situation has not changed significantly and only 10% perceive a slight improvement (Portugal, Sweden and Wallonia). However, the responses make even more dramatic reading when weighted to reflect the size of the population of the country that each national association represents. Under that light, 76% of local governments feel that over 2009 the impact of the financial and economic crisis has worsened, whereas only 6% feel the situation improved.

The general expectations for 2010 are not much more optimistic either. The crisis will continue to affect local and regional governments, say 17 associations (59%), and only 14% (Cyprus, Norway, Portugal and Sweden) think that the worst of the crisis is behind us. When adapting these figures to the size of population each association represents, it appears that national associations representing only 6% of the survey population expect 2010 to show any sign of improvement for local and regional authorities; 44% expect it to be worse, and 50% to remain unchanged.

### 2 Credit crisis and Financial crisis – Impact on Local Government

With regard to the financial crisis, the main points of concern for local and regional authorities have been the difficulties to access investment resources from loans; most of them asked their national governments to help them by providing borrowing guarantees or by relaxing strict legislation for public borrowing. At first sight, there is no clearly marked trend in access to borrowing for investment: 10 associations feel that the situation has worsened (33%), 13 replied that it has not changed (43%), and 7 associations claim that access to borrowing has improved (23%, notably in Denmark, Finland, Norway, and Sweden).

However, when viewed through the population data the results appear to be more significant as the associations feeling that the situation improved come from countries with relatively low population. Therefore, though 23% of associations say that access to borrowing has improved, they represent only 10% of the population covered by this survey, whereas those stating that the situation is unchanged represent 54% of the population, with 37% claiming it has worsened. Given the crucial role of public borrowing for sustaining economic development and infrastructure investments, this might result in a long-term local development slowdown for a large proportion of Europe's population.

Many countries are implementing measures to improve access to borrowing, yet not always targeted to local and regional authorities. These range from “soft” measures to ease legislative restrictions on municipal borrowing (Latvia), through general legislative proposals for the stabilisation of financial markets (Germany), reduced or government-supported interest rates (Cyprus, Ukraine) up to targeted government subsidies for municipalities, aiming to stimulate local investment (Finland, FYR Macedonia) or direct financial facilitation of borrowing (Denmark).

### 3 Economic crisis – Local Governments Budgetary Aspects

Local and regional governments also find themselves caught between decreasing **budget income** and increased demand for expenditure. The actual impact varies by country, depending on the particular “mix” of income sources upon which the authorities depend. In most countries (61%) own-source tax revenues have significantly decreased and so have government transfers and grants (55%). Other types of sources affected include local fees and charges (42%) and shared tax (36%). On the other hand, 36% of the associations report increased expenditure by local and regional governments, mostly in Western Europe and Scandinavia. Most of CEMR's member associations (49%) report no change in current expenditure, and 15% report a significant decrease in current expenditure. Measured by population, expenditure has increased for Europe's local and regional authorities with 48% of the covered population, remained unchanged for 27% and has decreased for 25%.

One can speculate that unlike the rest of European countries, sub-national authorities in Western Europe have surplus financial reserves which they mobilise in the current situation to cover increased demand for expenditure. On the other hand, a notable proportion of municipalities cannot cope easily with the budget squeeze and find themselves obliged to extensive cuts in expenditure.
13 associations (42%) state that **capital expenditure** has not been

significantly affected, and 36% report a decrease. The decrease is especially notable in Central and Eastern Europe (Slovakia, Slovenia, Ukraine), in the Baltic states (Estonia, Latvia) and South-East Europe (Albania, Bulgaria, Croatia). The 7 associations (23%) that report an increase in capital expenditure are all in Western Europe and Scandinavia (Denmark, Norway, Austria, Germany, Netherlands, and Switzerland). This might be the result of anti-crisis measures and programmes targeted for anti-cyclic and pro-employment infrastructure investments.

No significant statistical conclusion emerges in capital expenditure as measured by the population covered. It has increased for 29% of the population, decreased for 30%, and is unchanged for 40%.

Finally, the survey asked associations to indicate the basis on which their members would be fixing their budgets for 2010. Their replies show that the majority of local and regional authorities do not envisage increased **2010 budgets**, with 43% of respondents reporting an anticipated *reduced budget* and 20% forecasting *zero growth*; 17% plan for *growth in line with inflation*, and the remaining 20% believe that their 2010 budget will be *increased* in real terms (above inflation rate).

Positive development is generally expected by municipalities in parts of southern Europe (Albania, Greece, Portugal) as well as in Denmark and Norway.

Budget planning for 2010, as assessed by population data, reveals noteworthy trends across Europe with potential significant impacts on the local and regional situation. For 75% percent of Europe's population, as covered by the survey, their sub-national governments will plan a reduced (49%) or zero-growth (26%) budget. Only for 25% is the budgetary planning based on expectations of inflation-proofing (16%) or real growth (8%).

## 4 Economic crisis – Impact on Local Government Public Services

39% of the associations report a significant increase in demand for social services due to the crisis, whereas none indicate a decrease (0%). Several associations (29%) also indicate changes in the demand structure, confirming the expected increased demand for social services and decreased demand for services with higher elasticity.

This trend is even more obvious when measured by the population covered. In countries covering half of Europe's population (49%), municipalities and regions have been faced with an increased demand for public services, and almost one third (31%) report changes with respect to the financial and economic crisis. In all, 80% of the population covered experience a situation where their local and regional authorities are challenged by their citizens to adapt the volume and range of public services provided.

Higher demand is concentrated around social services and social assistance, such as social and welfare allowances, housing support, support for unemployed and homeless persons, financial or debt advisory services, energy efficiency advisory services, mental health services, but also business support services.

Decreasing demand is mainly for administrative and technical services and services requiring extra payments, such as kindergartens, youth centres, home care and assistance or planning and construction permits.

Municipalities responded to the change in demand in various ways. 32% of associations report increased volume or range of services provided. However, in some countries local authorities had to reduce the volume or range of services they provide. Some of the countries have also reacted by attempting to improve cost efficiency in service provision (23%) or increasing the consumer prices for citizen (13%).

However, though only 16% of the associations report cutbacks in services in 2009, the population affected reaches as much as one third (33%) of the 428 million Europeans covered by the responding associations.

The cutbacks at this stage threaten mainly less essential services, such as education, sports, heritage but also maintenance and development of local infrastructure.

## 5 Programmes and Supporting Actions

Only two associations (Finland and Latvia) confirmed that their national governments introduced targeted economic stimulus programmes in partnership with the local or regional government. It seems to appear that in other countries such measures, if present, were general anti-cyclic stimulus programmes without direct targeting for sub-national governments.

The attempts to evaluate the effectiveness and speed of implementation of the support programmes were not conclusive. It appears, that the programmes were implemented slowly (19%) rather than rapidly (10%), with varying efficiency.

A majority of the associations (77%) indicate that they were able to establish good or fair partnership with their national government in this process, only a lesser part (23%) indicates that such partnership was difficult or non-existent. The latter was especially the case in Estonia, Austria and Luxembourg.

On the positive side, “cooperative” governments care for as much as 93% of the population covered, only for 8% of the population the local government associations were unable to establish a constructive dialogue with their national governments.

## 6 The National Associations’ Contribution

Virtually every national association of local and regional authorities took steps to help local and regional governments absorb the impact of the crisis.

An impressive 84% of the responding associations negotiated with their government, many also conducted surveys and research on the situation (61%), provided advice and consultancy (45%) and published articles and reports (39%). Others, notably in Scandinavia (Finland, Iceland, Norway) and Southern Europe (Albania, Bulgaria, Spain, Greece) also provided specialised training sessions for their members.

# Impact of the Crisis in Latin America

The information in this summary document was drawn from surveys and supporting information submitted in response to the UCLG survey circulated between July and September 2009, and covers 10 countries of the region (Bolivia, Brazil, Chile, Colombia, Ecuador, Honduras, México, Nicaragua, Paraguay, and Peru).

## 1 General Outlook and Expectations

All countries of the region have been affected by the crisis to greater or lesser extents. In 80% of the answers received local governments indicated deterioration of their position and the remaining 20% are expecting deterioration in the near future.

The leading economies of the region –Argentina, Brazil, Mexico– have been suffering the impact of the crisis since the second semester of 2008, while in other countries the impact only began to be felt by the end of 2008 (i.e. Chile). Finally, in certain cases (Bolivia, Peru) the crisis has been felt as a deceleration in economic growth. In Brazil and Colombia a relative stabilizing of the situation has been reported since the 2nd trimester of the current year.

The crisis generated a drop, both in exports and production, a withdrawal of capital and a decrease in investments, a devaluation of currencies, and, with the fall of prices, a deterioration of the terms of exchange in the quality of prices for raw materials.

Added to this, was a reduction in tourism as well as the remittances sent by immigrants living and working abroad. Remittances can reach between 10 to 20% of the GDP in Central American countries. The reduction of international cooperation has also affected the poorest countries of the region (i.e. Nicaragua). In the majority of countries, a deterioration of employment and an increase in poverty have also been observed.

However in various reports it is underlined that the critical situation of local governments is above all structural. The current crisis has only aggravated the situation.

## 2 Credit crisis and Financial crisis - Impact on Local Government

Restricted access to credit is mentioned as one of the factors of the economic crisis. However in general, the impact of the financial crisis has not directly affected Latin American local governments, in this sphere as the majority of them already had a very limited access to credit and financial markets.

In Colombia, for example, the local government association has denounced the rigid legislation that limits access to credit and makes difficult the participation of municipalities in counter-cyclical policies in spite of the invitation of national governments to increase local investment.

In Mexico, where the big cities have more access to financial markets, they have turned to credit and the issuing of municipal bonds, to mobilize additional resources.

## 3 Economic Crisis – Local Government Budget Aspects

Even though in some cases local fiscal collections have remained stable during the first trimester of 2009 (i.e. Chile), or even increased (Colombia in 2008, Brazil 2009), the majority of countries have seen or are expecting a fall in local fiscal collections due to the combined effect of the reduction in economic activity and unemployment (Chile, Honduras, Colombia, Nicaragua, Peru).

In many countries, municipalities lack the power to fix taxes and taxation is low, contributing a limited percentage of the local budget. As such local governments are dependent on central government transfers and more so during economic down turns.

In regard to transfers, the fall in State incomes from exports and/or fiscal collections has directly affected local governments (20% drop in Bolivia and Mexico, 9% in Nicaragua). In Brazil, the reduction of taxes as part of the package of counter-cyclical measures has led to a reduction in transfers (9% of the FMP) at the end of 2008 and beginning of 2009. In spite of the crisis, in other countries transfers have remained stable (i.e. Ecuador).

To alleviate this drop, various States have turned to specially established Funds (i.e. Mexico), to new fiscal transfers (i.e. Brazil) or to mechanisms of budget compensation to balance, at least partially, transfers to local governments (Chile, Colombia).

With regard to investment, in Brazil municipal investment (43% of civil public investment over the last 10 years) suffered a small fall in the first semester of 2009 (-4.7%), after a historic record high in 2008.

In various countries, local governments have reduced their recurrent expenses (administrative austerity: Chile, Honduras), in some cases drastically (i.e Mexico).

### 4 Economic crisis – Impact on Local Government Public Services

60% of the surveys signaled that the reduction in income affected current spending and investment, as well as meeting commitments made to civil society (i.e. Bolivia).

In different countries the rise in prices of goods (fuel) has provoked a reduction in services offered and, in all cases, a suspension of improvement plans. This has happened to the extent that, in Mexico, the weakest municipalities have been obliged to stop the provision of basic services.

In Nicaragua, municipal personnel have been given reduced work days. At the same time, an increase in demand for health and education services is predicted in the face of the budget restrictions at the national level.

### 5 Programs and Supporting Actions

Initiatives to face the crisis in the region have so far included:

- 40% of countries increasing funds or municipal investment programs (housing, public works) and programs of social assistance (Brazil, Chile, Colombia, Peru).
- Implementing initiatives supporting investment and the promotion of employment or focusing on municipal poverty (Paraguay, Honduras), though not necessarily through local governments.
- In the face of reduced municipal investment, prioritizing projects with community participation (i.e. Nicaragua).

Ongoing lobbying campaigns include the call for:

- Giving an renewed push to decentralization (Brazil, Chile, Peru).
- Improving the coordination of the national investment policies with the local level (i.e. Nicaragua).
- Promoting local fiscal reforms (Brazil, Nicaragua), improving local collection (México, Nicaragua).
- Guaranteeing the level of transfers and their regularity (Brazil, México, Peru), accelerating outlays (i.e. Ecuador).
- Increasing social investment (Bolivia, Brazil, Honduras, Paraguay), of public works (Colombia, Honduras, México).
- Improving the access of local governments to credit for local investment (Colombia, México).
- Improving and rationalizing management (relaxing tender system, Brazil), decreasing expenditure (Brazil, Honduras, México, Nicaragua).
- Promoting local economic development (Bolivia, Ecuador, Honduras, México, Nicaragua, Peru) and job creation (Colombia, Honduras).
- Implementing food security programs (Ecuador, Nicaragua).

# Impact of the Crisis in North America

The information in this summary document was drawn from surveys and supporting information submitted in response to the UCLG survey circulated between July and September 2009, and covers both Canada and the United States of America from the contributions made by the National League of Cities (NLC) in the US and the Federation of Canadian Municipalities (FCM).

## 1 General Outlook and Expectations

The United States was one of the countries first and hardest hit by the initial impact of the current financial crisis. The housing crisis, brought on by predatory lending practices in the form of sub-prime mortgages has resulted in mass foreclosures and defaults. In 2008, 2.2 million homes were in or at risk of foreclosure, and cities stand to lose $6.6 billion in tax revenue. In addition to this, property values have decreased across the board, and as housing markets are traditionally very slow to recover from downturns this will leave a lasting impact on property tax. This, coupled with the credit crisis has seriously impacted local government pension funds and ability to get credit in the US.

Canada, with its more stringent regulatory framework and conservative banking practices, was significantly less impacted in this first round. However the ongoing global reverberations of the crisis have slowed both the Canadian and US economies, and are resulting in company closures and cut backs as well as increased unemployment all of which are having serious impact on Canadian and US municipalities.

## 2 Credit crisis and Financial crisis - Impact on Local Government

Tightening credit markets have made it increasingly difficult for cities to maintain debt-funded projects in US. With credit agencies assigning a negative outlook to the creditworthiness of many US municipalities any market rebound could easily only be affecting highly rated municipalities.

A serious problem in the US was the collapse of bond insurers, which guaranteed near half $2,700bn municipal bond market (muni market). Many bond insurers lost their ability to insure munis when they were stripped of their triple A credit ratings after they insured risky mortgage debts. While some subsidies have already been provided through the American Recovery and Investment Acts (ARRA), cities and counties with low credit ratings are still having difficulty accessing capital markets.

Canadian municipalities have not reported any significant change in their ability to access credit. In fact, early in the crisis investors actually fled corporate bonds for municipal and provincial bonds, increasing demand and therefore liquidity and decreasing rates. In most provinces, municipal bonds are insured by the provincial government or a provincial entity which has the power to place liens against property tax revenues from the entire province.

## 3 Economic crisis – Local Government Budgetary Aspects

Both in Canada and the US the impact on local government budgets has been felt principally through reductions in payment of rates and fees. In the US, where municipal governments are more reliant on sales and income tax, which react strongly to changes in economic activity, revenues are estimated to decline by 0.4%. However in Canada where municipalities rely on property taxes and associated fees for well over 50% of their revenues, they have not seen their revenue base affected at all.

55% of city financial officers surveyed in the US (by NLC) stated that the amount of state aid to cities had decreased. In Canada Provincial transfers have not only not decrease but, due to counter-cyclical investment measures many municipalities have seen increases in infrastructure related transfers. Up until the coming budget year no Province has cut municipal transfers, however this is likely to change as Provinces start trying to balance their books for the 2010-2011 budgets. In the past recession of the 1990s both federal and provincial governments balanced their budgets by cutting municipal transfers and funding programs and offloading responsibilities onto municipal governments, resulting in balanced federal and provincial deficits, but also a dramatic increase in the so-called municipal infrastructure deficit, now estimated at $123 billion CAD.

While municipalities in both Canada and the US rely less than they once did on transfers they still make up an important part of their budgets (39% in the US and 40% in Canada), a reduction in which could have serious implications.

88% of city financial officers surveyed in the US (by NLC) found that cities are less able to meet their fiscal needs (the highest percentage recorded in the 24 years NLC has been running their survey). To raise revenue, according to the report, cities are increasing the fees charged for city services and/or increasing taxes. The report also indicates that 25% of cities have increased property taxes.

Most of the available economic data points to a slow recovery beginning sometime in 2010. Housing is expected to recover slowly with consumer spending remaining at low levels. Since these are the main drivers of property tax and sales tax revenue streams in the US, cities will continue to endure a difficult economic environment in the coming months with 2010 and 2011 estimated as the years of greatest budgetary reductions. While the same can not necessarily be said for Canada where property tax calculations are averaged across municipalities, reductions in rates and fees as well as transfers is expected to have an impact into 2011.

## 4 Economic crisis – Impact on Local Government Public Services

In response to existing budgetary shortfalls 67% of cities in the US surveyed by the NLC cut their staff budget, either through hiring freezes or layoffs, 62% delayed or canceled capital projects and 32% cut services other than public safety. While almost half of cities in the US decreased spending on municipal workforces as well as in overall operating, in Canada union contracts negotiated in past years came in with lower than normal increases but no real claw backs occurred.

In the US 77% of city financial officers found that the prices of service delivery had increased between 2008 and 2009. In response to these increased costs almost half of cites surveyed increased their fees for services (45% of respondents to the NCL survey).

All governments in both countries are concerned over rising unemployment rates in communities. In Canada, the FCM recently completed a study that demonstrated that investment in infrastructure was twice as effective as cuts to federal or provincial income taxes when it comes to job creation. Both the FCM and the NLC have been lobbying for increased Federal and Provincial/State investment in infrastructure.

## 5 Programs and Supporting Actions

Both in Canada and the US, local government associations are lobbying for increased investment on the part of both Federal and Provincial/State governments, resulting in:

- In Canada $10 billion CAD in new federal funding for municipal priorities over the next two year with matching contributions from participating provinces and municipalities, increasing municipal capital investments by almost 50% a year over the next two years.
- In the US $80.9 billion USD to infrastructure investment includes significant funding for transportation infrastructure, additional police officers and public safety programs, assistance to families hurt by the recession, local government investment in innovative practices to achieve greater energy efficiency, extending broadband services to underserved communities, school construction and housing and community development.
- The ARRA also provided $144 billion USD in State and Local Fiscal Relief, in the US, to prevent cuts to health and education programs and state and local tax increases.

On going lobbing campaigns include:

- The NLC is lobbying for Federal support in stabilizing the American housing market and they call for housing reforms to include support for communities and economic development.
- The FCM, in response to the the ARRA's "Buy America" provision, adopted a resolution in June 2009 that would have supported Canadian municipalities who chose to work only with companies whose country of origin does not impose trade restrictions against goods and materials manufactured in Canada. However this "Fair Trade" resolution has been suspended indefinitely to allow for a negotiated resolution.
- NLC is also working towards greater coordination among local, state and federal governments including: greater contact with state transportation departments; review of metropolitan planning processes; and review of permitting and procurement processes.
- FCM's primary focus is now looking beyond the recession to protect municipal governments from the effects of federal deficit cutting, to avoid the impacts seen in the last recession (1990s) when Provincial and Federal governments balanced their budgets by cutting municipal transfers and funding programs and offloading responsibilities onto municipalities.

# Appendix

**Survey questions from United Cities and Local Governments (UCLG) sent to its non-European members on July 18th 2009**

1 What is the impact of the global financial and economic crisis on your local or regional government? (i.e. bank failures, withdrawal of credit facilities, breakdown of service delivery and additional demand for services/benefits, loss of tax, grants or other revenues, etc)

2 What kind of measures has your association / local /regional government taken in relation to the financial or economic crisis? Are you aware of good practices by other local or regional governments to mitigate the impact of the financial and economic crisis?

3 Are there recommendations that you would like to communicate to national governments, donors or international institutions regarding support for local and regional governments facing the crisis?

4 What kinds of international program are now needed in order to support local and regional governments facing the crisis?

5 Is there any relevant information produced by your national government related to the impact of the global crisis on local and regional governments that you would like to be taken into account? Please advice on how to access it.

**United Cities and Local Governments**
**Cités et Gouvernements Locaux Unis**
**Ciudades y Gobiernos Locales Unidos**

Carrer Avinyó, 15
E-08002 Barcelona (España)
Tel +34 933 428 750
Fax +34 933 428 760
info@cities-localgovernments.org
www.cities-localgovernments.org