

Principles-based approach to a municipal and regional finance reform in Slovakia

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Abstract: Lack of diversified sources of municipal and regional governments income, limited flexibility and accountability mechanisms in local and regional taxation and inadequate financial tools for urban and regional development are among the main problems of Slovak local and regional finance hindering development of municipalities and regions. Yet there have been numerous calls to modernize the current system of local and regional governments, including modernization of fiscal relationships within the public administration and tax structures. Among the greatest challenges to reform remain a high volume of municipalities and necessity to make difficult political decisions, which restrain political will to implement any reform. Crucially, any reform proposal must seek to fairly distribute limited resources, tie them clearly and logically with revenues and competences but also look for internal efficiency within the system of local governments. The paper adds to this debate by commenting on the currently available sources of financing for Slovak municipalities and regions, especially regarding the political economy of these sources and legal framework. The goal of the paper is to bring a summary of reform initiatives to date, identify and evaluate existing bottlenecks and bring proposals for successful reform implementation. We also address constitutional venture points for any local and regional finance reform, which already provides a number of guarantees for Slovak subnational governments. We present a principles-based approach to a long-overdue municipal and regional finance reform in Slovakia. We find that the Slovak system of local and regional governments includes multiple inefficiencies and missed opportunities in lack of systematic approach to finance and breakdown of competences, such as suboptimal division of road maintenance, or inability of local municipalities to raise new taxes serving regulatory functions. Moreover, the system does not include instruments incentivizing meaningful and efficient cooperation or even consolidation of municipalities. Part of the problem lies in a strict regulation of local and regional financial system on a national level, implying paternalistic approach to subnational governance from state. The applied methods are doctrinal legal methods, descriptive statistics, and comparative analysis. The paper draws data from legislative texts, official government finance statistics and from the case-law of Slovak Constitutional Court.