



Local Government  
and Public Service  
Reform Initiative

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# DECENTRALIZATION:

## *Experiments and Reforms*

— *Edited by* —

Tamás M. Horváth

LOCAL GOVERNMENTS  
IN CENTRAL AND  
EASTERN EUROPE

VOLUME 1

LGI  
Books



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and Public Service  
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# Local Government and Public Service Reform Initiative

Local Government and Public Service Reform Initiative (LGI), as one of the programs of the Open Society Institute (OSI), is an international development and grant-giving organization dedicated to the support of good governance in the countries of Central and Eastern Europe (CEE) and the Newly Independent States (NIS). LGI seeks to fulfill its mission through the initiation of research and support of development and operational activities in the fields of decentralization, public policy formation and the reform of public administration.

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- Assistance to Soros foundations with the development of local government, public administration and/or public policy programs in their countries of the region;
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# Foreword

Decentralization and development of modern local government systems were fundamental components of transition in Central Europe. During this first decade of demolishing centralized states and unifying public services, various local government models were designed. Political mechanisms, economic systems, inherited institutions and management practices were restructured in these countries. Several shifts in objectives and modifications in the speed of changes characterized the long learning process of establishing new local governments. Ten years after political transformation, this book is an attempt to assess the most important elements of local government systems and to present the similarities and differences in the existing models of eight countries of Central and Eastern Europe (CEE).

This publication is a continuation of the first anthology on local governments in the region published by the predecessor organization of the Local Government and Public Service Reform Initiative (LGI) in 1994. At that time there was a need for basic information on local governments. Those reports described a wide range of countries in a concise manner. Our first goal with this publication is to update the information on the first of three groups of countries. At the same time our intention is not only to present systemic information, but also to analyze and evaluate internal processes. In this way local government structures can be better understood and compared.

These goals are in line with LGI's mission to generate knowledge on local governments and public services in the CEE region. This information and analysis will be an important building block for the gradual development of local governments. Countries following different patterns might learn from this information on local models. We also hope that through this publication LGI will be able to establish new partnerships with policymakers and other potential users of this book.

The country reports focus on the major components of decentralization and local government operation:

- legal and constitutional frameworks and structures of local governments;
- local politics, decision making and internal organization;
- local government administration and service delivery mechanisms;
- fiscal issues and financial management.

Evaluation of local governments is based on some objective indicators, showing the progress of decentralization and level of local autonomy. At the same time a detailed description is provided on those issues that are important for countries with new local government structures. The primary topics for our analysis of legal frameworks are particularly the assignment of local

government functions and the relationship between the traditional state administration and new local governments.

Local politics and decision-making mechanisms are embedded in the political institutions and culture of a given country. Besides traditional characteristics of local politics (elections, role of parties, et cetera) there are two aspects of local decision making that are new for these countries. Local governments are faced with problems of ethnic minorities. Improved forms of representation, new methods of conflict management and the need for special services are parts of a local government's daily operation. Minority issues influence local governments on different scales, depending on the size and position of these groups. Another new phenomenon of local politics is the emerging form of the association. Joint local lobbying activities started to develop when municipalities realized the failures of the new party hierarchies and the lack of efficient representation in central government decision making.

Local service delivery experienced major transformation in the privatized economic environment. This raised the claim for new local government administrative functions (control, monitoring), which required more professional personnel in municipal administration. In the field of local government finances, local and regional economic development is the main new municipal function. In these countries with their relatively developed market mechanisms, local governments establish new forms of partnerships in service delivery and economic development.

Country reports discuss these four major topics, but the depth in which each issue is addressed differs, depending upon the importance of these issues to the country in question. The authors present a brief history of policy discussions on local government issues. Due to our limited resources and time, their research is based mostly on a secondary analysis of existing studies, government publications and reports of international organizations.

It is obvious that this type of descriptive publication never will be complete. Our intention is to present relevant information on all major elements of local government structure and operation in a balanced fashion. So the reader of this publication will not find, for example, detailed information on local public services, like education and welfare. Not only these sectoral issues, but also analysis of judicial structures and systems of appeals were out of our scope of work. General employment regulations and other rules of administrative personnel are not discussed in equal length. Transfer and functions of municipal property are very much dependent on the size and forms of state ownership and privatization patterns in each country, so detailed analysis of municipal property was also beyond our capacity.

However, description of the eight countries with the most decentralized local government systems provides sufficient information on general development trends in the CEE region. There are similar efforts in this group of countries to modernize local government structures and management practices. These reform activities on the one hand are initiated by external factors, like political changes (as in Slovakia) or European Union enlargement (such as structural reform



at the regional level of government). On the other hand planned changes are often the result of internal development processes to increase the efficiency of local government operation and management.

The reports identify four major directions for further development of local government systems in these countries. After ten years of almost continuous changes *public administration reform* is still on the political agenda in most of these countries. Reports emphasize the importance of further decentralization of local government structures (as in Slovakia) or decision-making powers (as in Slovenia). The relationship between the functions of existing central public administration and the new municipal administrations is also subject to change. In countries involved in the European Union preaccession process the role of the intermediary level of government—regionalization—is a crucial issue (as in the Czech Republic, Hungary and Poland). The legal and administrative structure of large capital cities is also an important component of the planned reforms, as in these relatively small countries the nation's capital has an exceptional position (as in Estonia).

Parallel to systemic changes internal processes of local government operation are also important items on the reform agenda. Higher *efficiency* of local government services, improved management techniques or developing new rules of modern administrative ethics are primary objectives (such as in Estonia and Latvia). Several countries realize that further professionalization of local government staff and municipal service organizations is required for better service provision.

*Local government finance* reforms are almost constantly discussed in the countries of the CEE region. Earlier intergovernmental fiscal relations, especially concerning the system of transfers, were the focus of transformation. Now mostly the increase of independent revenues as the basis of extending local autonomy is the objective of the reforms. Suggested methods are more sophisticated; not only local taxation but also, for example, personal income tax sharing schemes are under development (this is the case in Estonia and Poland). In some countries property issues are still unresolved (as in the Czech Republic).

Local governance and management methods are also subject to change in this group of countries. Higher *public participation*, more transparent operation of municipalities and the establishment of direct contacts to citizens are high priority goals of reform (as in Lithuania and Slovakia). This requires further refinement of the legal position of elected leaders (as in Slovenia).

Hopefully this information will be useful to all of our targeted readers. Primarily the book is recommended for policymakers and legislators who believe that the countries of Central and Eastern Europe have common roots and thus are able to learn from one another. Civil servants in ministries or experts advising members of parliament now are able to work with a group of consultants and think tanks. This common knowledge on specific characteristics of local governments in the CEE region is slowly incorporating work by academic researchers, for whom this book might provide comprehensive information on local governments. As the direct contacts

between local practitioners (mayors, chief executives, finance directors) are developing, they could learn from the other countries addressed in this book.

Writing and editing this volume was a rather long process. We acknowledge LGI's steering committee, which initiated the work and contributed valuable advice on several professional issues. The authors of the country reports, together with the editor and the reviewers, presented this comprehensive information, which hopefully will be appreciated by the readers. Tamás M. Horváth, the editor of the book, made particularly important contributions not only in discussing the draft papers, but also by summarizing the major trends in his introductory chapter. The first project manager at LGI was Sharon Cooley, and later, Ondrej Simek, who provided administrative support for this publication. Christine Zapotocky helped us with copyediting. We are very grateful for their contributions and work.

*Gábor Péteri*

*OSI Local Government and Public Service Reform Initiative*

*Budapest, February 2000*

Chapter 1

# Directions and Differences of Local Changes

*by*

*Tamás M. Horváth*

**Decentralization: Experiments and Reforms**



# Directions and Differences of Local Changes

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# Directions and Differences of Local Changes

*Tamás M. Horváth<sup>1</sup>*

## 1. Introduction

The collection of descriptive papers in this volume is the first product of a three-part series analyzing systems of local government in the postcommunist countries of the former soviet bloc. One of the most important elements of the transitions taking place in the 1990s is the establishment of new democratic municipal systems and intergovernmental relations. This process has been continuous, which is why this comparison is to be used not only as a source of information, but also as a collection of lessons for other countries in the region.

The group of countries scrutinized here belongs to Central Europe—this geographical category being interpreted in a wider sense, including the Baltic states (Latvia, Lithuania, Estonia), the countries of the so-called Visegrád group (Poland, Czech Republic, Slovakia, Hungary) and Slovenia. The selection is not meant to create absolute categories; rather, the grouping is based mainly on practical issues that will be elaborated below.

The method utilized by the authors of the volume is mainly descriptive, which seemed to be most useful at this stage since even the most basic relevant information on public administration reform is lacking. Based upon the first publication by the Open Society Institute on these topics [ILGPS 1994], this volume attempts to provide updated material on the progress of local government reform processes in the region. This introductory study also aims to find common characteristics in eight Central European countries actively transforming public administration and, if possible, in the structural features of these developing systems. It is hoped that such an exercise may be relevant to other countries in understanding their specific transformation processes. Simultaneously, this analysis hopes to identify the different models used and the typical obstacles that have arisen in the process of building new local democratic institutions.

The reform of public administration cannot be analyzed without considering systemic transformation as a whole. However, rather than linear theoretical characteristics of transition, the analyst is faced with a chaotic oscillation of issues and events due to the political, social and economic upheavals of Central and Eastern Europe in the 1990s. Although its main features can be summarized relatively simply for the whole region, in an investigation and comparison of a particular process, the responses of each country to specific challenges are quite different.

Reform of local government is an essential part of the transformation of political systems. It is an element of basic political change, as well as a condition of and contributor to economic

development. Restitution of property and the introduction of various forms of privatization are very important to the creation of new market institutions. The grouping of countries selected here for investigation seemed to be practical due to the similar level of economic transition they have reached, though direct conclusions on the quality of public administration and local democracy thus far cannot be drawn based on this characteristic alone. Thus, this introduction hopes to provide a normative basis for the following country-by-country descriptions.

## 2. The Group of Countries

The selection analyzed in this volume is concentrated on eight countries previously belonging to the communist bloc, which are, broadly speaking, historically and currently similar in political and economic development. Geographically, the group forms the western border of the formerly political “Eastern Europe.” Of course, this is not correct in an absolute way; East Germany is omitted due to its special status evolving from German unification. But our selected area consists mainly of two parts—the Baltic states and the narrower “Central” Europe—plus Slovenia. Six of the group—Slovenia, Estonia, Latvia, Lithuania, Slovakia and the Czech Republic—have new or renewed independence. Only Poland and Hungary have been preserved in entity and integrity from the former period. All eight are unitary countries. Common but not necessarily exclusive features of the group follow:

- market-oriented economic development after 1990;
- political democratization and pluralism;
- strong aspirations towards and a relatively strong possibility for European Union (EU) membership in the near future;
- preparation of and progress in introducing major social reforms.

*Table 1.1*  
**General Data on Central European Countries**

Country	Population [millions] 1995	Surface Area [thousands of square kilometers]	GNP per Capita: Average Annual Growth [%] 1985–95	GNP per Capita [USD] 1998	Average Annual Inflation [%] 1985–95	Inflation [%] 1998
Estonia	1.5	45	–4.3	3,390	77.2	10.6
Latvia	2.5	65	–6.6	2,430	72.5	4.7
Lithuania	3.7	65	–11.7	2,440	—	5.1
Poland	38.6	313	1.2	3,900	91.8	11.8
Czech Rep.	10.3	79	–1.8	5,040	12.2	10.8
Slovakia	5.4	49	–2.8	3,700	10.6	6.8
Hungary	10.2	93	–1.0	4,510	19.9	14.3
Slovenia	2.0	20	—	9,760	—	8.0

SOURCES: The World Bank, *World Development Report* (Oxford: Oxford University Press, 1997), 215, 217, 247, and (1999), 230–231; *Central European Economic Review* (September 1999): 26–27; Wiener Institut für International Wirtschaftsvergleiche, *Handbook of Statistics: Countries in Transition* (1995), reprinted in *Felzárkózás Európához* (Budapest: Központi Statisztikai Hivatal, 1996), 49.

*Table 1.2*  
**Gross Domestic Product of the Economies of Central European Countries**

Country	GDP per capita [USD] 1998	GDP Growth [%] 1998	GDP Growth [%] 1999 estimate	GDP Growth [%] 2000 estimate
Latvia	2,560	3.6	1.0	2.0
Lithuania	2,892	5.1	0.5	2.5
Estonia	3,447	4.0	0.5	2.5
Poland	4,075	4.8	3.5	4.5
Czech Republic	5,350	-2.3	-1.2	2.0
Slovakia	3,741	4.4	1.5	2.5
Hungary	4,676	5.1	3.9	4.0
Slovenia	9,899	3.9	2.7	3.5

SOURCE: *Central European Economic Review* (September 1999): 26–27.

Some comparisons can be drawn from the aggregate statistical data presented in tables 1.1 and 1.2. The state of economic development is rather common for these generally small-sized countries (Poland being an exception). However, the levels of gross national product (GNP) substantially differ.

Very relevant is economic downturn during the transitive period, which is evident for every country, teamed by a relatively high rate of unemployment. Such data demonstrate the expenses of structural change. The inflation rate for 1997 compared to that of the former decade, although still high, shows that these countries have experienced recovery from the shock of changes in economic and fiscal policy.

Another basic analogy is that the more consolidated and wealthy countries of the late federations have fared well despite amputation from their former political and economic systems. The collapse of the Soviet Union, Yugoslavia and Czechoslovakia also demonstrates the clear will for autonomy in this region. In the 1990s, the traditional forced integration of the past was avoided.



As quoted so often, the introduction of political transition was very rapid. Poland took almost ten years; for Hungary, ten months was enough; in East Germany, ten weeks; and in Czechoslovakia, ten days of “velvet revolution.” The key contextual factor of course was the waning of the Soviet Union’s influence. After the political upheavals of 1989 and 1990, all of the countries in the group addressed economic and other systemic bases for the transformation with various levels of intensity.

The political process has been continuous in the overwhelming majority of these countries. Therefore, western involvement has had crucial effect, including influence on the choice of models for building democratic systems. However, a new, nearly unprecedented model of and framework for integration has become increasingly attractive in these countries—namely, towards a “western-type Europe.” Escape from former bonds has not seemed to hinder the pursuit of new opportunities for cooperation. Nowadays the common foreign policy objective among the countries discussed here is the desire to join the EU. The components of such strategy affect particular areas of internal policy as well.

The introduction of a new democratic and plural model at the local level was very important as the first step of transition. The European Charter of Local Self-government summarized the minimum requirements for preparing and establishing new institutions, which promoted the widely accepted essence of such development from both a structural and legal point of view. Most of the countries in this region realized the importance of adaptation to these principles and signed the charter in the mid-1990s, affirming the desire to follow the West European tradition of local governance. The process is not simple in every aspect, although the charter allows some flexibility for prospective member countries. Professional and public debate ensued in many countries of the region concerning whether the charter’s prescriptions really ensured coherent development or if the moderate cosmetic changes necessary for compliance actually disguised traditional corruption and antidemocratic phenomena.

Such debates are interesting from another aspect as well. The whole process of reform exhibited numerous changes of direction in the 1990s. As will be demonstrated later in this study, attempts to group countries according to the systems they have adopted are quite problematic, since such analogies will probably become defunct as the trajectory of transition continues to shift country by country in the coming years. In all of these countries debates have been nearly continuous concerning the question of which route of modernization to follow and which model to adopt. Thus, identifying “typical” features and creating subgroups should be understood as temporary. A better way to a more thorough analysis is to typify national reforms and the route of attempts as a whole.

Thus, when studying the direction of administrative reform, models vary not only country by country, but period by period. National directions for public administrative system building are dependent on policy preferences to a large extent. Due to the fluid and quite sensitive political balance existing in Central Europe, changes in conceptual issues are made relatively often concerning local government reform. This statement can be illustrated by three examples.<sup>2</sup>

1. According to some authors [Regulska 1996, Grochowski 1997] the local reform and democratization process in Poland reached stagnation in the mid-1990s (though some local experiments with new models continued), breeding disillusionment. Debate was continuous during this period concerning the appropriate number of levels for the territorial administrative and local government systems. Territorial division before the last crucial change in 1999 instigated further discussion among political factions, and as a consequence, the draft version of the reform program was amended, altering the number of tiers and their governing rights. Thus, crucial politicoadministrative changes occurred while the transformation was in process.
2. Another example of “internal” criticism resulting in a subsequently altered trajectory for transition is found in Lithuania. Crucial reform revisions were initiated in 1995, replacing the formerly conceptualized two-tiered system of local government with a single tier. Additionally, strong criticism emerged concerning the comprehensiveness of change. According to Gazaryan [1995], the development of local government in the first five years resulted in neither the improvement of public services nor the involvement of the populace in decision making.

The motives for such criticism are two-fold. First, discussions concerning the administrative structure of the system are of particular importance to party factions that view these changes from the standpoint of influence gain or loss. Second, those who have found the reforms to be insufficient feel that there is a “democratic deficit” in the process; citizens’ opinions have not yet been heard and incorporated into the local government reform plan.

3. Finally, the Czech example should be mentioned. This country quite radically has reformed its institutions and mechanisms of local democracy. Municipalities have taken over all self-governing functions, and the division of power is quite clear between state administrative and local government offices. However, debate on the establishment of an intermediate government tier has ensued for a decade [Vidlaková 1997]. Subsequently, from the year 2000, this concept will be realized in practice.

Despite relatively often-changing conceptions, there are common directions and different models that may be classified. Nevertheless, strong coherence and consistency should not be expected in the long run.

### 3. Directions

#### 3.1 Political Environment and Legal Basis for Reform

Local reform is an important part of more general systemic transformation. Theoretically at least two basic models can be implemented to achieve an operational self-governing regime. The first is based on a national constituent process from the very start. In this model, a framework

is created while simultaneously initiating procedures based on new principles and institutions. A constituent assembly passes basic laws on the division of power at each level of government. The period for this preparation typically is quite limited due to the vacuum of legitimate power; former institutions and officials are not expected to contribute to the introduction of a system that will threaten their own positions, so elections are realized as quickly as possible in order to establish new structures with full legitimacy. The parliament can then continue to develop, supplement and improve the elements and mechanisms of the system.

The second purely theoretical model is that after a political vacuum or publicly accepted interim period, elections are held in accordance with democratic regulations passed by the former parliament, and then the newly elected parliament establishes the division of power based on institutions and operations typical of democratic systems. In this scenario the early stages of local government development follow a consistent, legitimized process. The first step is the adoption of regulations on local elections and the basic framework of local governance. After the democratic establishment of local institutions parliament, municipalities and other authorities contribute to the development of other elements of the anticipated system.

The first model is more logical from a political point of view as it addresses the problem of legitimacy from the very beginning of the shift in power structures. In the second, the starting position depends very much on the political setting, personality of leaders, et cetera, and as a result, there is no guarantee that reform will be successful. However, after the first, generally precarious stage (that is, the establishment of rules for truly free elections by the former, nondemocratically elected parliament), chances for systematic development are better.

Naturally, in different countries these models were realized with unique national corrections. Specific elements and compromises altered constitutional frameworks and basic institution-building processes. One of the most important influences in this particular group of countries was obtaining independence. Secession from former federations very much affected the process of institutionalization of local governance. However, most of the necessary elements of change have been realized since the late 1980s.

A possible commonality concerning the above mentioned models and their different versions is that a “critical weight” of change is necessary before systemic transformation can be realized in the building of democratic state and local government. The first stage can be reached utilizing different schemes and gradations, but in the end a number of crucial elements must be present.

Common issues of basic legislation critical for democratic local governance are as follows. The first package consists of:

- constitutional changes (either a new constitution or crucial modification of the previous one);
- acts on local government coherently codifying the basic rules of the new system, including two major facets—structure and operational rules;
- acts on free local elections, defining the electoral system and process.

The second common package of legislation establishing the scope of local government includes:

- civil servant and public employee acts;
- acts on the scope and duties of public administration at each level;
- acts on property transformation.

Property transformation was one of the most important elements of change from communism and state socialism to the market economy and democracy. Such transformation necessitated crucial changes in the structure of formerly monopolistic property relationships. This process affected local governments in various respects, but most importantly, many of their assets were privatized, and they became true owners liable for their actions.

Basic legislation is also necessary for specific systemic issues, such as:

- the status of the capital city,
- financial regulation of local governments.

The timing of financial regulation is crucial to the extent of transformation. Without new budget mechanisms, rules of taxation, guaranteed and independently acquired revenue, local autonomy cannot be realized. The real power of local authorities depends very much on financial autonomy and liability coupled with the opportunity for independent decision making.

These different packages of legislation provide the minimal legal changes necessary to create an appropriate environment for local governance. The group of countries analyzed here realized them by the first half of the 1990s. This newly created common “tradition” is the basis of their systemic comparison.

Apart from legislation, change in personnel is necessary. There are different dimensions concerning this issue in the transformation of public administration in Central Europe. The first is replacing individuals in positions of influence. Former representatives, leaders and officers hindered the implementation of more radical change in the new democratic systems. Strong demand for reform existed, but the transformation plans adopted were gradual (which is admittedly a product of transition as opposed to revolution). Thus, in a relatively large number of cases, former local officers and personnel retained their positions in these countries in the early 1990s.

Concerning party politics, independent candidates (often former communists) typically won mayoral and council elections in small settlements; various parties more strongly influenced elections in large settlements. Officers were not as affected by such political battles as were councilors, but professional leaders—such as chief executives—faced general mistrust because they served under the previous system. In some countries political conflicts on the national level were detrimental, resulting in difficulties for and among local councilors and professionals after electoral reform.

Legislation on civil service is a key element for the transformation of public administration. Laws were passed by the mid-1990s in most of the Central European countries and can be

expected in the rest in the near future. One of the most important issues is establishing a civil service system based on professional criteria that will break the former nomenklatura style of politics. It is also necessary to ensure a clear division between political and administrative influence and to regulate with greater precision politicoadministrative relations among higher offices [Verheijen and Rabrenovic 1999]—that is, mayors (elected politicians), chief administrative officers (appointed professionals) and staff. The general direction of development is to guarantee the political neutrality of staff and at the same time to defend professionals from political pressure. This is not easy even in local governments; due to the increased influence of elected bodies, their role is more important in the decision-making process for public administrative matters. Thus, this split and distinction is crucial. Politico-administrative relationships are different country by country, and in some cases, municipality by municipality.

Apart from civil servants, the responsibilities of public employees who administer schools, hospitals and other social welfare institutions that are owned or supervised by local governments also must be determined. Public employees must be guaranteed security and held accountable for their actions in order to ensure effective administration.

These legal regulations establish the basic conditions necessary for personnel to work in a multiparty environment. It is also necessary to regulate political bargains and agreements concerning politicoadministrative relationships. Finally, ethical codes for civil servants are being prepared in some of these countries. Corruption and bias are dangerous to transforming local democracies. New experiments on multidimensional regulation of civil service are a recent phenomenon of the Central European transition.

Guarantees of local autonomy are also among the basic elements of institutional change. Besides new structures, electoral systems and regulations are needed to ensure and protect democratic rights. The state also must establish new, strictly regulated instruments to control the legality of local government activities, including:

- juridical protection;
- legal supervision;
- financial activity regulation (audits);
- debt and bankruptcy regulations.

The development of financial control mechanisms is in progress. The new systems adopted are based on various financial principles. Regulation is not as detailed or predetermined as it was under the previous system: no longer are revenues connected to prescribed targets; rather, spending is regulated by local strategy and is decided by elected bodies. However, greater autonomy must be coupled with financial control. The influence of the central government has been restrained, but its remaining function—regulation—should be rigorous. Institutions and mechanisms have been established to serve this purpose, including independent auditors commissioned by local governments, debt financing, bankruptcy management, et cetera.

The broadening of juridical protection ensures that every activity of government—both state and local—can be appealed in court. Other authorities legitimized by parliamentary regulation must check supervisory powers and decisions of elected bodies. The detailed rules are different case by case, but the defense of the rights of self-government through such instruments seems to be a common development in this region. Such control is usually affected only in cases of violation of law, thus protecting decision-making autonomy of self-governments.

The details of new systems of checks and balances and legislative control have not yet been perfected, but rights and limits established constitutionally have been in effect for years. These elements are very important to the preservation of the democratic political and institutional changes achieved by public administrative reforms.

### 3.2 Property

Partnership between the public and private sectors began in a rather unique way. The first step was spinning off private activities from the public sector. Many enterprises in retail trade, public catering and consumer services were privatized, clearing the profiles of local governments of purely competitive activities and subsequently allowing them to focus on the provision of public services. In most countries, this step was undertaken in a rather rapid manner at the very beginning of the transition in lieu of national campaigns led by privatization agencies. The success of this process is debatable; the social consequences, which will be addressed later, have been very high in some countries.

Another facet of the privatization process was a devolution of formerly state assets to local government ownership. Typically, such transfers included public enterprises and public works such as water supply, public roads, parks, et cetera. At first this involved simply renaming the proprietor; however, in the case of enterprises, it was also necessary to establish public ownership to enable municipalities to sell off such property to the degree and in a timeframe that was most beneficial.

In the next stage, under particular market and legal conditions, it was possible to privatize new public companies shared by local governments. This process has not yet been concluded. Typically, services such as particular lines in the city transport network or specific functions fulfilled for a definite customer group were privatized by the end of 1990s, but the majority of service provision remained public, or private providers received shares—and sometimes even majority ownership—in enterprises providing public services. Others worked more or less as in-house service providers, closely affiliated with local governments or owned by them. This progress seemed to move more rapidly in some countries—such as Poland and Hungary—and more slowly in others—such as Slovakia and Lithuania. In the latter cases, legal restrictions allow the sale of shares only up to thirty percent. Consequently, notwithstanding different levels of progress in the market of public service delivery, privatization policies can be quite different country by country.

At this stage perhaps the best example for comparison of privatization policies is housing. Privatization in its strict sense was realized in the communal apartment sector; significant proportions of apartments were sold to tenants or to former owners. While such privatization devolves responsibility for some services to private owners, additional public responsibilities can be created of a completely different nature and with which local governments have little if any experience.

At the beginning of the transition communal flats were transferred to local governments. Concurrently, central governments ceased to address general housing problems. Under the communist regimes, the social functions assumed by the state were not necessarily realized to their fullest extent; massive housing construction waves with disregard to quality and maintenance are testimony to this. When responsibility for housing was transferred to local governments, all preexisting problems were assumed at the local level. On the whole, no other solution but privatization was feasible, though there were differences in methodology and timeline among countries.

Local governments—like the central governments—aspired to relieve themselves of the burden of many tasks that were formerly considered public responsibilities, such as tenement renovation, comprehensive housing maintenance and the assumption of public utility fees. Considering that these tasks were not fulfilled even when they were public responsibilities, such desires were justified. Thus, a typical form of and principle for privatization emerged: the sale of formerly public assets resulted at once in decreasing public responsibilities and narrowing the range of collectively provided services. Such a clear and original form of privatization is called “raw,” referring to the fact that, at first, only a restriction in the extent of public responsibilities arises.

This technique—in which the state leaves a public sector—is not unknown in foreign practice. In the 1980s the proportion of local government-owned rented apartments was reduced in Great Britain in the same manner, providing the tenant the right of purchase along with certain preferential benefits.<sup>3</sup> Regardless, Lithuania, Slovenia and Hungary were particularly ambitious from the beginning. In Hungary—the least radical of the three—by the mid-1990s the proportion of privately owned residences was greater than that of many West European states.<sup>4</sup> The other two countries were even more radical, even when compared in an international context. It is necessary to add that they are not alone in this region; in some Southeast European countries (Albania, Romania, Croatia and Bulgaria) the proportion of apartments sold to residents was very high, and this type of privatization was accomplished extremely rapidly [Hegedüs and Tosics 1998, 151].

In the other subgroup, the extent of privatization thus far is not very high. In these countries, too, the possibility to privatize housing was established, but there was no centrally determined obligation for local governments to sell dwellings to tenants or former owners. In these cases local governments have more policy options; they can decide to what extent to privatize as well as strategies for support and development [Hegedüs and Tosics 1998, 166].

In both models the most important goal is to find a balance between the private and public sectors that will serve (and provide resources for) local preferences concerning the maintenance of property and social welfare. Local governments escape from the responsibilities of the cost and maintenance of the public housing sector through privatization, but they must be prepared to address the social fallout of such policies. This is even more serious when taking into consideration that low-income families are in the majority among new owners [Hegedüs, Mayo and Tosics 1996, 39]. A strategy to support social welfare is necessary concurrent to privatization.

Privatization has bred social inequalities among inhabitants, regions and types of settlements. Symbolic prices for real estate were established in order to quickly and successfully achieve privatization; new owners could then immediately sell their property at market prices. Those who received high value property at low cost obviously benefited greatly, but flat owners in dilapidated buildings awaiting renovation realized only after making their purchases that they were “sitting on time bombs.” The low purchase price was only the first of many major expenditures. The financial situation of such residents often precluded further investment or renovation; rather, these victims often could not cover maintenance costs that increased due to the privatization of housing. Furthermore, state rental flats were concentrated in cities, especially in the capitals, where real estate is more valuable and market turnover is high. The inhabitants of villages had limited access to valuable real estate, and their opportunities to sell property for a profit were severely limited. Finally, the process of privatization itself favored those who had access to decision-makers and thus the ability to influence the conditions, prices and accessibility of property. Thus, the social aspects of privatization must be taken into consideration. Regardless, this process is necessary to the transformation of the character of local government from a functional point of view.

The general conclusion concerning privatization and public responsibilities is that not just the development of the private sector but also the role played by local governments must undergo transformation.

### 3.3 Local Service Institutions

A change in the attitude and operation of local governments was necessary as a consequence of the introduction of market agents and public participation. The fulfillment of general functions such as water supply and basic or secondary education necessitated management through institutions and companies subordinate to the councils. Motivation for this is two-fold: first, the effect of the private and third sectors grew in the public services sphere; second, financial cutbacks inspired customers to contribute to the costs of services or to undertake their delivery to the greatest extent possible.

The difference between declarations on the provision of public services in western neoliberal policies of the 1980s and those in this region is that the reduction in the extent of local functions is more radical in the latter, and policy formulation as a reaction to these challenges is much less



developed. Thus, there is a danger that the necessary reduction in expenditures is implemented within the same yet narrower structure of the system.

It is clear that in crisis cutbacks are more rapid than the restructuring of systems of provision. However, there are important indications that new governance models are being realized, which are summarized below.

### *1. Differentiation in communal service delivery*

In the communist system, budgetary institutions directly influenced by councils exclusively delivered public services. Now real owners are on the market—or quasi-market—for these services. In Poland and Slovenia specific laws on communal economy regulate different forms of service delivery; these also exist in Hungary and, to a greater or lesser extent, in all countries of the region. After the devolution and/or privatization of formerly state assets in public works, the following structures can be distinguished:

- commercial law companies, involving as shareholders one or more local governments and, eventually, other private owners;
- entities entrusted by contract;
- other labor organizations directed by cooperating municipalities;
- budgetary institutions with greater autonomy.

Commercial law companies were established after the devolution of state assets. Shares were granted to local governments, which subsequently were entitled to sell them off. This situation produced various outcomes for different municipalities. Larger local municipalities assumed the position of majority owners, smaller ones retained less influence, and some practically assumed the position of clients that contracted provision of services with providers.

Those local governments that own enough shares to influence the strategy and operation of the provider have the opportunity to manage their area as a “concern”<sup>5</sup>—that is, as indirect managers. This type of management is absolutely different from the previous method of administration. The crucial change here is more independence for the firm. This form of ownership also makes it possible to raise revenue and capital outside the local budget.

Contract management is based on public–private partnership, where public functions are contracted out by local governments to private firms. Services are delivered directly by these providers and are financed by municipalities (the customers). In this model public functions remain the responsibility of the municipality, but influence is restricted in comparison to direct provision.

Public opinion is ambiguous to the new private roles in public service provision. From one side it is accepted as a necessary consequence of the decreasing role of the state. Regulatory guarantees are expected to increase, especially in areas such as public procurement (Poland, Slovenia,

Hungary, et cetera). On the other hand critics are strongly against bias and corruption. Detailed rules and ethics of representatives and decisive bodies have not been elaborated yet.

Cooperation among municipalities and between communities and civil or private organizations is another new type of relationship; the hierarchy of the central state and communist party organs in each country formerly determined bureaucratic integration. As a result, challenges and conflicts now strongly affect systems with numerous, small local government units, which is exemplified in the Czech Republic, Hungary and Slovakia. On the one hand, municipal governments prefer forms of provision in which tasks are fulfilled independently, even if the costs are higher and the quality of services is lower. On the other hand, local governments have become involved in associations and civil initiatives when their interests can be better served only through such cooperation. Service providers (schools, public works companies, et cetera) also cooperate without the patronage of local governments.

The remaining budgetary institutions, though directly supervised by municipalities, have new modes of operation. Their positions increasingly are defined as direct labor organizations that are clearly separated from the local public administration. There is no symbiosis in management in spite of municipal supervision. This form of service provision is regulated in Slovenia, for instance, on the basis of the German model (*Regiebetrieb*). Although the legal methods of influence and operation of institutional mechanisms are different, the role of local governments is similarly decisive, as in the case of companies fully owned by them.

The social consequences of shedding local government functions were decisive in determining the final form of service provision. Social conflicts and inequalities were generated by the radical limitation of communal housing, public cultural services, subsidization of sport facilities, social health care, et cetera. Many times it was necessary to sell assets and discard functions because they were impossible to finance. In such cases there were no possibilities for cooperation between private and public providers; private actors wholly assumed such activities when local governments simply stopped providing the service.

The existence and broadening of different forms of service delivery are very important. As mentioned before in some of these countries various alternative forms have been introduced by legislation. This fact encourages the development of a new public managerial attitude.

## 2. *Desired quasi-market elements in social services*

Market orientation has been reluctantly embraced in the delivery of social, educational and health services. Common phenomena have emerged. First, different types of providers are operating, but in these fields the overwhelming majority of institutions, such as schools, hospitals and social care homes, belongs to the state sector, presenting new challenges for state subsidies and control. For instance, a neutral attitude is needed to manage grant systems; the same

conditions must be guaranteed to providers regardless of sector. This attitude is most developed in Slovenia, where specific laws regulate basic principles of subsidization, especially regarding social care. In Hungary general rules have been absent for a decade, but the financial elements for the main social service acts exist. Conversely, in Slovakia district offices as arms-length agencies manage primary schools, which have the right to participate in decision-making concerning the allocation of subsidies. Many of these rights are applicable to nonstate schools as well. In other cases district offices are prohibited from influencing schools. What is particular to this country example is that state functions refer equally to providers whether they are private or state owned.

The adoption of such an attitude is increasing, which is necessary to encourage competition among providers and sectors in—virtual—market circumstances. This type of phenomenon is apparent in Hungary in primary health care, in many countries in establishing systems of social service providers and in Slovenia in creating rules of concessions in this sphere.

All in all, major reform in the social sectors has not been implemented; rather, competition has emerged in limited fields of service delivery. However, its emergence is quite important in itself to ensure future development. Elements of market orientation are emphasized in all of the concepts of restructuring and reforms, but their realization thus far is limited.

### 3. *Towards European integration*

Another incentive to development is integration of the region with the European Union. The message of the *acquis communautaire* in the field of public services again is the guarantee of equal conditions for providers and open competition. This philosophy favors the strengthening of market conditions and transparent subsidization. Policy preferences and the framework of policy orientation are influenced by the expectations accepted by joining countries.

The role of regulation in particular has been emphasized. Public procurement acts were passed in Poland, Slovenia, Hungary and Lithuania due to strong political intentions to join the EU. Introducing free competition and ensuring transparency are preconditions to the transformation of the formerly monopolized public sector. Other regulations have been adopted by parliaments in order to promote market orientation; in particular, laws protecting the consumer in the sphere of public goods (Slovenia) and on concessions (Hungary, Slovenia, et cetera) are important in this field. Nevertheless, this process is very much in progress; for instance, concession acts and rules on public procurement have been in effect for years, but their extension to public service activities has not been clarified. Transparency too has not been introduced to the fullest extent.

Most importantly, these changes and challenges influence the transformation of the *modus operandi* of local government. An attitudinal adjustment from the traditional methods of administration to true management is necessary; inward-looking focus must evolve to consider the wider interests of civil society.

## 4. Reorganization of Local Government

In the following chapters key issues will be investigated identifying common features in the eight selected countries and explaining the variables that affect the transitions and produce specific characteristic phenomena. Based upon the earlier, basic description of change [ILGPS 1994], this volume will provide comparison in a more analytical manner.

The basic theoretical questions [Baldersheim et al. 1996] of local governance are oriented around the following issues, which have been selected here for comparison:

1. type of basic units;
  2. tiers of the administrative structure;
  3. internal organization of municipalities;
  4. evolving elements of change, such as the development of responsibilities and financial management.
- 
1. The effectiveness of the basic units of government depends upon municipality size [Dahl and Tufte 1973; Newton 1982]. Large units better utilize systemic capacities for the effective provision of public services. Small ones provide greater opportunities for citizens to participate directly in governance, and thus public needs are more clearly determined.

According to this classification, Page and Goldsmith [1987] distinguish between integrated and nonintegrated systems among West European unitary states. In integrated systems, local units are adjusted to the supposed optimal size for the effective provision of public services (as in the Anglo-Saxon and Scandinavian systems). In nonintegrated models local autonomy and the framework of service provision are divided. In the latter, many small local governments units exist—in the extreme case, each settlement has a municipality of its own—and common functions are fulfilled with the assistance of integrative institutions. This is the tradition in France and in the majority of the Mediterranean countries.

It is possible to categorize the systems of the transitive Central European countries in this way [Horváth 1997]. The choice of which model to follow was based on decisions made in the process of transformation. However, their consequences must be faced as well; this choice has far-reaching ramifications and thus is crucial from the point of view of systemic comparison.

2. The next issue is the number, functions and relationships of tiers in local government systems. This was one of the most broadly discussed issues in this group of countries throughout the 1990s. A majority chose radical solutions—that is, to drop the middle level. Some later corrected this decision to some extent. The real relationships and instruments of these tiers will be investigated based on symbolic political steps and decisions.

3. Core internal organizational issues address the relationships between:
  - bodies of elected representatives (councils) and officials;
  - the mayor and the representative body;
  - the mayor and the chief administrative officer.

American professionals and sociologists have elaborated upon these questions. The parliaments of Central European countries selected models from well-known international variants. Another group of core issues is oriented on different aspects of local politics, like rules on local elections, party mechanisms and other operational questions [Byrne 1981].

The investigated countries chose both items with an understanding of the consequences that one or the other alternative would have on their further selections.

4. In contrast with core items, the evolving elements of reform have not been elaborated in some countries yet. Rather than permanent decisions, taking into consideration the lessons learned from implementation is necessary when progressing further. For instance, the development of intergovernmental fiscal relations [Musgrave and Musgrave 1989; Mikesell 1991] has been pursued for many years. Apart from formal decisions, practical development and analysis of the economic situation is needed. Complex regulations cannot be built on institutions without taking experience into consideration.

The developing system of public service provision is another evolving element of the transition. Although the basis for crucial change has emerged, the process itself will determine future directions. Conflicts concerning privatization, public contracts, et cetera have arisen and will continue in communities and the national political arena.

#### 4.1 Systemic Models

Models of municipal organization define interactions among the deliberative body, its committees, the mayor, the chief administrative officer and the office. These involve the relationships between elected and executive organs, between decision making and implementation. In general, the responsibilities of each have been defined in these countries, and basic frameworks are regulated by central and local rules. Additionally, systems of local elections have been organized and accomplished democratically and effectively.

Such regulations are the core and most stabilized aspect of reform to date; they comprise the minimal necessary content for crucial change and are integrally important to the establishment of a democratic system. Generally, the European Charter of Local Self-government passed by the Council of Europe summarizes the framework and conditions of organization building. All of the countries discussed here adhere to its expectations, and most have formally ratified this document.

## 4.2 Variants of Transition

There are three main routes of development of institutional transition at the local level in this part of Europe. The first two scenarios can be called “coherent models.” Typically at the time of the first free parliamentary elections, local elections were held in order to establish new legitimate representative bodies. The logical problem here is that legitimacy of the new parliament is based on electoral regulations and basic constitutional changes adopted by the former, nonlegitimate (that is, nondemocratic) regime. The Polish example is the clearest from a political point of view: local elections occurred before those for parliament, and the legitimacy of local bodies was established by an earlier amendment of the constitution. This was possible because in June 1989 partially free elections were held resulting in the victory of the opposition, yet including representation of the former regime [Regulski 1999, 5]. This leadership, led by a noncommunist prime minister, was able to negotiate the basic rules and conditions for a new democratic system.

Hungary provides a coherent model from a professional-technical point of view [Davey 1995]. In 1986, towards the end of the former regime, a local financial reform program was adopted. A system of block normative grants was introduced, replacing the former individual distributive system. These grants were supplemented by special grants allocated on the basis of parliamentary decisions. To a lesser extent, the system of revenues also was reformed. Finally, a unified system of personal income tax made it possible to predetermine local revenues. The creation of such a fiscal basis was followed by political transition at the end of the 1980s. The Local Government Act was one of the first decisions introduced by the newly elected parliament, together with a system for local elections. Thus, when these elections were held, a truly reformed system was able to commence operations based on new financial mechanisms rather than inheriting those of the previous regime. The whole process was logical and appropriate for building an absolutely new system.

However, a third scenario is more typical in the region, which can be called the “gradual model”: only the most necessary elements for the future regime were introduced under the former circumstances. This system of transition was based on graduated legislation. Typically the first step was holding local elections according to former procedures but under new conditions, in which multiple candidates competed and new parties had the opportunity to participate.

Estonia provides such an example. When the first local elections were held in 1989, the requirements for citizenship had not been clarified, and all of the conditions of the new system were missing: structures were underdeveloped, functions were undefined, financial and other economic bases were absent. Consequently, the subsequent steps of reform followed a route that was prescribed by political pressures; thus, temporary political and legal techniques were adopted, including:

1. transfer of authority without altering elected council bodies—this technique restricted the former positions of executive committees or council leaders that were directed by communist party committees;

2. elimination or restriction of former executive committees—these narrow bodies formerly were mobilized instead of the council for important decision making and thus were more influential than the council itself;
3. abolition of the competence of the upper level of territorial government—formerly, the district, county or another regional government was the superior authority; elimination of this level transferred autonomous decision making to the local level;
4. transfer of property to local governments, mainly state property companies—although initially having little relevance due to the lack of a market in the public sector, this was an important technical step towards more complex legal regulation.

These technical changes were, of course, not sufficient to alter the basic relationships among institutions, but more complex reforms followed from them. The establishment of the new system occurred progressively; that is, many crucial modifications to the core of the system were made on a continuous basis.

Finally, national determinants of the local transition process naturally were very influential. The collapse of the former Soviet Union was a key element in the development of the Baltic states. The split of Czechoslovakia and the former Yugoslavia was an essential factor affecting issues of autonomy. The reemergence of local identity was strongly supported by nonintegration at national levels mainly during the period of institution building. Many conflicts arose generating from tensions at the local level. For instance, minorities and a lack of representative institutions for them resulted in conflict and continuous pressures. These problems are resolved or at least reduced with the introduction of institutional reforms.

### 4.3 Alternatives for Local Elections Systems

Basically two systems of elections can be distinguished in this region: majoritarian and proportional. In local elections, a unified system exists for integrated models, where the size of local governments is approximately equal, such as in Lithuania. In other cases, more than one electoral mechanism is utilized.

In Polish municipalities with fewer than twenty thousand inhabitants, a single majority system is in place; those with more than twenty thousand inhabitants utilize a proportional system. In Hungary the population threshold between the two methods is ten thousand, though here, the majority system is supplemented by compensation methods on a party basis. The threshold was stabilized immediately in Hungary's case, but in Poland the first two local elections used a forty thousand-inhabitant threshold for determining the method of election.

Parties and other representative social organizations are new to these systems. The electoral process was reformed to incorporate democratic regulations and techniques. Under these circumstances independent candidates have better access to elected bodies on the local level than they do nationally.

*Table 1.3*  
**Recent Local Election Outcomes in Central European Countries<sup>a</sup>**

Country	Election Year	Independent Mandates [%]	Total Party Mandates [%]	Victorious Party Name	Victorious Party Mandate [%]
Latvia	1997	88	12		
Lithuania	1997	—	100	Lithuanian Conservatives	34
Poland	1998	60	40 <sup>b</sup>	Electoral Action Solidarity	17
Czech Rep.	1998	55	45	Christian Democrats	11
Slovakia	1998	9	91	Movement for Democratic Slovakia	23
Hungary	1998	79	21	Hungarian Socialist Party	11
Slovenia		12	88	Liberal Democracy of Slovenia	23

- a. Information for Estonia not available.  
 b. Local coalitions not included.

According to table 1.3 the proportion of party mandates is high in Lithuania and Slovenia. In Poland party involvement is also significant, though the figures presented are slightly misleading; the local coalitions and independents calculated here actually have ties to major political parties.

Generally speaking, the extent of party influence depends very much on the size of municipalities and territorial units. Empirical research presents the following analogy: the larger the municipality, the stronger party involvement [Horváth and Péteri 1993]. In many countries the majority of the population lives in towns and cities that are also the bases of municipal governments in integrated systems. Party orientation of these urbanized areas is very important due to the weight of the affected population.

Parties have fewer supporters as a whole in Hungary and Latvia. A relatively high proportion of small units prevents party candidates from winning the majority of mandates. The example of the Czech Republic is also closer to this model, though the level of party politicization in local elections is relatively higher. The absolute exception is Slovakia, where despite the existing fragmented system—that is, consisting of many small municipal entities—party involvement is very high.

It is difficult to generalize the profile of local political party affiliation; there is not yet enough comparable data to analyze this subject to its fullest extent.<sup>6</sup>



#### 4.4 Internal Organization of Local Government

All in all, organization building was easier than expected. The main forms of representative bodies and officials were established in a relatively short period in every transitive country and were quickly followed by new methods of operation [Council of Europe 1994]. Thus, some common characteristics may be emphasized here. However, it should be added that the relatively quick establishment and operation of such institutions does not necessarily preclude subsequent difficulties. These will be discussed thoroughly in the following chapters. Here the focus is on overall questions of development and social problems at the local level that closely influence the work of municipal organizations.

Elected council bodies are the highest decision-making organizations in local governments in every country in the region. Members are elected in general democratic elections. Representatives perform tasks through various forms, though mainly within the framework of committees to which the deliberative body often delegates power.

Types of executive bodies are different country by country. However, the alternatives all fall into the framework of democratic tradition; thus, this question is purely a technical one. The main difference that emerges is whether the executive organization established is individual or collective. Collective organizations, such as boards, exist in the Czech Republic, Latvia and Poland and are optional in Slovenia and Lithuania. These executive bodies are established through selection by the deliberative organ. However, in some countries, such as Hungary, there is still resistance to such organs; due to experiences with the soviet-type system, representatives fear the restriction of their power by an executive body.

The alternative is the individual executive organ—that is, the mayor. The mayor's position in some cases is as strong as the local government's as a whole. Usually, he or she is elected directly by the public. The mayor heads the municipal office assisted by a chief administrator, who is appointed by the representatives, generally for a nondetermined period. He or she is usually a civil servant. It is interesting that extreme organizational models, like that of the United States, in which a "strong mayor" and "city manager" work side by side, do not exist. Authority is also delegated among officers and elected leaders or councilors entrusted with special assignments.

Forms of direct participation exist in many variations. Due to the restrictions of the former regimes, newly adopted regulations are quite liberal. In addition to local referendums, other forms have been introduced, including popular initiatives, public hearings, et cetera. Sometimes constitutional limits were defined in advance, and the defects of these institutions emerged in practice.

#### 4.5 Institutionalization of Ethnic Issues

Ethnic issues are related to our analysis only from an institutional point of view. Such problems are characteristic of the whole region. However, the dissolution of former federations more or

less resolved ethnic tensions in Slovenia, the Czech Republic and Slovakia. This is not the case in the Baltic states; due to ethnic heterogeneity, institutional instruments are extremely important.

The first major issue concerning ethnicity is the right to vote in local elections. In the case of Latvia this right is granted to citizens, who in 1998 encompassed only seventy-three percent of the population. Twenty-seven percent of the country's inhabitants are citizens of the Russian Federation. (The total Russian minority is more than thirty-two percent.) Foreigners and noncitizens have the opportunity to apply for naturalization, requiring residency in Latvia for five years from 5 May 1990 and testing for language proficiency in Latvian and basic knowledge of Latvian history, the constitution and the text of the national anthem. In Estonia only citizens have the right to vote and be elected, but citizens of foreign countries and stateless persons are entitled to vote if they have resided in the territory of the given local authority for at least five years.

The second issue is the existence of specific instruments that involve ethnic minorities in local government. In Latvia the local government council may set up a standing committee on the affairs of foreigners and noncitizens if at least one-fourth of the inhabitants registered in the administrative territory are of such status. In Hungary the proportion of national minorities is not as high. Thus, the establishment of new institutions was less complicated than in other countries in the region; a special minority local government system is in operation. Access to local bodies is possible with the assistance of less severe regulations, and minorities may establish their own governments at the settlement level. Positive discrimination for minority representation in municipal councils is a practice regulated by law in Slovenia as well.

## 5. Basic Organizational Models

The most important element of public administration reform is the creation of entities for local governance [Bennett 1998: 40]. This entails the reestablishment of basic legal and managerial units. In the situation of *tabula rasa*, the decision to choose among the basic models of such organization was relatively independent.

As table 1.4 shows, the choices made in each country were very different. Some accepted the principle that local government was linked more or less to settlement structure following geographical boundaries, as exemplified by the Czech Republic, Slovakia and Hungary. These systems are nonintegrated, referring to the fact that a relatively large number of municipalities exist without any administrative amalgamation. Integrated systems operate in Lithuania, Slovenia and Poland, meaning that the framework of local government units is adjusted to comprise larger proportions of the population irrespective of the geographical boundaries of settlements.

In West European countries [Council of Europe 1994] that have adopted integrated systems, less than five percent of the number of municipalities have less than one thousand inhabitants; thus, of the country group investigated here, Lithuania, Estonia, Slovenia and Poland fall into

this category due to their similarly low percentages. In nonintegrated systems more than twenty percent of municipalities have less than one thousand inhabitants, which is a characteristic of the Czech Republic, Slovakia, Hungary and Latvia.

It would be easy to categorize countries according to their actual territorial division; however, it is necessary to highlight their systems from a historical aspect. Table 1.4 shows the temporary status of structures at the end of the 1990s. The importance of this classification must not be exaggerated; these systems in transition are changing quite rapidly.

*Table 1.4*

**Population and Number of Municipalities in Central European Countries**

Country	Number of Municipalities	Mean Population of Municipalities	Percentage of Municipalities with with Less Than 1,000 Inhabitants	Percentage of Population Living in Municipalities with Less Than 1,000 Inhabitants
Estonia (1 Jan 1998)	254	5,713	9.4	1.2
Latvia (1 Jan 1998)	563	4,400	32.1	5.6
Lithuania (1 Jan 1996)	56	66,300	1.8	0
Poland (1 Jan 1999)	2,483	15,561	0	0
Czech Republic (1 Jan 1994)	6,230	1,659	79.8	16.7
Slovakia (1 Jan 1998)	2,875	1,874	68.4	16.2
Hungary (1 Jan 1999)	3,131	3,242	54.7	7.7
Slovenia (1 Dec 1998)	192	10,344	3.1	0.2

According to these data the largest change in mean population of municipalities was in Slovenia, varying from 5,539 to 32,263—that is, from a neutral regime to an absolutely integrated system.<sup>7</sup> We are reluctant to typify Latvia, because the territorial reform process is just now in process; an amalgamation plan has been prepared and will be realized in the coming years.

This situation is very different in western democracies. Crucial changes determine their systems for decades in advance—reforms were introduced in 1974 in the United Kingdom, and in the

1970s in the Scandinavian countries. The gap between the two regions is not surprising, of course, because the Central European systems have not been stabilized yet. However, a real contradiction exists in the basic decisions and choices that determine the subsequent steps in the establishment of a particular system.

Does this situation mean that nothing is typical in the region concerning the administrative reform process, everything is fluid, there is no sense in what is happening at all? Of course, it does not. But one must not exaggerate actual differences; it is more relevant to classify the typical dilemmas of reform.

The specific alternatives discussed—which particular options are preferred or rejected—are more characteristic than the temporary solutions that have been implemented in a more or less consequential manner. The main dilemmas of the countries investigated here include:

- Dilemma A—nonintegration versus amalgamation at the basic level;
- Dilemma B—nonintegration versus second-tier integration and associations;
- Dilemma C—ascertaining which tiers should address various functions.

### 1. *Dilemma A*

Following the European North models (Scandinavia and Anglo-Saxon countries) is characteristic of reform in the Baltic states (Latvia, Lithuania and Estonia). However, such systems have not simply been copied; the local politics of systemic formulation has involved complicated strategies. One example of this group is Latvia, where the first projects to amalgamate small and medium-sized municipalities in 1992-93 were unsuccessful. Hence, the reform program for the near future establishes more incentives and a longer transitional period. Slovenia is also included in the group facing the dilemma of nonintegration or amalgamation. Its hesitation is demonstrated by relatively frequent alterations in the reform program. Poland is a slightly different case, as debates revolve around tiers rather than basic units.

### 2. *Dilemma B*

The European South model involves integration of small units by tiers of territorial administration without actual amalgamation; preference is for settlement-based municipal autonomy. Thus, debate revolves around the establishment of additional intergovernmental levels or—if they previously existed—the strengthening of the second or third tiers. The group suffering from dilemmas like these consists of the Czech Republic, Slovakia and Hungary.

In these nonintegrated systems the main goal throughout the decade has been territorial integration of numerous, small, autonomous units. Administrative technique was common in its aim, but it was different in its realization. In the Czech Republic and Slovakia district

administrative offices provided territorial integration of the system, while in Hungary a relatively weak county government was established in order to fulfill tasks and function for a large area. All of the countries in this group intend to develop tiers of territorial administration. Parliamentary approval of and the first steps towards integration at the middle level have been realized. These examples exhibit many technical aspects of the French and Latin systems, though the systemic structures as a whole are still in transition.

### 3. *Dilemma C*

The third “group” consists of only one country—Poland. Its population alone is more than that of all the other countries together. Here the problem of integration is concentrated mainly on the functional division of different tiers and intergovernmental relations—moderate integration at the basic level and a more coherent structure of the second and third tiers.

This method addresses fragmentation and combines different instruments of territorial administration. Here again, reform officially has been approved by parliament and is in progress. However, the process has been halted at various points throughout the decade.

The creation of regions is generally the intention of many of the countries discussed in this volume. Motivation for this is based on the model of regional structure proposed by the European Union. In the preaccession process applicant countries are required to adjust the frameworks of their systems, and one option is the creation of public governmental regions. In Poland, however, the intention to define tiers has greater managerial motivation.

In summary, what is the relationship between the basic units and the three alternatives mentioned above? One commonality is that systems have been constructed from the bottom up, meaning that the basic levels of local government were established first and alternative models were chosen later. Some key country-specific points have emerged that will affect further development, such as the demand for small unit autonomy in Hungary, the defense of neighborhoods in Lithuania and preservation of three levels of territorial administration in Poland.

Despite these differences the enthusiasm for strong and clearly defined basic units is common. This is supported by some important elements. First, there is no superior authority over municipalities; neither second-level local government nor administrative territorial districts have power over them. This is extremely pertinent when taking into consideration the history of these countries; during the communist period local autonomy was fully prohibited.

The second common feature is a result of the first: in the new era politicians and in many respects the public recognize that extreme nonintegration of local government does not guarantee effective decentralization. In each of the countries in this region different forms of integration have emerged. Furthermore, conceptions and implemented reforms have been administrative in nature;

the complex functional mechanisms of intergovernmental relations are not yet as well defined. Therefore, attention to the structural basics of reform was exaggerated, and not enough attention has been placed on questions of implementation. This was due in part to changes of governments. After general elections new parties and coalitions came into power with interests that conflicted with those of their predecessors; thus, reform programs from one term to the next were often incompatible.

All in all the level of autonomy in determining such choices was quite high. One of the most important characteristics of the process was the opportunity to throw off former national determinants. For example, Hungary established a system that had hardly any characteristics of the traditions exhibited either during or previous to the communist era. The Czech Republic, on the other hand, embraced the democratic traditions it displayed in this century before the communist regime. The Baltic states accepted the Scandinavian model more completely than ever before. This relatively high degree of freedom in choosing the appropriate program and implementing strategies to establish a new system was one of the most important advantages of the process of local development for the whole region.

## 5.1 Systemic Structures

The structure of intergovernmental systems is determined by not only the number of levels that exist but also the links and division of responsibilities among them. Earlier, dilemmas concerning the basic units of self-government were described. The next important question arising in the process of reform is the role of the second and/or third tier of territorial government.

The process of establishing intermediate levels has been most interesting. At first glance, the differences are most evident: which level is preferred—district, county or region?<sup>8</sup> Are they elected bodies or administrative units without public representation? How many intermediate levels exist in practice? What is the role of reform in changing national structures? Following from this, even more important are the mechanisms in place that allow multitiered local government to operate.

In Poland debate revolved around maintaining a two-level government or rebuilding a three-level system—that is, to reestablish the middle level and decrease the number of regions. In the Czech Republic and Slovakia, debate concerning the establishment of regions and the method of doing so has been particularly heated. In Hungary, the position of counties always has been the focus of debate: although this level was weakened by the new reforms, strong territorial lobbies in the countryside still do not support its elimination.

Nowadays, future accession to the European Union places new pressures on these conflicts, even though there is no particular expectation for the unification of territorial public administration and this topic is not included in the *acquis communautaire*. Nevertheless the distribution of EU funding—especially structural funds that are traditionally important to underdeveloped areas—

are based on a territorial statistical calculation (the NUTS system). Mainly stemming from the strategies of poorer countries, such as Portugal, Spain and, to a lesser extent, Greece, political strategists have concluded that although it is not an obligation, territorial administrative and/or governing structures adjusted to the NUTS units of calculation are highly beneficial. Such harmonization, according to this opinion, will make it easier to receive grants from the EU in the future. This is why efforts to introduce regionalization are being pursued in some countries, such as Poland, the Czech Republic and Slovenia. It is also an issue of discussion in Hungary, but only in a nascent phase at the moment. Table 1.5 indicates the structural levels of all eight countries.

*Table 1.5*  
**Territorial Governmental and Administrative Units in Central Europe, 1999**

Country	Municipalities	Districts		Counties/Regions	
		Governmental Units	Administrative Units with General Competence	Governmental Units	Administrative Units with General Competence
Estonia	254	—	—	— <sup>a</sup>	15 + 6 republican cities
Latvia	563	—	—	26	—
Lithuania	56	—	—	—	10
Poland	2,483	373 <sup>b</sup>	—	16	16
Czech Rep.	6,230	—	73	(13) <sup>c</sup>	—
Slovakia	2,875	—	79	—	8
Hungary	3,131	—	—	19 + the capital	19 + the capital
Slovenia	192	—	—	— <sup>d</sup>	58

- a. County governments existed from 1989 to 1993.
- b. Sixty-five large towns with district tasks are included.
- c. Reform to introduce regions has been adopted.
- d. Reform to introduce regions is under preparation.

What is the difference between governmental and administrative units? Formally governmental units are representative bodies elected by citizens in general elections. They have defined self-governing functions, independent budgets and relative autonomy in the way they fulfill their prescribed tasks. They also can decide to take on additional responsibilities. In contrast, administrative units operate as representatives of the state without direct representation and are regulated and supervised by central departments. Thus, they do not possess democratic autonomy in their decision making. They have general responsibilities—that is, they do not have a single area of competence (like fire defense, public health, et cetera) but many.

In contemporary states, both types of organizations can function simultaneously. For example, tasks may be fulfilled better by strictly administrative organizations if matters require more specialized professionals and cooperation among different fields of experts. Deconcentrated offices and arms-length agencies work in every country. But purely administrative organizations with general competencies are not working anywhere, so they may be viewed only as one characteristic of a particular system. Thus, the administrative influence on the realization of territorial functions is stronger.

Based upon these definitions, let us compare the existing tiers of government in these countries. In this analysis we will consider only governmental units; thus, the main question is whether or not one or more levels of elected government exist. From this aspect some common features emerge.

### *5.1.1 An Early Ethos of One-tier Systems*

Up to 1999, one-tier systems were typical in this group of countries. As table 1.6 shows, Poland recently altered its system, but previously local government existed only at the basic level in six countries. Additionally, the second level is weak in Hungary, and most authority is delegated to municipalities. Thus, in the early period of local structural development, the basic levels were preferred in almost all of the countries. The beginning of 1999 seems to be the turning point; in addition to Poland two countries are preparing reform of tiers (the Czech Republic and Slovenia).

Disregarding these more contemporary changes, we will analyze the former situation. The initiation of institutional reform at the most basic level was quite extreme in some places; the governing structure in capital cities provides a good example. In Warsaw, a highly nonintegrated system was accepted and a specifically capital-level government did not operate at all; rather, districts had a wide range of competencies. In Prague small units also had crucial power. In Budapest, although a capital-level government existed, the twenty-two districts had strong veto rights and a wide range of their own competencies.

The second general trend was to introduce government administrative units with general competencies rather than middle tiers of self-government. In Poland and Slovakia such bureaus existed on two levels: districts and, in a more integrated format, regions. The question of representation at the middle level was resolved in various ways; in some countries associations of municipal governments were organized at the district or regional levels, providing the framework for representation of self-government interests and the ability to affect decisions of state administrative offices.

Another general principle is that at the middle level, attempts were made to split self-government and state administration by delegating very specific functions to each type of organization. In Hungary, the government at the county level initially had no public administrative functions. These powers were delegated to parallel territorial administrative offices, as shown in table 1.6.<sup>9</sup>

In sum the ethos of the municipal level is a general principle in Central European development. A particular radicalism existed in the establishment of new structures; all reforms involved local



autonomy at the basic level that was not limited by territorial government. Idealism is also a characteristic of this issue. Professional reform expectations were “innocent”; it was believed that if the local unit was strongly secure in the system, it would operate without serious difficulties. After the establishment of new mechanisms, the guarantee of autonomy proved to be more complicated than expected. Democratic control over the daily operations of new institutions was also very difficult.

It might be that this was the cause of and explanation for subsequent reluctance to accept second tiers. It was difficult to conceptualize a territorial level without superior rights and powers that could be checked effectively. This is why the contemporary intermediate mechanisms were initially neglected; intergovernmental relations concerning finances and responsibilities still remain quite underdeveloped after the first decade of transformation.

Another common conclusion is that the first period of reform—from about 1990 to 1998—has been completed. This was the era of strong and single basic tiers. The next stage will involve the development of intermediate integration at territorial levels, but it is difficult to predict the directions that each country will follow. Thus, we turn to an investigation of the content and direction of plans that have been approved as official programs and that are being implemented or will be in the near future.

### 5.1.2 *Reforms of Tiers*

What types of midlevel tiers are preferred? As mentioned before the two basic models are governmental and administrative. In some countries both types of organizations exist, so strict classification is impossible; however, based on the dominant character of institutions, the model chosen by each country is demonstrated in table 1.6.

*Table 1.6*  
**Midlevel Local Government Tiers in Central European Countries, 1999**

Countries with Dominantly Governmental Midlevel Tiers	Direction of Change	Countries with Dominantly Administrative Midlevel Tiers
Latvia	(→) ?	
		Lithuania
		Estonia
Poland ← (1 Jan 1999)		
	←	Czech Republic
	(←) ?	Slovakia
Hungary		
	←	Slovenia

The following comments should be taken into consideration when analyzing this information:

- in Hungary at the county level both self-government and separate administrative offices exist;
- after the recent reform in Poland, regional governments and offices of regional administration are in operation [Regulski 1999, 24–29];
- in the Czech Republic, apart from district offices of state administrative organizations, district assemblies exist that are delegated responsibilities by municipalities, although they are not self-governments;
- in Latvia regional governments are delegated bodies comprised of the chairs of municipal bodies;
- in Lithuania neighborhoods are governed by self-governments.

What is typical of territorial levels in these countries? Very little, at this point. The current direction of reform can be classified rather than strictly defined solutions. From this aspect two subgroups of countries emerge.

### 1. *Subgroup A*

Here, a single-tier local government system is still emphasized; the Baltic states fall into this category. Latvia is currently making efforts to establish a middle tier, but in 1996 such efforts were unsuccessful. Furthermore, the current regional governments do not have electoral legitimacy and thus their position has not yet stabilized.

### 2. *Subgroup B*

The “southern” countries fall into a second category. The direction of change from the administrative-dominant model to the territorial government-oriented model is clear. This does not mean transferring emphasis from the municipal level to the second (or third) tier; rather their autonomy and authority have been preserved. Some authors believe that this attitude and the subsequent restriction of the regional level actually will hinder further decentralization [Illner 1999, 24–29].

Regardless of this distinction, some form of integration is intended in every country. One way is amalgamation, supplemented by guarantees and techniques that will defend the democratic influence of the public; thus, it is important to form the necessary channels for the representation of interests. The second way is to establish self-governing intermediate territorial government in order to control decisions in a more democratic fashion than is possible solely through municipalities. Regardless of the model selected, the division of tasks between governmental and administrative institutions must be rigidly defined.

In summary, the main typical feature of structural reforms has been moderate incentive for integration in the operation of local governments. This process will be more decisive in the next

stage of reform. The effect of European integration will factor into this process. As previously mentioned, there is no expectation to adjust territorial division in accordance with any prescribed structure. The system of statistical calculation is not necessarily adjusted according to territorial public administration, and typically this procedure is not implemented in member states. Nevertheless, this issue has been debated and played a role in the recent Polish reform [Chancellery 1998] and in the preparation of systemic review in the Czech Republic. In some countries planning regions have been established. In Latvia and Hungary such structures involve multiple territorial government units that work as entities of regional development and planning. Their size has been adjusted to the NUTS system of the EU. In Hungary regional development councils and county development councils represent different interests, including those of county governments. They are quasi-governmental statutory bodies representing the local and national governments and chambers, various public administrative bodies and municipal associations.

In the development of the intermediate level of local government, some alternative political points of view also can play a significant role. For example, in Slovakia the geographic territories of various national groups were taken into consideration in the revision of territorial division.

The structure and internal organization of local governments have more or less stabilized. Another group of elements is less demonstrative and more complicated to “establish” with one or more decisions; they must emerge through an evolving social process. These include a number of social conditions, economic circumstances, property systems, budgetary operations, et cetera.

Two groups of problems will be discussed here: local functions and finance. Renewal of both is a basic condition to the real operation of local governments in the region.

## 5.2 Distribution of Functions

Functional issues can be analyzed from at least two perspectives. One is based on legal regulations including the delegation of powers to different territorial organizations. The other is the delivery of local public services.

Thus far the main principle concerning the delegation of local functions is that in this region, the basic level of government systems is preferred as the supplier of services. The upper local government tier, if it exists at all, serves as a supplementary provider. The division of functions was established from the very beginning, meaning that there is no duplication between levels; rather the distribution of work is adjusted to the rationality of service provision. This basic conception follows the West European tradition.

However, differences emerge concerning the role of territorial administrative units with general competencies. As it was shown in table 1.6 in seven countries (all except Latvia) administrative offices with general responsibility are working or were working in the former period of the

transition. The more powers delegated to state administrative offices, the fewer functions remain in the hands of local governments.

Two groupings can be identified. In the first administrative offices have exclusively state administrative functions, like supervisory powers, monitoring legality, representation of central government and implementation of its initiatives, coordination of special purpose centrally subordinated offices, et cetera. Representative of this model are Estonia, Hungary and Slovenia.

In the other group administrative offices have local or regional functions, following the western tradition. For example, the maintenance and development of secondary schools, responsibilities for health and child care, et cetera are delegated to such administrative offices. This is or was the situation in the Czech Republic, Lithuania and Slovakia.

It is quite unique that district/regional administrative offices have territorial government functions as well [Horváth 1996, 167–168]. Czech districts are responsible for secondary, technical and special schools; public health; regional planning; and civil defense. They also oversee other institutions that basically belong to the competencies of municipalities, such as primary schools, kindergartens and welfare homes; hospitals, theaters, museums and libraries; roads, public transport and fire brigades; et cetera. These supplementary functions are delegated to districts if a municipality cannot fulfill them.

By law Lithuanian counties are in charge of health care, child and elderly care, civil defense, preservation of cultural heritage, public transport and maintenance of vocational schools. Apart from these typically local or regional government functions they have public administrative tasks, like directing educational inspectorates and the administration of agriculture. Individual local governments decide this legal division of functions.

Regional and district offices in Slovakia manage most primary schools, hospitals and primary health care institutions; maintain kindergartens, welfare homes, theaters, museums and libraries; address regional planning, civil defense and consumer protection; et cetera. They also have locally and regionally delegated functions that municipalities cannot or do not want to fulfill.

What is peculiar about these types of offices? First, because of the scope of their functions they should also engage in policy making, yet they do not have an elected deliberative body to make—or legitimize—such decisions. Second, they have their own budgets, including revenue and expenditure structures determined by financial policy decisions. Third, apart from the functions listed above, these offices also have strictly administrative tasks.

In all cases a common feature is that at the district or regional level, compulsory associations of local governments form parallel territorial bodies. The logic for choosing this type of system at the intermediate level was the protection of the autonomy of the basic level. Such logic was adopted in countries following more traditional models, like Hungary. Here county government

has been preserved, but state administrative functions were delegated to separate county administrative offices.

Again the new evolving structures can be typified only by the orientation of reforms rather than defining categories among the members of this country group. As previously mentioned Poland recently abolished its administrative offices, replacing them with elected self-governments. In the Czech Republic a similar reform has been adopted and will be implemented from the beginning of 2000. Regulations in these systems are moving towards intergovernmental relations rather than determining hierarchies in an absolutely formal way. This can be demonstrated through changes in public service managing systems and financial mechanisms.

### 5.3 Local Finance

The local finance reform process involves more than the formal establishment of new institutions. It is also a part of the evolving development of local service provision that responds to economic and social circumstances. However, apart from the characteristics of regulation financial policies can be compared. Directions and differences can be concluded from both.

*Table 1.7*

#### **Local Government Expenditures as Percentage of GDP in Central Europe**

Country	Early 1990s <sup>a</sup>	1994	1995	1996	1997	1998
Estonia	7.1	11.9	11.7	11.3	10.5	11.9
Latvia	12.5	10.3	10.8	11.7	9.4	9.4
Lithuania	13.1	11.2	11.1	9.0	7.6	—
Poland	5.9 <sup>b</sup>	7.1	6.5	8.2	8.6	8.6
Czech Rep. <sup>c</sup>	9.3	8.0	7.9	7.1	6.8	—
Slovakia <sup>d</sup>	4.8	4.3	3.7	4.0	4.1	3.8
Hungary	17.4 <sup>b</sup>	16.8	14.1	13.3	12.0	13.0
Slovenia	4.4	5.4	4.6	4.9	4.8	4.9

- a. SOURCES: Poland—R. M. Bird, R. D. Ebel and C. I. Wallich (eds.), *Decentralisation of the Socialist State: Intergovernmental Finance in Transition Economies* (Washington: The World Bank, 1995), 3; Hungary—Ministry of Finance; all others—“Proposals for the implementation of the programme of activities for 1996,” *CDLR*95, no. 27 (1996), cited by Janis Bunkss, “Trends of development of local democracy in countries of Central and Eastern Europe,” conference paper delivered in Jurmala, Latvia, 1997, 4.
- b. 1993 data.
- c. District offices included.
- d. Regional and district offices not included.

Relatively low levels of local expenditure are exhibited in Slovakia and Slovenia, and a decreasing proportion of local expenditure in Latvia, Lithuania, the Czech Republic and Hungary. Only the Polish case seems to demonstrate the opposite.

In general, the tendency of western countries is reflected by these trends, but this does not mean simply copying the models of developed countries. In the process of transition, policies for economic stabilization could not be avoided. In this period local expenditures were restricted along with other government-funded areas, such as education, health care and social care. Such restrictions were concurrent with decreasing GDP and GNP (see tables 1.1 and 1.2).

Overspending also is limited due to aspirations to join the EU and, in the more distant future, the European Monetary Union. According to Maastricht criteria candidate countries must not run excessive deficits. The acceptable threshold defined by the European Union Treaty is a general government deficit of no more than three percent and general government debt of no more than sixty percent of GDP. Thus, the state is responsible for limiting the financial spending of local governments [CDLR 1997, 14].

The trend described above is determined by similar and common internal and external circumstances in the region. A general aim of national governments was to limit the redistribution of funding to local governments.

What happened to general government expenditures? Are there correlations between local and state expenditures in particular areas? Table 1.8 provides data on this issue.

*Table 1.8*

**Local Government Expenditures as Percentage of General Government Expenditures in Central Europe**

Country	1994	1995	1996	1997	1998
Estonia	33.1	31.4	29.8	28.1	30.6
Latvia	26.0	26.2	26.2	24.2	25.2
Lithuania	32.7	31.8	28.7	22.9	—
Poland	19.0	19.1	24.6	26.8	34.0
Czech Rep.	20.6	20.8	18.8	16.6	—
Slovakia <sup>a</sup>	11.8	11.0	12.0	12.2	13.9
Hungary	26.7	26.6	27.2	25.5	24.
Slovenia	11.5	10.1	10.8	10.5	9.2

a. Not including social insurance fund expenditures.

It is difficult to draw comparisons between local and general government expenditures, as information is not available for every country concerning the content of these figures. For instance, social insurance funding and district office expenditures are included in some cases and not in others. The low level of Slovakia shown in the table is explained by such missing data.

However, generally speaking, the level of local expenditure has more or less stabilized in the majority of countries. Poland and Lithuania differ from the average most significantly; in the case of the former the proportion is still growing significantly, in the latter it is still decreasing.

Concerning systems of financial regulation, significant changes have been implemented. As previously mentioned, financial reform was implemented before structural change only in Hungary. However, sooner or later such regulations followed major reform in all these countries. At least two crucial elements should be emphasized. The first is the increasing role of taxes in the structure of revenues. Thus, the production of income has a greater role in determining the capabilities of different local governments. Levying taxes is an instrument to promote local and regional economic development. From this point of view local policies can contribute to stabilization policy. However there is also the danger that levying taxes on entrepreneurial activities will contradict guarantees for common and equal market conditions required by the European Union. Furthermore, greater differences are emerging among municipalities with different capacities. The calculation and division of these resources, of course, are not equal among municipalities. With respect to this phenomenon, regulations on equalization also have been introduced.

The second phenomenon is the changing character of state involvement. Grant systems have been introduced, replacing subsidies. Normative regulations are generally decided by parliaments restricting individual distributive decisions as far as possible. Local governments must apply for support in accordance with prescribed conditions, and decisions are made democratically. Apart from normative general grants, special grants have been introduced for particular purposes.

*Table 1.9*  
**Local Government Revenues in Central Europe [%]**

Country	Independent and Shared Revenues		State Grants	
	1997	1998	1997	1998
Estonia	60.7	54.2	24.5	22.5
Latvia	54.4	54.1	32.4	32.7
Lithuania	66.5	73.6	16.3	—
Poland	59.5	58.2	38.3	39.7
Czech Republic <sup>a</sup>	52.0	51.5	22.6 <sup>b</sup>	22.1 <sup>b</sup>
Slovakia	36.7	39.5	—	—
Hungary	35.5	37.2	29.2	31.7
Slovenia	42.6	41.2	21.7	21.5

- a. Transfers not included.
- b. Grants to district offices included.

In the majority of cases, with the exception of Hungary, tax revenues clearly are preferred and have increasing significance. However, the equalization function of state grants cannot be neglected due to huge differences among municipalities.

Of course, increasing levels of state grants lead to higher state budgets. From this point of view the tendency and intention of financial and fiscal policy to limit state involvement in local finance has been accepted. However, differences in local conditions are also increasing, which has negative consequences for local government development during the transition period.

## 6. Concluding Remarks

What is most characteristic of the local reforms of these countries? Mainly that the first stage of development has been completed. New local democratic systems have been institutionalized, teamed by local economic reform. All these changes took place under conditions of economic crisis and state transformation, both of which seem to be on the upturn in all of these countries. Additionally, numerous necessary elements of government reform that were previously neglected have now been introduced.

However, these systems are in a state of continuous change, which is especially reflected by efforts to reform territorial government and regulate local public service delivery. Thus, fixed systematic differences cannot yet be defined. Other countries of the former soviet bloc from outside the region discussed here may join this group in the near future. In sum, the current phase of development and the less common characteristics of their systems may influence others in transition.

Of course, this is true only concerning the institutional aspects of local development. From a social point of view many variables become apparent. The social consequences of change are deeply rooted in specific circumstances; national conflicts and regional inequalities have great influence on the systems and mechanisms of local governments.

This collection of papers neglects social determinants and mainly focus on administrative issues. The process is analyzed on the basis of system building and instruments selected in constructing models and frameworks of institutions for social action at the local and regional level.

What is typical in this process? What are the main common features? And what differences exist among members of the group? The stabilized common elements of reform are:

- emphasis on basic levels (municipalities or integrated units);
- democratic internal design;



- emerging alternative forms of services delivery;
- financial and fiscal reform at territorial levels to various degrees.

These countries reached such goals by the late 1990s; the direction and speed of their systemic transitions are common features. The clear differences are in the alternatives chosen at the basic levels. The European North model avoids amalgamation. The other classical situation is based on traditional South European models, guaranteeing autonomy of the basic level yet ensuring government and state control at regional levels. Poland demonstrates a third model, where moderate integration and the creation of middle level government occurred simultaneously

In summary, the characteristic differences are mainly in structure and less in the models chosen. They are quite fluid at this stage of development. The transition is yet in progress, but the fields of alternatives have been drawn up quite clearly. The next step in selecting among these alternatives will have great impact on the final frameworks of these local government systems.

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## Notes

- <sup>1</sup> The author is grateful for Gábor Péteri's comments and Jerzy Regulski's critique.
- <sup>2</sup> See Grochowski 1997; Gazaryan 1995; Vidláková 1997.
- <sup>3</sup> The "right to buy."
- <sup>4</sup> In Hungary the proportion of state and local government-owned housing was thirteen percent in 1994 [Hegedüs, Mayo, Tosics 1996, 15]. In some West European countries, such as Spain, Portugal, Italy and Belgium, this proportion varied from one to six percent at the beginning of the 1990s. In Germany, France and Denmark, however, government-owned housing was significantly higher, at seventeen to twenty-one percent [Horváth 1997, 170].
- <sup>5</sup> See the model of "Konzern Stadt" [Kuban 1996].
- <sup>6</sup> Data of country reports can be analyzed with the help of Ágh [1998, 126–139; see appendix, "The most important political parties of East Central Europe and the Balkans"].
- <sup>7</sup> For instance, in Slovenia the changes in the number of basic units of local government follow: 1991, approved by parliament but rejected by referendum—360 communes; 1993—62; 1994—147; 1998—192.
- <sup>8</sup> The definition of district, county and region varies country by country. In this study, districts are the smallest nonmunicipal territorial units, counties are typically larger, and regions are the largest. Naturally, this distinction is quite relative, and it is not typical for all types to be adopted in any one country.
- <sup>9</sup> However, this explanation of the whole process is not absolutely correct. In Estonia, county governments existed for four years during the transition period but later were abolished and transformed into county-level state administrative units. Here the midlevel government trend was reversed.

Chapter 2

# Local Government in Estonia

*by*

*Sulev Mäeltsemees*



# Local Government in Estonia

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# Local Government in Estonia

*Sulev Mäeltsemees*

## 1. Overview of Local Government Reform

The Local Self-government Foundation Act adopted on 10 November 1989 reestablished the basis for a local government system in Estonia. A month later, on 10 December 1989, the first almost democratic postwar municipal elections were held. The words “almost democratic” are emphasized here because the citizenry was not defined by the time of the elections and representatives of the occupation army participated. The above events were also the first steps towards the democratization of Estonian society; they were followed later by other significant political developments and the adoption of essential laws leading to Estonia’s independence in August 1991 and transition to the market economy.

The most significant change in local government within the last ten years was the replacement of the two-level system with a single level. Initially, from 1989 to 1993, the first level of Estonia’s local government consisted of rural municipalities, boroughs and towns; the second level of counties. The 1989 act, however, demonstrated a clear preference for a one-level system.

Parliament established the principles of local government reform in December 1990. A reform strategy was drafted that took into consideration the problems that existing primary-level units would encounter by the simultaneous transformation into local government organs and inheritance of several previously central government responsibilities. Local authorities proposed socioeconomic development programs and statutes. The Administrative Reform Expert Committee of the Supreme Council of the Estonian Republic (comprised of about twenty-five specialists and chaired by the author of this review) inspected and analyzed the documents. Based on the opinion of the committee, the Presidium of the Supreme Council granted rural municipalities, boroughs and towns self-governing status; the rural municipality of Muhu and the town of Kuressaare were the first to receive such recognition in September 1990. When the constitution was adopted in June 1992, ninety percent of Estonia’s 249 rural municipalities, boroughs and towns were granted self-governing status. It is a matter of opinion if the described strategy was expedient, but it is a fact that the understanding of the essence of local government and support for further development by primary-level local authorities significantly improved.



In the course of administrative reform, even the weakest rural municipalities reached such a qualitative level of development that, considering the size of the state, it seemed practical to establish a single-level local government system. The constitution prescribed this in principle; however, it also allowed provisions for the second level of local government to be reestablished: “The units of local government are rural municipalities and towns. Other units of local government may be formed on the basis of and pursuant to procedures provided by law.” In May 1993 the State Assembly approved the creation of a one-level local government system and on 2 June 1993 adopted the Local Self-government Organization Act. The act is still in force today although it has undergone numerous amendments.

On 28 September 1994 the State Assembly ratified in full the European Charter of Local Self-government. Implementation later was discussed on numerous occasions. However, Estonian legislation from that point respected several principles of the charter.

The Local Self-government Foundation Act introduced the concept of municipal assets in 1989, and the framework for the municipal enterprise as a new, separately regulated form of ownership subsequently followed. Municipal enterprises were legally abolished by 1 September 1996 and were reorganized into limited liability companies or joint stock companies. This created some confusion as to what extent municipal councils or governments could participate in their management, even when the rural municipality or town owned them, and if such privatization was truly reasonable.

Estonia’s administrative reform in the 1990s can be defined by three stages.

1. In the early 1990s, shortly before and after regaining independence, the process of reestablishing a local government system became a priority, and the term “administrative reform” became synonymous with local government reform.
2. In the mid-1990s, after the adoption of the constitution, the development of state institutions received attention.
3. In the late 1990s, radical changes at different levels of public administration—that is, at the central, regional and local levels, as well as in various areas of public administration, such as public service, public sector financing, et cetera—resulted in somewhat disproportional development. Since Estonia is approaching a relatively stable phase of development and has initiated membership negotiations with the European Union, emphasis currently is focused on the comprehensive development and stabilization of public administration.

In June 1997 the government formed a committee comprised of twenty-three members (representatives of the State Assembly, ministers, county governors and representatives of local authorities) to discuss the basis for subsequent administrative reform. In early 1998 the committee submitted the paper “Principles of Public Administration Development” to the government, which approved it on 16 February 1999. The State Assembly also is expected to discuss and possibly approve the document.

The general principles of administrative reform outlined in this plan include decentralization of decision making, responsibilities and financial resources; delegation of several public tasks to the private sector and to the “third sector”; development of information systems; drafting a flexible personnel policy suitable for a small country with limited resources; et cetera. The paper emphasized the following areas on which local government reform should focus: territorial administrative division, modernization of municipal management and amendment of the principles of municipal budgeting in order to establish a direct relationship between revenue and local economic development.

The European Council emphasized in its “Agenda 2000” the need to strengthen Estonia’s administrative structure; thus, this has become a priority, leading in turn to the improvement of public services. Estonia is divided into counties (*maakond*), rural municipalities (*vald*) and towns (*linn*). Executive power in each of the fifteen counties lies with the county governor (*maavanem*), who is subordinate to the central government. The 207 rural municipalities and 46 towns are separate local government units; thus, since 1 January 1999, there are 253 local authorities in Estonia.

Previously the types of settlement in Estonia were towns (*linn*), boroughs (*alev*), villages (*alevik*) and hamlets (*küla*). A hamlet was a sparsely populated settlement with less than three hundred inhabitants. Villages and boroughs were densely populated settlements with more than three hundred inhabitants. Of the forty-six towns in Estonia, thirteen gained this status in the 1990s, having previously been boroughs; others were recognized over the course of history. Until recently all towns in Estonia were separate local government units, but under the Territory of Estonia Administrative Division Act (1995) towns were amalgamated with neighboring rural municipalities, forming new local authorities. The first such amalgamation took place in autumn 1998. Another ten towns are expected to unite with neighboring municipalities within the next few years due to their sparse populations and networks with surrounding areas. Until 1993 boroughs were local government units, but due to the new legislation they were required to apply for status as rural municipalities or towns. In 1993, eleven boroughs gained town status, and in 1996 another new town joined the list; ten boroughs applied for and were conferred status as rural municipalities. According to government regulation on 18 December 1997 there were 9 boroughs, 165 villages and 4,317 hamlets in Estonia. In the mid-1970s, the number of settlements was 7,100, but in the course of a campaign initiated in 1976, several formerly existing settlements were deserted, reducing this number to 3,500. The 1990s have witnessed the gradual reestablishment of the presoviet settlement network, hence the difference in numbers mentioned in the above government regulation and in the tables presented in annex 2.2 based on data from 1 January 1998. The changes in question concern only villages and hamlets, not towns and boroughs.

The following sections of this review will discuss several essential issues concerning the development and reform of local authorities, such as municipal management, budgetary planning, taxation, associations of local authorities and legal acts on local government.

## 2. Legal and Constitutional Basis

### 2.1 Legal Basis of Municipalities

In the early 1990s, local government replaced the centralized system; democratic institutions—municipal councils elected by the populace in direct, general and uniform elections—succeeded the former village soviets, which had been staffed by a couple of employees who administered a small budget sufficient to cover their salaries and some other minor direct expenses. Municipal councils in turn set up executive bodies (municipal governments). In rural areas and in small towns, collective and state farms, industrial enterprises and construction companies were responsible for most of the social sphere—kindergartens, recreation centers, sports facilities, housing, et cetera. Over the course of administrative reform responsibility for these tasks was assigned to local authorities. Furthermore, several formerly central government responsibilities concerning, for example, education and social welfare were delegated to local authorities, which simultaneously were given the right to develop their own budgets. Today the private sector is responsible for some of these tasks.

The main principle regulating local government is stated in the Constitution of the Republic of Estonia: “All local issues will be resolved and regulated by local authorities, which shall operate independently in accordance with the law.” This principle derives from the European Charter of Local Self-government; even though the charter had not been ratified yet, its text was used when the draft constitution was drawn up. The Local Government Foundation Act complements the constitution: “Local self-government embodies the right, authority and duty of democratically established bodies of power of a local authority provided for in the constitution to organize and manage independently local issues pursuant to the law, based on the legitimate needs and interests of the residents of the rural municipality or town and considering the specific development of the rural municipality or town.” Thus, local government in Estonia is:

- based on the territorial division of the state into administrative units; and
- exercised by democratically established legislative and executive bodies and, with regard to local issues, by means of opinion polls, referendums and public initiatives.

Local government is based on the following principles:

- independent and binding resolution of local issues and implementation of such decisions;
- protection of the individual’s lawful rights and freedoms in the rural municipality or town;
- observance of the law in the performance of functions and tasks;
- right of residents of a rural municipality or town to participate in local government;
- accountability for the performance of functions;
- transparency of activities;
- provision of public services under the most favorable terms possible.

## 2.2 Legal Basis of Counties

At the regional level the central government is represented by counties that are financed by the state budget. The county governor is the head of the county government and is responsible to the central government. County governments have supervisory and advisory functions concerning local authorities. Other central government institutions at the regional level are tax offices, immigration and citizenship departments, statistics bureaus, forestry offices, et cetera. Central government institutions that exist at the local level are police departments and emergency services offices.

Under the Government of the Republic Act, a county governor is appointed by the central government on proposal by the prime minister and in concordance with the regional union of local authorities. The minister of internal affairs is responsible for convening the regional union meeting to approve the candidate; regional union representatives include a council member and the mayor of each local authority of the county in question. The candidate is approved if supported by more than one-half of the representatives. If the candidate is not approved, a new candidate is nominated at the following meeting. If the second candidate is not approved, the central government has the right to appoint a person of its choice to the office. The governor's term of office is five years, which may be prematurely terminated by the government:

- on proposal by the prime minister;
- on the occasion of his or her resignation;
- upon court conviction;
- due to long-term incapacity for work.

The county council must approve the candidate for the governor's replacement before formal appointment by the central government. However, the release of a county governor from his or her post is solely within the competence of the central government. It would seem that both procedures should be similar; however, as county governors are civil servants responsible to the central government, granting authority to local authorities to dismiss this officer would create a conflict of interest. In new administrative proposals, candidates for the office of governor no longer need the approval of the local authorities of the county in question. In the interest of productive cooperation, it is essential that the local authorities express confidence in the central government's appointment.

A county governor cannot hold any other public office, belong to the management board or supervisory board of a commercial enterprise or be employed in any other remunerative field with the exception of research and teaching. A county governor cannot be a member of a municipal council.

The county governor is responsible for: (1) representing the interests of the state and ensuring the comprehensive and balanced development of the county, (2) liaising between the government

and local authorities on regional policy and other relevant issues, (3) concluding contracts concerning the delegation of central government tasks to local authorities and (4) coordinating cooperation between regional offices of ministries and other government agencies and the local authorities in the county.

The law bestows upon the county governor supervision over the legality of legislation of local authorities and over the legality and appropriateness of the use of state assets that are at their disposal. A governor has the right to review decisions made by local authorities that have entered into force. Local authorities are required to submit such decisions not later than seven days after receipt of the governor's request. If the governor finds that legislation of a local authority is at all in conflict with the constitution, a law or other legislation, he or she may submit a written proposal to bring the legislation into conformity within fifteen days. If the local authority does not comply with the proposal within fifteen days after its receipt, the governor files a protest with an administrative court. When a governor files a petition with the legal chancellor to analyze conformity of legislation with the constitution or other laws, he or she on the same day sends a copy of the petition to the local authority that passed the legal instrument. In recent years ownership reform, especially land reform, has been a particular area of conflict in which it has been necessary for governors to intercede. County governors occasionally have intervened at the request of elected or appointed local government officers in cases where such officers unjustifiably were relieved of their posts by a vote of no confidence.

If the county governor discovers that a local authority unlawfully or inappropriately has possessed, used or disposed of state assets, he or she files a report and any available supporting documentation with the State Audit Office or with an investigative or other competent agency. If authorized to do so by the central government, county governors or officials have the right to inspect how local authorities execute the responsibilities assigned to them by law or by contract.

A county government consists of an office and departments that may include divisions. The head of the office is the county secretary. Only a person with a university degree in law can apply for this post. The central government may place education, culture, social welfare and other agencies under the administration of a county government.

### 2.3 The Status of the Capital City

From 1989 to 1993, when local government in Estonia was exercised at two levels, the six largest towns (Tallinn, Tartu, Narva, Kohtla-Järve, Pärnu and Sillamäe) had second-level—that is, county-level—local authority status. Problems emerged after transition to a one-level system, especially in the capital, Tallinn, where the city council established district authorities in order to decentralize the town administration. Simultaneously, the status of Tallinn—with close to five hundred thousand inhabitants—was changed; it became one of the local authorities of Harju county, which had one-fifth the number of inhabitants of Tallinn, and the Harju county

governor became responsible for supervising the legality of legislation of the Tallinn city council and city government. The Tallinn city council submitted proposals to the central government to reconsider the status of the capital in 1994 and again in spring 1998, the essential idea of which was to transfer supervision of the city council and city government to the ministries. In August 1998 the government appointed a board to work out the principles regulating the status of Tallinn. The general point of view tends to be that there is no need for a special parliamentary act to adopt recommended changes, but rather the Local Government Organization Act should be amended, taking into account the capacity of the capital to fulfill tasks better than other authorities, including those concerning emergency services provided at the central government level. The Tallinn city council and city government also have concluded special agreements with ministries and the county governor concerning the delegation of responsibility in the field of environmental protection.

## 2.4 Legal Basis of Municipal Districts

The Local Self-government Foundation Act also created rural municipality and town districts—units operating in the territory pursuant to district statutes approved by the municipal council. The formation of a rural municipality or town district may be initiated by: (1) one-fourth of the municipal council members, (2) not less than one percent of the residents of the local authority with the right to vote and not less than five residents with the right to vote or (3) the municipal government. A council makes the decision to form a rural municipality or town district on the basis of an application and may organize a public opinion poll on the issue if necessary. Proposed statutes must provide (1) a description of the boundaries of the rural municipality or town district, (2) procedures for the formation of the district executive body, (3) procedures for appointment to office of the district elder whose term of office cannot exceed the term of office of the municipal council, (4) the authority of the district executive body and district elder and the budgetary funds allocated by the local authority to fulfill the tasks delegated to the district and (5) the principles and procedures for supervision of activities of the district executive body and the district elder and for liquidation of the district. A district elder's office, similar to that of county governor, is called a county government in existing legislation. District elders may, within the limits of their authority, issue legislative orders and directives to organize the internal activities of the district executive body. Supervision of orders issued by district elders is exercised by the mayor in accordance with procedures established by the statutes of the local authority. The authority of district executive bodies and elders cannot be restricted, and the budgetary funds allocated to them cannot be decreased during the municipal budgetary year.

Districts have been established in Tallinn and some other local authorities. In Tallinn, eight city districts were established in 1993 in order to decentralize the city administration. Earlier there were four rather arbitrarily formed districts; one of the underlying principles behind such division was the number of inhabitants (each district had a population of at least one hundred thousand

inhabitants), disregarding historical neighborhoods. However, most of the districts' institutions were located in the old town center. The essential criteria for establishing the new districts were a similar way of life and socioeconomic problems; as a result, the population of the largest district is more than one hundred ten thousand, while the population of the smallest is less than ten thousand. Each district has its own political body called the administrative council, which is set up by the city council based on city council election results. The administrative councils of city districts consist of members of the city council representing the given district and the unsuccessful candidates for city council. The city council determines the division of seats in district administrative councils between city council members and other representatives; only eight of the twenty-seven seats of the central district administrative council are reserved for members of the city council. In smaller districts the respective numbers are five to seven, and in the largest, fifteen. Members of parties, members of joint candidate lists and individual candidates do not have to have received five percent or more of the votes cast in the municipal elections to be eligible for the remaining seats in a district council. The city council decides on the authority of district councils, which can include responsibility for education, culture, public maintenance and other district matters. The district councils in the Kohtla-Järve area function similarly, following Tallinn's framework.

The number of rural municipality districts is still rather low, but in light of changes in administrative-territorial division and the expected amalgamation of rural municipalities, the importance of districts should increase. From the point of view of local democracy, it is important to underscore the historical significance of the institution of village or hamlet elders. Existing legislation recognizes the institution in order to enable better exchange of information between inhabitants and local authorities within sparsely populated rural municipalities. Under relevant law, an elder may be elected at the village or hamlet meeting. The performance of municipal tasks by an elder is provided for by contract; the elder's term of office is not restricted by the term of office of the council.

### 3 Local Politics, Decision Making

#### 3.1 System of Local Elections

Three municipal elections have been held in Estonia in the postwar period after a fifty-year break. The first, semi-democratic elections took place on 10 December 1989, almost two years before the country regained its independence. Elections were not fully democratic, since the citizenry had not yet been determined and the occupation army participated, though the latter was rather limited compared to earlier times since, irrespective of the number of military personnel based in each electoral district, they could elect only one representative to each municipal council, including the Tallinn city council. The number of seats prescribed for the Tallinn city council

was eighty, but only sixty-nine members were elected; due to the activities of the prosoviet forces, elections produced no results in three constituencies of the capital. The method of a single-member constituency was applied in the election tally. The next municipal elections took place on 17 October 1993 when the constitution was approved by referendum, and the d'Hondt method was applied in tallying votes. The same method was used during the subsequent municipal elections held on 20 October 1996.

Local government bodies from 1989 to 1993 included:

1. the council of the county and of the rural municipality, borough or town;
2. the government of the county and of the rural municipality, borough or town;
3. the county governor and the mayor of the rural municipality, borough or town;
4. the audit committee (*revisjonikomisjon*) of the council of the county and of the rural municipality, borough or town.

Thus, there were eight local government bodies due to the two-level system—that is, four local government bodies at each level. The law generally assigned responsibilities to local government bodies without specifying the level, causing confusion as to the particular organ on which the responsibilities fell. This problem still exists, despite the 1993 elections for a one-level local government system and two local government bodies (the council of the rural municipality or town and the government of the rural municipality or town), since the law often assigns responsibilities to local authorities as such. The Tallinn city council has resolved the issue by conferring such responsibilities upon the city government unless decided otherwise by the council.

In the 1996 municipal elections the electorate consisted of 878,962 individuals, 461,653 of which (52.5 percent) voted in the elections. The electorate of Tallinn consisted of 234,243 people. The representatives of the following six parties were elected members of Tallinn's city council:

- Estonian Reform Party—fourteen seats;
- Estonian Center Party—twelve seats;
- electoral coalition "Tallinn" (mostly consisting of the members of the Estonian Coalition Party)—eleven seats;
- Estonian United People's Party—eleven seats;
- right-wingers and moderates—ten seats;
- Russian Party in Estonian—five seats.

Two parties representing the Russian-speaking population won a quarter of the seats of the Tallinn city council (sixteen). A month after the municipal elections the Estonian Center Party, the electoral coalition "Tallinn" and the Estonian United People's Party formed a coalition, constituting the majority of seats.



Table 2.1  
Parties in the 1996 Municipal Elections in Estonia

Party	Elected Candidates on Single Party Lists	Elected Candidates on Coalition Lists	Total
Estonian Democratic Labor Party ( <i>Eesti Demokraatlik Tööpartei</i> )	4	5	9
Estonian Center Party ( <i>Eesti Keskerakond</i> )	7	3	10
Estonian Coalition Party ( <i>Eesti Koonderakond</i> )	3	—	3
Estonian Rural Union ( <i>Eesti Maaliit</i> )	17	—	17
Estonian Country People's Party ( <i>Eesti Maarahva Erakond</i> )	8	18	26
Estonian Pensioners and Families League ( <i>Eesti Pensionäride ja Perede Liit</i> )	17	19	36
Estonian National Party ( <i>Eesti Rahvuslik Erakond</i> )	10	—	10
Estonian Reform Party ( <i>Eesti Reformierakond</i> )	22	3	25
Estonian Greens ( <i>Eesti Rohelised</i> )	—	1	1
Estonian Blue Party ( <i>Eesti Sinine Erakond</i> )	—	12	12
Estonian Farmers' Party ( <i>Eesti Talurahva Erakond</i> )	—	3	3
Estonian United People's Party ( <i>Eestimaa Uhendatud Rahvapartei</i> )	7	1	8
"Estonian Home" Party ( <i>Erakond Eesti Kodu</i> )	—	1	1
Moderate Party ( <i>Erakond Mõõdukad</i> )	19	8	27
Pro Patria Union ( <i>Isamaaliit</i> )	12	6	18
Farmers' Union ( <i>Põllumeeste Kogu</i> )	8	—	8
Republican and Conservative Peoples Party ( <i>Vabariiklaste ja Konservatiivide Rahvaerakond</i> )	—	2	2
Russian Party in Estonia ( <i>Vene Erakond Eestis</i> )	6	—	6
Legal Balance Party ( <i>Õigusliku Tasakaalu Erakond</i> )	—	1	1

## 3.2 Forms of Direct Democracy

The forms of direct democracy provided for in the Local Self-government Foundation Act include meetings and referendums. These opportunities, however, have not been used extensively, although a few local referendums concerning administrative-territorial division recently were organized. Participation in the referendums was all but active—only a couple percent of the local electorate voted. Smaller districts in Tallinn have organized public meetings to discuss topics such as the construction of new roads, land reform-related issues, et cetera.

About ten very small rural municipalities in Estonia will retain their size even after a radical change of the country's administrative-territorial division due to their location (on small islands) and other geographical circumstances. The authors of the principles of administrative reform have proposed that forms of direct democracy be introduced in such municipalities rather than representative democracy.

## 3.3 Internal Structure of Local Government Decision Making

The representative body of a local authority is the council (*volikogu*). Elections to municipal councils are regulated by the Local Government Council Election Act. The council is chosen through general, uniform and direct elections by secret ballot for a term of three years. All residents who are at least eighteen years of age and reside permanently on the territory of the given local authority have the right to vote in municipal elections. In 1993 an amendment to the Local Government Council Election Act stipulated that Estonian citizens have the right to vote and be elected, but citizens of foreign countries and stateless persons are only entitled to vote if they have lived in the territory of the given local authority for at least five years.

A minimum of seven members is necessary to form a municipal council. The number of seats is determined by the previous municipal council and is proportionate to the total population of the local authority; the council of a local authority with over two thousand residents is comprised of thirteen members, five thousand residents—seventeen members, over ten thousand residents—twenty-one members, and over fifty-thousand residents—at least thirty-one members.

Elections are organized in multimandated electoral districts. In Tallinn the boundaries of the electoral districts follow those of the city districts. Half of the mandates are distributed equally among all the city districts of Tallinn (each city district receives four mandates), and the remainder are distributed proportionate to the number of voters in each district.

The procedures for municipal elections have had a negative effect on implementing administrative-territorial division. Previously, the law prescribed only regular municipal elections. Prior to the 1996 municipal elections some municipalities were amalgamated, which subsequently required extraordinary elections. However, such elections were not regulated until February 1998 and

thus were not held between regular municipal elections. An amendment made extraordinary elections possible, which were thus initiated in autumn 1998. But it is not clear if the term of office of the councils elected through extraordinary elections lasts until the next regular elections or is three years from the date of election. The constitution stipulates that the term of office for municipal councils is three years, but it is unclear if this should be interpreted as a guarantee to the council or as the right of the electorate to choose a new council on a regular basis. Choosing the former interpretation will result in a staggered election schedule.

A council member is not bound by his or her mandate. The positions of council chair and deputy chair are remunerative, based on council resolution. Members may be reimbursed for expenses incurred while performing tasks assigned to them and for salary lost at their principal jobs pursuant to rates and procedures established by the council. The authority of a council member is suspended in the case of (1) appointment as a cabinet minister, auditor general, legal chancellor or county governor, or election to the post of mayor or confirmation of his or her appointment as a member of the municipal government; (2) entrance into active service in the armed forces; or (3) probation.

The authors of the concept of administrative reform proposed that the authority of a council member also be suspended due to his or her election to the State Assembly. As a result of the 1996 elections, a quarter of Tallinn's city council members became members of the State Assembly. On the one hand, members of the State Assembly need to understand topical issues concerning local authorities. On the other hand, being a member of two elected bodies (or even three, if counting district councils) can be difficult in terms of time and avoiding a conflict of interest. This becomes even more complicated if a politician is a member of a town council and at the same time represents the electorate of another county in the State Assembly.

Upon suspension of the authority of a council member before the end of the council's term, an alternate replaces him or her. The alternate is the first unelected candidate of the same political party or coalition who ran in the same electoral district as the council member being replaced.

Issues that are within the sole competence of a council are decided by vote. Other issues are decided by vote upon the request of at least one council member. Voting is open, with the exception of intra-council elections, which are decided by secret ballot. Council decisions are passed by a simple majority.

A council is unable to act if it:

- fails to pass the municipal budget within three months of the beginning of the fiscal year, or three months after the adoption of the state budget if the latter is not approved by the beginning of the fiscal year;
- fails to elect the chair or the mayor within one month of the date of the first council session or fails to confirm the membership of the municipal government within two months of the date the mayor is elected.

If a council is unable to act, the authority of all council members is deemed prematurely terminated, and alternates replace them.

The municipal council elects a chair, who cannot be the mayor, and a deputy chair. The chair of the council:

- manages the work of the council and convenes, organizes the preparation of and chairs the council meetings;
- represents the local authority and its council in accordance with the law, the statutes of the local authority and council decision;
- signs regulations passed by the council and other council documentation;
- performs other functions assigned to him or her by law and by the statutes of the local authority.

Councils may form standing and ad hoc committees. Chairs of committees are elected from among the members of the council. The appointment of other committee members is confirmed on proposal of the committee chair. The principles and procedures for the activities of council committees are provided in the statutes of the local authority.

The only statutory committee of municipal councils is the audit committee, which is elected by the council for the duration of its term of office from among its members and is comprised of not less than three members. Pursuant to procedures provided in the statutes of the local authority, the audit committee supervises the activities of the municipal government, including:

- conformity of municipal government activities with the regulations and resolutions of the council;
- timely collection and registration of revenues and conformity of expenditures with the municipal budget;
- accuracy of accounting of municipal administrative agencies, enterprises and institutions and the appropriate use of municipal funds allocated to them;
- fulfillment of contracts concluded by the local authority;
- legality and appropriateness of the activities assigned to the municipal government by the council.

The audit committee informs the municipal government of any deficiencies it discovers and makes written proposals to address them; the municipal government adopts its position within ten days after receipt of the audit report and submits its opinion to the council, enclosing the report. The audit committee reports again on its work and submits its comments and proposals to the council prior to approval of the report.

There are two essential documents a council must adopt in addition to the budget: the municipal statutes and the municipal development plan. The statutes establish the formation, rights, duties and rules of procedure of the local government bodies, their committees and agencies. The development plan provides an analysis and prognosis of the socioeconomic situation, environmental conditions, main objectives of development, physical master plan and principles for infrastructural development of the local authority. Development plans are prepared for at least two subsequent years. The council makes the draft development plan accessible to all residents of the local authority pursuant to procedures provided in the municipal statutes and approves

the draft after proposals concerning the plan have been reviewed by a date specified by the council. If circumstances arise that necessitate the amendment of the development plan, the municipal government has the right and the duty to initiate such proceedings with the council.

The chair or deputy chair convenes regular council sessions in accordance with procedures established by the council. Issues to be discussed are indicated in the session notice, which is forwarded to the council members not less than four days prior to the meeting. A council discusses only the issues indicated in the notice and prepared pursuant to procedures required by the council. The council is convened on the proposal of the municipal government or of at least one-fourth of the council's members. The municipal election committee chair or deputy chair leads the first session until the council chair is elected. Council sessions generally are public, though the council may declare a session to be closed if not less than two-thirds of the council votes against such a proposal or if the disclosure of data pertaining to an issue under discussion is prohibited or restricted by law. The members of the municipal government and persons invited to a session by the council may participate with the right to speak. The council may assign the preparation of issues to be discussed during a council session to the government.

The support of at least one-fourth of the members of the council is necessary to initiate a vote of no confidence in the council chair, the mayor, a member of the municipal government or a chair of a council committee. A vote of no confidence in the council chair or a committee chair results in release from office. In the event of a vote of no confidence in the council chair, the deputy chair or the eldest member of the council performs his or her duties. A vote of no confidence in the mayor or a member of the municipal government is grounds for release from employment.

The head of the municipal government is the mayor, elected by the council for a term of three years. The head of the government cannot be the chair of the council. However, from 1989 to 1993, the principles of administrative reform prescribed that the chair of the council simultaneously could be the mayor of a rural municipality, borough or town. The mayor sets up the municipal government, the detailed regulations for which are stated in the municipal statutes.

### 3.4 Public Participation in Decision Making

Residents of a rural municipality or town have the right to initiate legislation. Not less than one percent of the residents of a local authority with the right to vote, but not less than five residents with the right to vote, may initiate the passage, amendment or repeal of legislation of local authorities concerning local issues; such initiatives must be debated within three months of the adoption of the legislation in question. The issues are presented to the municipal government in the form of a draft to which a signed list of the initiators is appended. If the issue lies within the competence of the council, the municipal government within one month submits the issue together with its own position to the council for resolution. A representative of the initiators has the right to participate in the council or municipal government debate on the issue. Any individual

has the right to apply to the council or the municipal government for the amendment or repeal of legislation that unlawfully restricts the rights of the applicant. If the council or the municipal government refuses to amend or repeal such legislation, the applicant has the right to initiate recourse through the courts for resolution of the issue.

### 3.5 Ethnic Issues, Multicultural Government

There are several local authorities in Estonia, including large towns such as Narva and Sillamäe, in which Estonians constitute only a small percentage of the local population. In Tallinn approximately one-half of the population is Estonian. Candidates of two Russian parties ran in the 1993 municipal elections for the Tallinn city council and won close to half of the seats. In the 1996 municipal elections the Russian parties split and won only a quarter of the seats. In the Narva, Kohtla-Järve and Sillamäe municipal councils Estonians hold less than one-third of the seats.

The working language of local government bodies is Estonian. Everyone has the right to address local authorities and their officials and to receive responses in Estonian. The use of foreign languages, including the languages of ethnic minorities, is provided for in the Language Act.

Cultural autonomy is an important issue when speaking about the rights of ethnic minorities. The first Ethnic Minorities Cultural Autonomy Act was adopted in Estonia in 1925. The 1992 constitution provides that ethnic minorities can establish cultural local government institutions. On 26 October 1993 the State Assembly adopted a new Ethnic Minorities Cultural Autonomy Act, which reaffirms the constitution. Under the present act, ethnic minorities have the right to establish, manage and supervise public and private educational institutions in which instruction is performed in their mother tongues and to address other issues concerning the preservation of their cultural traditions. Any ethnic minority group with more than three thousand residents in Estonia has the right to establish such cultural institutions, which currently applies to Germans, Russians, Swedes and Jews.

### 3.6 Local Government Associations and International Contacts

Two local government associations existed in Estonia before the annexation of the country—the Association of Estonian Cities and the Association of Rural Municipalities. Their activities were suspended on 17 August 1940 by the government of the Estonian Soviet Socialist Republic; on 1 March 1990 this decision was declared null and void. In May 1990 the activities of the Association of Estonian Cities resumed, and in September 1990, of the Association of Rural Municipalities.

The constituent assembly of the Association of Estonian Cities (AEC) was first held on 19 September 1920. In 1925 the AEC became a member of the International Association of Cities and Local Self-governments (*Union Internationale des Villes et Pouvoirs Locaux*). The AEC is

directed in its activities by statutes adopted in 1926. Today AEC membership includes forty towns, four boroughs and two rural municipalities representing a population of over one million—more than two-thirds of Estonia's residents.

The supreme body of the AEC is the general assembly (*Linnade Päev*). The assembly convenes once a year; each member is represented by a number of delegates proportionate to its population. At the meeting of the general assembly the board is elected, which is the legal representative of the AEC. The board proceeds in its work from the program approved by the general assembly. The board elects a chair and deputy chairs from among the representatives of the members, prepares proposals to the general assembly, collects information necessary for the activities of the AEC, checks the progress of implementation of previous decisions adopted by the general assembly and has decision-making authority. Members of the board are, as a rule, municipal council chairs and mayors. At present, the board of the AEC has twenty-one members.

The main tasks of the AEC are as follows:

- to represent and protect the general interests of its members;
- to foster the development of the public administration system;
- to provide assistance to local authorities in economic and cultural areas;
- to foster international relations and partnerships;
- to coordinate cooperation among members;
- to provide information for local government officers and to arrange activities fostering their professional knowledge and skills.

The bureau manages the administrative work of the AEC; the board must approve the candidate for the office of managing director. The main tasks of the bureau are as follows:

- to implement the decisions of the general assembly and the board;
- to provide assistance to local authorities and to coordinate joint activities;
- to arrange assembly sessions, board meetings and informative meetings and to prepare all necessary materials;
- to collect, analyze and distribute the opinions of local authorities regarding drafts of legal acts;
- to arrange training programs for local government officers;
- to establish contacts and develop relations with associations and organizations of local authorities abroad.

The Union of Estonian Associations of Local Authorities (UEALA) is a nationwide voluntary union. The government approved its statutes on 27 May 1993. The functions of the UEALA are as follows:

- development and cooperation among local authorities and their associations;
- representation and protection of the common interests of local authorities and their associations;
- participation in drafting regulative acts concerning local authorities;
- compilation, exchange and distribution of information concerning local government;
- safeguarding the interest of local government officers.

As of 1 January 1999 all fifteen regional unions of local authorities were members of the UEALA. The highest administrative organ of the UEALA is the council; each UEALA member is represented in the council by no more than two representatives. During the period between the council meetings, the chair manages the activities of the association.

In 1994 the three local government associations agreed to establish a joint committee, the objective of which is to negotiate with the central government on key issues concerning the development of local government units, such as the amount and distribution principle of funding allocated from the state budget to the local government units and the division and fulfillment of responsibilities between the state and local governments.

Local authorities have the right to become members of and to cooperate with international organizations of local government. In relations with international organizations, local authorities are represented by the council or delegates appointed by the council.

#### 4. Local Administration, Service Provision

The head of the municipal government is the mayor. The mayor, members of the municipal government and, by virtue of office, the municipal clerk (or secretary) constitute the municipal government. The municipal government has a quorum if, in addition to the mayor or his or her deputy, at least one-half of its members participate in the session. Municipal government decisions are passed by majority vote. Sessions are not public unless the municipal government decides otherwise.

The municipal government:

- prepares issues to be discussed by the council based on the position of the government and council resolutions;
- resolves and manages local issues that are assigned to the municipal government by council resolution or the municipal statutes;
- resolves and manages local issues that do not fall within the sole competence of the council;
- represents, as a legal person, the local authority in court.

The mayor is elected under conditions and by procedures provided for by law and the municipal statutes for a period of up to three years. The mayor has the authority to form the municipal government from the date he or she is elected. The mayor is conferred authority upon confirmation into office by the municipal government, and the municipal government is conferred authority from the date of its appointment by the council. The mayor:

- organizes the work of the municipal government and preparation for its sessions;
- represents the municipality in accordance with the authority granted him or her by law, the municipal statutes and the council;
- issues directives for the management of the internal activities of the municipal government and its agencies;



- signs municipal regulations and orders and other municipal government documentation;
- submits the membership of the municipal government to the council for confirmation;
- submits proposals to the council for confirmation of the appointment of additional members to or for the release from office of members of the municipal government;
- presents candidates for heads of municipal enterprises to the council for confirmation;
- performs other functions assigned to him or her pursuant to the law and the municipal statutes.

The municipal government may apply to the council to review a regulation or resolution passed by the council. Regulations and orders of the municipal government are made public prior to their entry into force pursuant to procedures provided in the municipal statutes, with the exception of the disclosure of data that is prohibited by law or that is intended only for internal use by municipal agencies.

On 1 January 1996 the Public Service Act came into force regulating employment in state and local government institutions. An administrative agency is one that is financed by the state or municipal budget and exercises public authority. Municipal administrative agencies, in which employment is considered to be public service, are (1) the office of a municipal council, (2) municipal governments (as agencies) together with their structural units, (3) municipal district governments of local authorities (as agencies), (4) town government executive agencies and (5) bureaus of local authority associations. A person employed by a local administrative agency is a local government officer. Public servants are classified as (1) officials, (2) support staff and (3) nonstaff public servants. An official is a person elected or appointed to office in an administrative agency. The total number of public servants in Estonia is approximately twenty-five thousand: four thousand three hundred local government officers, plus civil servants in county governments and central government institutions, including regional central government institutions.

The municipal council approves the structure, staff and salary rates of public servants of local administrative agencies. Salary scale is one of the most broadly debated issues in Estonian public administration. In the 1990s three different approaches have been used. Initially, the government established salary rates that were dependent on the size of the local authority. After the adoption of the constitution prescribing budgetary independence of local authorities, wealthier local authorities began using salary rates established by their councils. The government subsequently decided that only local authorities receiving subsidies from the state budget must use centrally established salary rates. In 1996, however, this requirement was abolished. Differences in local government officer salaries increased dramatically—currently from EEK 2,000 to EEK 8,000 per month (though the monthly salary of the mayor of Tallinn is EEK 21,600). Thus, reestablishing a system by which local authorities receiving subsidies from the state budget (currently close to ninety-five percent) have to use the centrally established public service salary rates has gained support.

An Estonian citizen at least eighteen years of age with at least a secondary-level education, legal competence and proficiency in Estonian may be employed as a local government officer.

Upon assuming a public position, an official takes the following written oath before the person who has appointed him or her: "I swear to be faithful to the constitutional order of Estonia and to perform conscientiously and accurately the functions that the office entrusted to me. I am aware that the law prescribes liability for a breach of duties." A person who takes the oath signs its text, which is enclosed in the individual's service record. As a rule, competitions are held for filling public service positions. The head of a municipal administrative agency may also announce public competitions for other offices. Under the Public Service Act, civil servants receive additional remuneration for length of employment, academic degrees and proficiency in foreign languages. Local government officers have no statutory right to such remuneration, but the municipal council may decide to establish such terms using the rates provided in the Public Service Act. An official is entitled to personal leave up to thirty-five calendar days. If an official has been in public service for at least three years, he or she is granted one additional day of personal leave for the third and each subsequent year in service, up to a total of ten calendar days. An official also receives state pension. An official is required to submit to the authorized person or administrative agency an annual declaration of his or her financial situation, including information on his or her assets, sources of income, et cetera. The personal income declaration is submitted by a deadline and according to procedures established by the municipal council.

Relations between local authorities and central government agencies are based on the law and special contracts. Local authorities cannot delegate their tasks, authority or funds allocated to them pursuant to the law. Municipal councils have the right to submit proposals to the government for the adoption or amendment of laws and other legislation. The county governor supervises the activities of local authorities, the State Audit Office supervises the use and disposal of state assets transferred to the local authorities, and the legal chancellor supervises conformity of legislation passed by local authorities with the constitution and other laws.

Local authorities may, for the expression, representation and protection of common interests and for the performance of common functions: (1) cooperate, (2) grant authority to another local authority for this purpose and (3) form unions and associations of local authorities. In the interest of cooperation, local authorities may found joint agencies by contract. A foundation agreement is the basis for formation of a union of local authorities; a union operates pursuant to the law and the registered articles of the union. The representative body of the union or, upon its authorization, another body has the right to conclude contracts on behalf of the union with central government agencies to assume responsibility for certain state tasks. The union of local authorities undertakes such tasks if all municipal councils represented in the union give their consent.

The tasks of a local authority, unless assigned to other persons by law, include organization of social assistance and services, welfare services for the elderly, housing and utilities, water supply and sewage, provision of public services and amenities, physical planning, public transport within the local authority and maintenance of municipal streets and roads. Local authorities are also

responsible for supervising kindergartens, primary and secondary schools, special interest schools, libraries, community centers, museums, sports facilities, shelters, homes for the elderly and the handicapped, health care institutions and other agencies owned by the local authority. Legislation may prescribe covering specific costs of such agencies from the state budget or other sources. In addition to the above tasks, local authorities address local issues assigned to them by law and state tasks assigned to them by law or undertaken by a contract concluded between an authorized central government agency and the municipal council.

The division of tasks between the central government, including the regional level, and local authorities is still a topical issue, although much has been accomplished in this area. In early 1998 thorough research into this issue was initiated, which should touch upon the allocation of financial resources for tasks assigned to local authorities. Today there is no reliable information on the cost of such tasks; thus, there is no guarantee that all local authorities have the capacity to fulfill them.

## 5. Local Finance, Economic Development

Like most Central and East European countries, Estonia experienced economic decline during the first five years of economic reform. The fall in gross domestic product (GDP) began in 1990 and continued until the end of 1994. In 1996–97 Estonia witnessed particularly rapid economic growth. Table 2.2 illustrates the economic structure of the country in 1997.

*Table 2.2*  
**Revenue Structure of  
Selected Estonian Local Governments, 1997 [%]**

	<b>Tallinn (415,000 inhabitants)</b>	<b>Tartu (101,000 inhabitants)</b>	<b>Pärnu (52,000 inhabitants)</b>	<b>Rakke<sup>a</sup> (2,500 inhabitants)</b>
State Grants	—	6.8	8.4	32.3
Shared Revenues	71.0	70.8	57.9	43.5
Local Taxes	0.6	0.4	0.3	—
Credits	16.0	6.6	11.9	—
Other	12.4	15.4	21.5	24.2

a. Rural municipality.

A cornerstone of Estonia's fiscal policy is the principle of a balanced state budget, excluding foreign and domestic loans. Estonia pursues a cautious policy with regard to financing public expenditure with foreign loans. In fact, the total amount of external loans of the state must not

exceed seventy-five percent of state budget revenues in any year. Similarly, government guarantees on loans must not exceed fifteen percent of state budget revenues. During a fiscal year, new external loans must not exceed fifteen percent of state budget revenues; the State Assembly must approve all loans. As of January 1996 state loans accounted for 7.6 percent of Estonia's GDP. Thus, Estonia satisfies the requirement for joining the third stage of the European Monetary Union, according to which state loans must not exceed sixty percent of GDP. By February 1996 Estonia had contracted eighteen foreign loans totaling USD 288 million. Creditors disbursed USD 189 million, and Estonia made interest payments in the sum of USD 17.5 million. Furthermore, the government guarantees five foreign loans totaling USD 117 million. Until now, Estonia's principal creditors have been the World Bank and the International Monetary Fund, but cooperation with other important financial institutions, such as the European Bank for Reconstruction and Development, the European Investment Bank and the Nordic Investment Bank, recently has increased. These loans mainly finance infrastructural improvement: energy, road maintenance, health care, environmental protection, air traffic services, water supply and sewage systems. The first foreign loan repayment started in 1996 and will culminate in the years 2000–03.

Privatization has been one of the main priorities in restructuring the Estonian economy. In 1994 only 67.5 percent of all business revenue came from the private sector; by 1996 and 1997 this figure respectively was 78.0 percent and 86.2 percent. In 1996, the private sector accounted for 63.8 percent of total revenues in transport, warehousing and communications; 82.7 percent in manufacturing; 89.5 percent in real estate, rental and business services; 97.5 percent in construction and 98.6 percent in wholesale and retail trade. From 1993 to 1997 the ownership of 472 enterprises and structural units was privatized for a total purchase price of EEK 4,389 billion. Investments worth EEK 4,319 billion and jobs for 56,154 people have been guaranteed. The purchasers assumed liabilities of the enterprises for a total of EEK 2,160 billion. From 1991 to 1997, 1,348 properties were sold at auction for a total purchase price of EEK 605 million.

*Table 2.3*  
**Subnational Government Expenditures as Percentage of GDP  
in Estonia, 1994–97**

Year	%
1994	11.9
1995	11.7
1996	11.3
1994	10.5
1998	11.9

*Table 2.4*  
**Subnational Government Expenditures as Percentage of  
 General Government Expenditures in Estonia, 1994–97**

Year	%
1994	33.1
1995	31.4
1996	29.8
1997	28.1
1998	30.6

An independent municipal budget is composed of all revenues and expenditures for one fiscal year. Draft budgets, approved budgets, amendments and reports are published as public information. Municipal budgets are drafted taking into consideration the local development plan. Initiators of amendments to a budget or draft budget resulting in a decrease in revenue or an increase or reallocation of expenditure must provide information on the sources of revenue necessary to cover such expenditure.

The municipal fiscal year, like that of the state, starts on 1 January and ends on 31 December. A majority of local authorities receive allocations from the state budget; thus, the state budget must be approved first. At times, the state budget was not approved by the beginning of the year; consequently, in 1994 a decision was made to start the municipal fiscal year three months later—that is, on 1 April. Soon it became clear that although information on state budget allocations for the first nine months of the municipal fiscal year was available, it was impossible to predict this amount for the last three months. As a result, the former system was reinstated in January 1996, according to which the municipal and state fiscal years coincide.

The main sources of municipal revenue are as follows:

- shares of centrally established taxes;
- allocations/subsidies from the state budget;
- municipal taxes;
- loans;
- rental of municipal property;
- revenue on municipal property sales.

Throughout the 1990s there have been significant changes in the share of centrally established taxes paid to municipal budgets, as illustrated by table 2.5. Currently, the following proportions are allocated to municipal budgets:

- fifty-six percent of personal income tax;
- one hundred percent of land tax;

- twenty percent of oil shale utilization tax, seventy percent of tax on construction materials and twenty percent of water utilization tax.

*Table 2.5*  
**Share of Centrally Established Taxes  
 Paid to Municipal Budgets in Estonia, 1991–99 [%]**

Year	Personal Income Tax	Corporate Income Tax <sup>a</sup>	Value Added Tax <sup>b</sup>	Land Tax <sup>c</sup>	Natural Resources Utilization Tax <sup>d</sup>
1991	100	35	up to 3	—	varies
1992	100	35	up to 3	—	varies
1993	100	—	—	50	varies
1994	52	—	—	50	varies
1995	52	—	—	50	varies
1996	56	—	—	100	varies
1997	56	—	—	100	varies
1998	56	—	—	100	varies
1999	56	—	—	100	varies

- Teachers' salaries were paid from municipal budgets when part of corporate income tax was paid to municipal budgets.
- Municipal councils had the right to establish local value added tax (VAT) with a rate of up to three percent when the centrally established VAT rate was nine percent; local authorities were denied the right when the VAT rate was centrally established at eighteen percent.
- Land tax was formally introduced in 1993. Initially, only fifty percent of this tax was paid to municipal budgets; municipal councils had the right to establish the tax rate between 0.8 and 1.2 percent of the centrally established estimated taxable value of land, which depended on location and utilization. Since 1996 land tax is paid to municipal budgets in full, and municipal councils have the right to establish the tax rate between 0.5 and 2.0 percent of the centrally established estimated taxable value of land.
- The amount of natural resources utilization tax paid to municipal budgets varies; for example, in 1993 fifty percent of the oil shale utilization tax was paid to municipal budgets, but later the corresponding amount was twenty percent.

Personal income tax constitutes, on average, ninety-two percent of the total tax revenue paid to municipal budgets, whereas tax on land and on natural resources utilization constitutes six and less than two percent respectively. For example, natural resources utilization tax makes up two-thirds to three-quarters of municipal budget revenue in the rural municipalities of Ida-Viru county, such as Maidla, Mäetaguse and Vaivara, since several oil shale mines are located on their

territories. In economically weaker rural municipalities, such as Varbla, where there are few natural resources and a small workforce, the tax on land constitutes more than one-third of the centrally established taxes. The total amount of the three above taxes collected per person in the rural municipality of Mäetaguse in 1996 was EEK 5,332, whereas the corresponding proportions in the rural municipalities of Vaivara and Maidla were EEK 4,993 and EEK 4,307 respectively. These figures were about two times higher than those of Tallinn, and the corresponding numbers on the islands of Piiressaare and Kihnu were only EEK 216 and EEK 463.

Rural municipalities with small tax bases receive equalization allocations from the state budget. The aim is to achieve a situation in which there are no municipalities in which total revenue—that is, three centrally established taxes plus allocations from the state budget—is less than ninety percent of the country's average tax base. The principles of distributing state budget allocations are based on the Rural Municipality and Town Budgets and State Budget Correlation Act and on a special formula is used for calculating the allocation.

The Rural Municipality and Town Budgets and State Budget Correlation Act permits the allocation of subsidies, both general purpose and special purpose, from the state budget to local authorities. General purpose subsidies are allocated through a subsidy fund, the objective of which is the appropriation of supplementary resources to local budgets. The size of the subsidy fund in the draft state budget and its distribution among local authorities is determined by an agreement between authorized representatives of local authorities and their associations and the government. If no agreement is reached, the government determines the size and distribution of the subsidy fund.

The appropriation of the subsidy fund is determined by the distribution equation:

$$T_n = (m \times ak - an) \times 0.9 \times en$$

where  $T_n$  = subsidy allocated to local authority;

$m$  = subsidy level coefficient;

$ak$  = average level of appropriations and receipts in Estonia allotted from state taxes to the municipal budgets in the fiscal year in EEK per capita;

$an$  = average level of appropriations and receipts allocated from state taxes to municipal budgets in the fiscal year in EEK per capita;

$en$  = population of the local authority;

0.9 = this coefficient indicates that ninety percent of revenues are supplemented.

The subsidy level coefficient “ $m$ ” is derived from the size of the subsidy fund and indicates the amount of per capita income from state taxes that can be channeled to a municipal budget compared to the average to provide resources from the subsidy fund. Almost ninety-five percent of rural municipalities and towns receive allocations from the state budget; unsubsidized local authorities include, for instance, Tallinn and its surrounding rural municipalities that receive a high proportion of personal income tax and the rural municipalities in Ida-Viru county that receive a high proportion of natural resources utilization tax. The 1999 state budget included EEK 734.177 million allocated as subsidies to local authorities on the basis of the above formula. In addition to allocations from the state budget, there is a regional subsidies fund (EEK 55

million); decisions on how to use these resources are made by county governors together with representatives of the corresponding county's local authority unions. Resources are also available from a special fund (EEK 5 million) intended for local authorities operating under objectively more difficult circumstances, such as those located on islands. Thus, the total amount of subsidies allocated to local authorities in the 1999 state budget was EEK 794.177 million.

In addition to general purpose subsidies the state budget also includes special purpose subsidies. The total amount of special purpose subsidies in the 1999 state budget was EEK 116.341 million, including:

- subsidies for maintenance of homes for the elderly and the handicapped—EEK 36.341 million;
- subsidies for transport companies to compensate for reductions offered to students of municipal schools—EEK 40 million;
- benefits for schoolchildren—EEK 30 million;
- benefits for students of municipal art and music schools—EEK 10 million.

The state budget also includes resources for investments. In 1999 EEK 433.035 million was assigned for this purpose:

- for projects short-listed by the State Assembly on the basis of government and State Assembly proposals—EEK 213.035 million;
- for counties, the use of which was decided by county governors together with representatives of local authority unions of each county—EEK 170 million;
- for maintenance of municipal streets and roads—EEK 50 million.

In 1994 the joint committee of the associations of local authorities was established; since then annual negotiations between the government and the joint committee have been held to decide upon the principles of subsidizing local authorities from the state budget and the amount to be allocated each year. In 1999 the negotiations ended without a mutually acceptable agreement.

One of the characteristics of democratic local governance is the right to impose municipal taxes. In June 1991 a government regulation granted this right, provided the Ministry of Finance confirmed such decisions. The above regulation did not include a list of taxes that local authorities could establish or any other conditions. The constitution, adopted about a year later, prescribed that only laws establish municipal taxes. On 21 September 1994 the Municipal Taxation Act was adopted, prescribing procedures for the implementation of and requirements for nine local taxes. Under the act, municipal councils have the right to fix the rates of the following:

- poll tax—imposed on all citizens aged eighteen to sixty-five; municipal councils also have the right to grant relief from such tax;
- corporate income tax—imposed at a rate of one percent in addition to the corporate income tax paid to the state budget;
- sales tax—imposed at a rate of up to two percent of the price of goods and services sold;
- tax on advertising and public notices—during election campaigns, political parties are exempt from this tax;



- tax for closing roads and streets—imposed on legal persons and individuals who close roads for repair or other reasons;
- tax on motor vehicles—associations of local authorities consider it necessary to establish this tax nationwide;
- boat tax—imposed on the owners of boats, yachts and launches over twelve meters;
- tax on domestic animals;
- entertainment tax—imposed on organizers of entertainment events.

In Tallinn, for example, only three of the above municipal taxes have been levied: on advertising and public notices (revenue generated in 1998 was EEK 9 million), on closing roads and streets (EEK 3 million) and on motor vehicles (EEK 27 million). The total revenue generated by taxes constituted only 1.6 percent of Tallinn's total gross revenue in 1998. Some local authorities have imposed taxes on sales or on domestic animals, but the total proportion of municipal taxes still does not exceed one percent of a municipal budget. Several taxes have not been imposed by any of the local authorities and thus remain only theoretical. An important reason behind this is the philosophy of municipal taxation. Local taxes should be an important instrument for exercising active economic policy in addition to generating revenue for municipal budgets. However, local authorities could lose a significant part of their labor force by establishing diverse poll tax rates. The concept of administrative reform indicates the necessity to work out new principles of municipal taxation, followed by better legislation regulating this area.

*Table 2.6*  
**Sources of Local Government Revenue in Estonia, 1997 and 1998**

Type of Revenue	1997	1998
Taxes	60.6	54.1
Personal Income Tax	55.9	49.1
Land Tax	4.4	4.2
Gambling Tax	0.0	0.0
Local Taxes	0.3	0.8
State Tax	0.1	0.1
Miscellaneous Income	1.3	0.4
Revenue from Property	5.5	5.5
Revenue from Alienation of Property	2.7	2.3
Revenue from Exploitation of Property	1.6	1.7
Financial Income	0.4	0.5
Income from Economy	3.7	3.7
<b>Total Income</b>	<b>71.6</b>	<b>64.3</b>

*Table 2.6 (continued)*  
**Sources of Local Government Revenue in Estonia, 1997 and 1998**

Type of Revenue	1997	1998
Residual Revenue to Cover Expenses	0.2	2.4
Settlement of Accounts and Transfers	25.0	25.4
Subsidies from State Budget	24.5	22.5
Transfers from Other Local Budgets	0.5	1.5
Loans	3.2	7.9
<b>Total</b>	100.0	100.0

SOURCE: *Aasta kohalike omavalitsuste kinnitatud eelarve koond* (Regional Statistics of Estonia 1998) (Rahandusministeerium, 1997), 229.

The structure of local expenditure varies significantly among local authorities. There are no clear regularities or connections concerning, for example, the size of the municipality. Clearly much depends on traditional areas of expenditure. In general, these are education (thirty-seven percent of local revenue); public transport, housing, et cetera (twenty-one percent); and administration (eleven percent) as shown in Table 2.7. Local authorities cannot grant or secure loans, with the exception of student loans.

*Table 2.7*  
**Municipal Budget Expenditures in Estonia, 1997 and 1998**

Expenditures	1997			1998
	%	Total [EEK millions]	EEK per Capita	%
Administration	10.6	721	500	10.6
State Defense and Public Order	0.4	24	17	0.4
Social Sphere	55.8	4,065	2,813	59.5
Education and Science	36.6	2,553	1,767	37.4
Culture and Art	6.6	537	372	7.9
Sports and Recreation	1.5	133	92	1.9
Public Health	1.4	108	75	1.6
Social Security	9.7	734	508	10.7
Economy	21.4	1,417	979	20.7
Other Expenditures	0.7	21	7	0.3

*Table 2.7 (continued)*  
**Municipal Budget Expenditures in Estonia, 1997 and 1998**

Expenditures	1997			1998
	%	Total [EEK millions]	EEK per Capita	%
<b>Total</b> , of which:	88.5	6,250	4,325	91.5
Compensation of Employees	21.9	1,468	1,009	21.5
Investments	9.2	829	574	12.1
Capital Repairs	6.5	612	424	9.0
Settlements of Accounts and Transfers	1.9	132	91	1.9
Transfers to Other Local Budgets	1.8	115	80	1.7
Payment of Loans	9.7	445	308	1.6
<b>Total Expenditure</b>	100.0	6,830	4,727	100.0

One-tenth of all local authorities spend more than twenty-five percent of their revenue on administration—in Alajõe rural municipality the percentage is fifty-five; in the town of Suure-Jaani, forty-eight. Oru rural municipality, Rapla rural municipality and the town of Viljandi spend the least on administration—four, seven and seven percent respectively. Ants Leemets, advisor to the minister of finance, says that each person living in Estonia pays EEK 600 a year on average to cover municipal administrative costs; in one-fifth of the local authorities this amount is more than EEK 1,000 per person. Though education is the principal responsibility of Estonian local authorities and the main area of municipal expenditure, fourteen rural municipalities and two towns spend more on administration than on education. Such discrepancies indicate that effective administrative-territorial reform has not been realized fully in Estonia.

The central government has attempted to diminish relatively vast regional differences. In 1994 the government approved the concepts of a regional policy, and in 1999, a strategy for regional development. The following trends characterize national regional policy as introduced in these documents:

- moving away from national policy towards policy that takes into account the needs of various regions;
- greater coordination of policy in various sectors, thereby stimulating regional development;
- stimulation and increasing effectiveness of local initiatives;
- diversification of methods;
- flexibility in implementation measures;
- moving from compensatory measures towards stimulatory measures;
- increasing financial support for regional policies;
- assessment of the compatibility of regional support policies with EU standards.

The notion of municipal property was first introduced in the 1989 Local Self-government Foundation Act and was developed further in the 1993 Local Government Organization Act. A municipal council establishes procedures for possession, use and disposal of municipal assets—properties—in its statutes. A local authority may sell property that was transferred to it by the state free of charge if such property ceases to be necessary or has become unsuitable for the performance of municipal functions. A local authority has the right to preempt the transfer of structures located within its administrative territory to legal persons if such structures were, in whole or in part, used by an educational, health or cultural institution for not less than one year prior to the transfer.

A local authority may establish municipal agencies, which are not legal persons, for the provision of services; be a shareholder in a commercial undertaking of significance to the local authority; form foundations; and be a member of a nonprofit association.

The following analysis concerning the main problems related to municipal budgets is based on a review by Veiko Tammearu, head of the municipal budgets department in the Ministry of Finance, and Tiit Kirss, deputy managing director of the Association of Estonian Cities.

#### *1. Division of tasks between local authorities and the government*

Though most of the tasks of local authorities are prescribed by law and are negotiated between the government and the joint committee of the associations of local authorities today, no further clarifications have been institutionalized. Many discrepancies exist between legislation and implementation, especially in areas concerning social welfare and health care.

#### *2. Insufficient financing for and poor quality of social services*

The European Charter of Local Self-government prescribes that local authorities have the right to command a sufficient share of the state budget to fulfill their responsibilities, the details of which are specified by legislation and the constitution. Insufficient financing makes it difficult for Estonian local authorities to guarantee the necessary quality of social services.

#### *3. Instability of the state budget*

Regulations specifying procedures for transferring appropriations and subsidies from the state budget to municipal budgets have constantly changed during recent years. Therefore, it has been very difficult for local authorities to plan their budgets with a long-term perspective.

#### *4. Insufficient local revenue*

Local revenue covers but a tiny proportion of municipal budgets. Therefore, local authorities can rarely influence their revenue, which depends mainly on the decisions of the central authorities.

In order to be able to exercise their statutory responsibilities—to solve local problems based on independent decision making—the share of local revenue in municipal budgets should be much greater; the simplest means to meet this objective would be to introduce the municipal income taxes referred to above.

#### 5. *Disagreements with the Internal Revenue Service*

Local authorities lack sufficient control over personal and corporate income taxes, which should be paid to their budgets through the Internal Revenue Service. Local authorities, however, do not have access to lists of taxpayers. This complicates the planning and drafting of municipal budgets.

#### 6. *Obscurity of the division of tasks and responsibilities between the state and local authorities*

Law determines the rights of local authorities in different areas, and several laws (Elementary and Secondary School Act, Social Welfare Act, Planning and Building Act, et cetera) regulate their tasks. In addition to statutory responsibilities, local authorities are charged with tasks that have not been assigned by legal measures to any other party. The Public Health Act, for example, prescribes that the state address only special medical services; this means that the provision of general health care is the task of local authorities, yet most hospitals are under central government administration. Considering the size of Estonian local authorities, they should set up alliances for the administration of hospitals (one for each district, in most cases), through which maintenance, construction and renovation expenses can be shared (currently, such costs in practice are covered by the Ministry of Social Affairs). Medical treatment expenses are paid through the system of state health insurance.

A similar problem exists with homes for the elderly and the handicapped, which are financed mostly by the Ministry of Social Affairs, even though the law stipulates that they should, as a rule, be owned by local authorities and financed from municipal budgets. Over the past few years, local authorities have established new, smaller nursing homes that are, indeed, financed from their budgets.

As for fire prevention, the tasks of different levels are not defined very clearly. In practice, some fire prevention units are affiliated with local authorities and others are managed by state agencies, yet all are financed from the state budget.

#### 7. *Local investment*

Eleven laws assigning tasks to local authorities presume that they will absorb both current expenses and capital outlays for a given area. At the same time, negotiations between the joint committee of the associations of local authorities and the government have concluded that major investment funds for local authorities be appropriated from the state budget. Considering, however, the

paucity of funds available, local authorities have found it necessary to allocate other budgetary resources for major investments. The scarcity of funds could cause serious problems in the near future, as infrastructural restoration is expected to necessitate great investment.

A recommendation for the division of tasks is the transfer of shelter and sustenance support payments to local authorities, which would enable them to use the funds more effectively, since they may better assess local need for such assistance. Yet the transfer of support payments should be approached with caution, since the greatest need is usually in municipalities with the lowest income base, which could lead to difficulties in keeping payments proportionately equal nationwide.

#### 8. *Division of tasks between different administrative levels*

The separation of intergovernmental responsibilities theoretically is based on various criteria. For example, services to residents should be offered at the administrative level closest to them, while keeping in mind the cost effectiveness of service provision through those administrative units that have both the finances and infrastructure to manage its delivery. The primary criterion in dividing tasks has been the desire to shift as many public services as possible from the state level to the local authorities, which are assumed to be the best level for assessing the actual needs of the population. In the process, conflict has arisen in translation from legislation to practice. On the one hand, as noted earlier, legislation assigns more tasks to local authorities than they actually perform. On the other hand, local authorities have allocated funds for tasks that fall under the state's jurisdiction, yet are not addressed appropriately. Law enforcement is one area in which this occurs.

From the point of view of economic effectiveness, Estonian local authorities are, as a rule, too small for each to offer secondary education and to build its own nursing homes. Thus, in many of the rural districts, one secondary school and one nursing home are maintained by several local authorities. Also to be considered here is the country's relatively low population density; districts with small populations can have territories of three thousand square kilometers on average. Some of the existing district hospitals and vocational schools obviously could serve an area even larger than the average district in Estonia.

For these reasons it would be difficult, even in the future, to turn over hospitals to local authorities and finance them according to the scheme outlined by legislation. The question is, of course, if the need for an agreement among fifteen to twenty local authorities within a district on how to share hospital maintenance and renovation costs can be achieved without budgetary stability. One possible solution would be to cover such costs from the state health insurance budget regardless of whether the hospital is state-owned or belongs to one or even several local authorities.

A significant principle in dividing tasks between different levels is the necessity to guarantee a consistent level of quality nationwide. For reasons mentioned earlier, shelter and sustenance

support payments to residents and teachers' salaries thus far have been financed from the state budget, though it would have been more beneficial to place such payments under municipal financing, where payroll expenses and the number of personnel could be regulated within local budget constraints. If the objective is to guarantee a uniform statewide service, the amount of shelter and sustenance support should be proportionate to the number of people needing it.

## 6. Next Steps in the Transition Process

The following steps are needed to modernize local government further:

- amend existing legislation;
- draft a new model or models for municipal management;
- improve municipal financial management, especially tying the local tax base to local economic activity;
- introduce changes in administrative-territorial division;
- solve organizational problems, such as improving cooperation among local authorities.

In principle, there are two alternatives for developing local government in Estonia: improvement of the present system or a decisive step towards a democratic but effective local government system at a new qualitative level. The first alternative involves the improvement of existing legislation; the second is described in the above principles for continuing administrative reform. The implementation of the latter, however, depends on the political will of the members of the State Assembly to be elected in March 2000.

The Local Government Organization Act is inconsistent due to numerous amendments and does not reflect the rapid changes of society. In spring 1996 a group of experts initiated work on a draft of the new Local Government Act, which was to be submitted to the government before the municipal elections in autumn 1996, but it was not completed in time. In spring 1997 the government established a committee to work out the principles for continuing administrative reform. At the initial stages, the committee proposed significant changes to the local government system; thus, it was no longer practical to continue work on the draft of the new Local Government Act. The principles were submitted to the government in early 1998 and on 16 February 1999 were approved. The draft law was not submitted to the State Assembly both because general elections will be held on 7 March 2000 and because the draft is nothing more than an attempt to correct the mistakes of the old system rather than taking qualitative steps towards a new model of local government. Work on the draft will resume after the general elections with the prospect of adoption and implementation after the 2002 municipal elections.

The concept of administrative reform envisages modernization of public administration, taking into account the recommendations of the European Commission's "Agenda 2000" concerning Estonia's possible accession to the European Union. The main principle of the concept is accelerating administrative-territorial reform and strengthening local authorities (dividing

responsibilities following the principle of subsidiary and improving public services and their accessibility). Resulting from the problems faced in the practical development and conceptual trends of administration, the status of the capital is clarified and state supervision over it is established. Concerning the county level, law prescribes only state governance. The issues of legal, economic and organizational cooperation among local authorities must be resolved at the regional level; unregulated development results in many inconsistencies.

The difference in the size of Estonian local authorities and in organization and development of political parties at the local level are impossible to eliminate even by administrative-territorial division. Thus, local authorities of different sizes implement various municipal management models. At the same time, it is important to realize that the development of local government in Europe during the post-World War II period has moved towards unification, and the centuries-old principle “*Stadtluft macht frei*” is no longer valid. Implementation of different management models requires extending not only the rights of certain local authorities but also their responsibilities.

According to the public administration development concept, three management models may be implemented:

- adopt direct democracy instead of representative democracy;
- entrust the council *in corpore* with the responsibilities of the collective executive body; or
- transfer the tasks of the collective executive body to the board of the council.

Direct democracy should be practiced in small local authorities. There are countries in Europe where such practice is guaranteed by the constitution—in small local authorities no council is elected, and important matters are decided by public meetings, referendums, et cetera.

In small rural municipalities or towns, the council could also fulfill the tasks of the municipal government. This would mean an extended workload for the council and more frequent meetings. The functional way of thinking opposes the implementation of this model, but at the local level the council should have the capacity to make decisions on all significant issues. Implementation of such a management model solves the problem of division of tasks at the local level arising from obscure legislation. Rural municipalities and towns establish a clear division of tasks in their statutes. According to the statutes of Tallinn, the city government fulfills the tasks intended for local authorities by law unless the city council decides otherwise. The statutes of Pärnu establish that all the tasks delegated to local government units by law that do not belong to the sole competence of the city council are fulfilled by the city government. Such a management model makes it possible to separate political and administrative management.

It would be practical for the council board to fulfill the tasks of political municipal government, especially in big towns where political parties are well organized at the local level. The Tallinn city council approved such an approach in spring 1999; the political watershed dividing the council and city government resulting from the Local Government Organization Act should



divide the city government and the municipal administration. Implementing such a management model also settles the issue of ensuring nonpolitical “municipal managers” as has been suggested in discussions and interviews. The Tallinn city council in its decision to support the idea of combining the offices of council chair and mayor rejected the notion of municipal manager. Clearly, it is necessary to clarify by law the tasks of municipal managers as well as procedures for their appointment, dismissal, et cetera.

The precondition for implementation of the above municipal management models is clarification of several related issues in order to ensure their functioning without discrepancies. First and foremost, it is necessary to decide if, in a small country like Estonia, it is practical to implement different management models at the local level. If the answer is affirmative, the next step should be to decide if all of the above models should be used. Related to this issue is that of municipal control. It is considered necessary to establish internal municipal audit offices similar to the State Audit Office; municipal audit should be obligatory.

The principles for continuing administrative reform prescribe reorganization of administrative-territorial division in two stages: at the first stage, before the next municipal elections in 2002, amalgamation is voluntary; during the second stage government agencies authorize amalgamation of inefficient local authorities. However, thorough research needs to be conducted before reorganization of the administrative-territorial division can take place.

Personal income tax should be divided into two parts: state and municipal. Municipal councils should be given the right to raise or lower the municipal personal income tax rate. Natural resources utilization tax should not be paid to municipal budgets, since the revenue collected does not depend on the activities of local authorities. If natural resources utilization taxes are paid to municipal budgets, they should be allocated as special purpose grants. A new local taxation concept and corresponding legislation are necessary. The associations of local authorities have initiated the establishment of a joint municipal credit union in order to negotiate international loans on more favorable terms, since local banks charge high interest.

The principles for continuing administrative reform propose maintaining the one-level local government system. Regional cooperation will remain an essential issue, even if the country’s administrative-territorial division is changed radically. Debates continue on whether or not new legislation should include provisions concerning local cooperation. If the answer is affirmative, then the question is to what extent law should regulate municipal cooperation. The issue is especially significant since regional unions play an important role in allocating state budget funds among local authorities. It is also unclear today if such unions are private or public institutions. This issue should have been settled in autumn 1989 by the Nonprofit Associations Act, but the State Assembly postponed this determination.

Another topical issue is creating and encouraging competition among local authorities. Today competition is evident in determining municipal salary rates, but other spheres would benefit

from the introduction of market agents. Regardless, there is room for improvement in the professional qualifications of local government officials and politicians. Estonia has a strong network of institutions providing training for local government staff, which was developed without central government guidance. Yet there are not enough trainers with sufficient theoretical and practical knowledge or locally compiled teaching materials. Still, the most serious problem is the shortage of municipal financial resources to support such training. Time and again, the issue has been raised that the training of local officials and politicians should be covered partially by allocations from the state budget. Yet when this topic is discussed, the civil service points to the statutory budgetary independence of local authorities.

In the early 1990s the obligatory soviet-type registration of one's place of residence was abolished in Estonia, but to date no laws regulating this area have been adopted. Many politicians and officials hold the opinion that it would violate citizens' constitutional rights and freedoms. Conversely, all residents need to pay personal income tax, exercise their right to vote and apply for social care and benefits if necessary.

Representatives of local authorities in Estonia should be given the opportunity to play a more significant part in the European integration process; today their contribution is practically nonexistent.

## Recent Publications on Local Government in Estonia (in English)

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*Estonian Candidacy for Membership in the European Union: International Business Handbook.* 1998–1999.

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## Annex 2.1

## Major General Indicators

Size of territory	45,227 square kilometers		
Population density	32 inhabitants per square kilometer		
Population (1 January 1998)	1,453,844		
Urban	1,006,654 (69 percent)		
Rural	447,190 (31 percent)		
	1996	1997	1998
Pensioners (thousands)	374.3	370.5	366.9
Schoolchildren (thousands)			
Basic (forms 1–9)	184.2	184.8	185.8
Secondary (forms 10–12)	36.8	37.8	38.3
Major ethnic divisions			
Estonians	65.1 percent		
Russians	28.1 percent		
Ukrainians	2.5 percent		
Belarusians	1.5 percent		
Finns	0.9 percent		
Per capita GDP at current prices (by income approach)			
1995	EEK 40,705 (DEM 5,088)		
1996	EEK 52,446 (DEM 6,556)		
1997	EEK 64,913 (DEM 8,114)		
Real domestic product			
1991–92	14.2 percent		
1992–93	8.5 percent		
1993–94	2.7 percent		
1994–95	4.3 percent		
1995–96	4.0 percent		
1996–97	11.7 percent		
State budget and municipal budgets			
1996	EEK 18,070 million		
1997	EEK 18,474 million		
1998	EEK 22,329 million		

## Unemployment rate (annual average)

1994	7.6 percent
1995	9.7 percent
1996	10.0 percent

## Inflation Rate

The rate of inflation (equal to growth in consumer prices) has fallen significantly in recent years. The rate of inflation was 28.9 percent in 1995, 14.8 percent in 1996, 12.5 percent in 1997, and was estimated to be 6.5 percent in 1998. Several factors explain the high level of inflation: the liberalization of administered prices of public goods (central heating, electricity, housing and transport), the increase in international prices and the consumers' basket. The fixed exchange rate policy (the EEK is pegged to the DEM) has reduced the effects of input inflation, and Estonian monetary policy and conservative fiscal policy have contributed effectively to bringing inflation down. This policy will be pursued in the coming years. During the next three to four years the objective is to reduce the inflation level substantially.

State independence regained	20 August 1992
Independence Day	24 February (1918)
Constitution adopted by referendum	28 June 1992
Member of United Nations	17 September 1991
Member of Council of Europe	13 May 1993

Capital	Tallinn (population 415,299 as of 1 January 1998)
---------	--

National currency	<i>Eesti kroon</i> [EEK] 1 <i>kroon</i> = 100 <i>sentid</i>
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The kroon was issued on 20 June 1992 and is pegged to the German mark at the rate 1 DEM: 8 EEK.

## Annex 2.2

### Population, Settlements and Administrative Units

The average number of inhabitants in Estonian local authorities is 5,713. The average number of inhabitants in rural municipalities is 2,212, and in towns, 21,468. The average territory of a rural municipality is 215 square kilometers. The median population of Estonian local authorities is 2,000. Excluding the local authorities with the largest and the smallest number of inhabitants—Tallinn and Ruhnu, with 415,299 and 63 inhabitants respectively—the average number of inhabitants is 4,104. In 216 local authorities (85 percent of the total), the number of inhabitants is less than 5,000. The total population of these municipalities is 337,530—23 percent of the total population of the country.

*Table 2A.1*

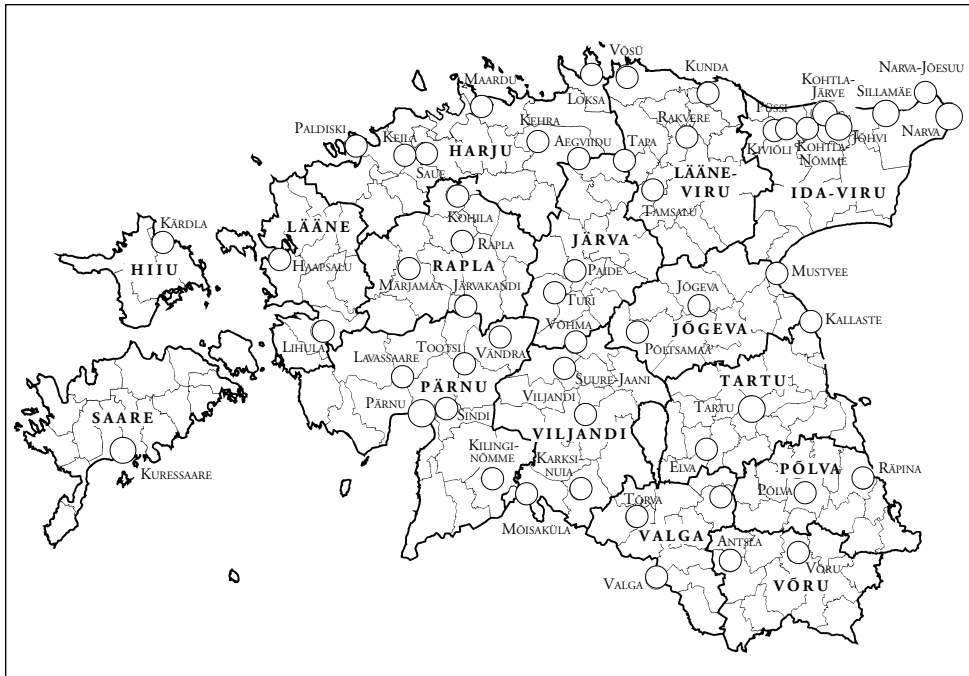
#### Number of Settlements by Population Size Categories in Estonia, 1 January 1998

Population Size Categories	Number of Settlements	%	Population	%
0–1,000	4,460	97.9	381,127	26.2
1,001–2,000	46	1.0	66,939	4.6
2,001–5,000	26	0.6	88,624	6.1
5,001–10,000	8	0.2	60,299	4.1
10,001–50,000	10	0.2	161,469	11.1
50,001–100,000	3	0.1	179,110	12.2
100,001–1,000,000	2	0.0	516,276	35.7
1,000,001+	—	—	—	—
<b>Total</b>	4,555	100.0	1,453,844	100.0

*Table 2A.2*  
**Number of Municipalities by Population Size Categories in Estonia, 1 January 1998**

Population Size Categories	Number of Municipalities	%	Population	%
0–1,000	24	9.4	17,029	1.2
1,001–2,000	100	39.4	152,100	10.5
2,001–5,000	95	37.4	294,488	20.2
5,001–10,000	20	7.9	133,372	9.2
10,001–50,000	10	3.9	161,469	11.1
50,001–100,000	3	1.2	179,110	12.3
100,001–1,000,000	2	0.8	516,276	35.5
1,000,001+	—	—	—	—
<b>Total</b>	<b>254</b>	<b>100.0</b>	<b>1,453,844</b>	<b>100.0</b>

*Figure 2A.1*  
**Administrative Map of Estonia in 1998**



## Annex 2.3

### Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in Estonia (presented in the order of adoption; date of adoption is given in brackets):

- Local Government Council Election Act (19 May 1993)
- Local Government Organization Act (2 June 1993, later amended on several occasions)
- Rural Municipality and Town Budgets Act (16 June 1993)
- Local (Municipal) Taxation Act (21 September 1994)
- Rural Municipality and Town Budgets and State Budget Correlation Act (25 October 1994)
- Territory of Estonia Administrative Division Act (22 February 1995)
- Public Service Act (came into force on 1 January 1996)
- The Government of the Republic Act (came into force on 1 January 1996)



## Annex 2.4

### Municipal Council Competence

The responsibilities delegated to municipal councils include:

1. approval and amendment of the municipal budget and approval of reports on the implementation thereof;
2. imposition of local taxes and amendment of tax rates;
3. establishment of procedures for granting local tax incentives paid to the municipal budget;
4. imposition of duties;
5. establishment of procedures for the granting of benefits;
6. establishment of procedures for possession, use and disposal of municipal assets;
7. approval, amendment and repeal of municipal development plans;
8. taking of loans and assumption of other proprietary obligations;
9. approval, amendment and repeal of the statutes of the local authority;
10. submission of requests or provision of opinions concerning the alteration of boundaries of the local authority or the change of name of an administrative unit and the settlement of proprietary or other disputes pertaining thereto;
11. formation and liquidation of municipal districts and determination of the competence and approval of the statutes thereof;
12. determination of the number of seats in the municipal council to be elected at the next municipal elections;
13. determination of the number, boundaries and common numeration of electoral districts; determination of the number of mandates in each electoral district; formation of the election committee and division committees and appointment of the chair and alternate members of such committees in its territory;
14. election of the chair and deputy chair(s) of the council;
15. election and release from office of the mayor;
16. confirmation of the appointment to and release from office of the municipal government and the members thereof;
17. expression of no confidence in the chair of the council, mayor, member of the municipal government or chair of a council committee;
18. determination of remuneration to members of the municipal government;

19. formation and liquidation of council committees, election of chairs thereto from among council members and approval of the membership of such committees;
20. determination of remuneration to the chair and his or her deputies;
21. determination of the amount and procedures for compensation to council members for expenses incurred in the performance of tasks assigned to them by the council and for loss of salary in their principal jobs;
22. establishment of procedures for representation of the local authority;
23. establishment of funds and foundations of the local authority;
24. election of lay judges;
25. election of a representative or representatives of the council to the electoral body of the president of the republic pursuant to the constitution;
26. approval, amendment or repeal of municipal building regulations;
27. submission of applications for the expropriation of property;
28. initiation, adoption and repeal of master plans;
29. acceptance of draft master plans and notification of the public thereof;
30. repeal of detailed plans.

## Annex 2.5

## Responsibilities of Administrative Tiers

*Table 2A.3*  
**Specific Functions of Local Government Units in Estonia**

Functions	All Municipalities	Central Administration
<b>I. EDUCATION</b>		
1. Preschool	X	
2. Primary	X	
3. Secondary	X	
4. Technical		X
5. Higher Education		X
<b>II. SOCIAL WELFARE</b>		
1. Nurseries	X	
2. Kindergartens	X	
3. Welfare Homes	X	
4. Personal Services for the Elderly and Handicapped	X	
5. Special Services (for the homeless, families in crisis, etc.)	X	
6. Social Housing	X	
<b>III. HEALTH SERVICES</b>		
1. Primary Health Care	X	
2. Health Protection		X
3. Hospitals	X	X
4. Public Health	X	
<b>IV. CULTURE, LEISURE, SPORTS</b>		
1. Theaters	X	X
2. Museums	X	X
3. Libraries	X	X
4. Parks	X	
5. Sports, Leisure	X	X
6. Cultural Centers	X	X

*Table 2A.3 (continued)*  
**Specific Functions of Local Government Units in Estonia**

Functions	All Municipalities	Central Administration
<b>V. PUBLIC UTILITIES</b>		
1. Water Supply	X	
2. Sewage	X	
3. Electricity		X
4. Gas		X
5. Central Heating	X	
<b>VI. ENVIRONMENT, PUBLIC SANITATION</b>		
1. Refuse Collection	X	
2. Refuse Disposal	X	
3. Street Cleaning	X	
4. Cemeteries	X	
5. Environmental Protection	X	X
<b>VII. TRAFFIC, TRANSPORT</b>		
1. Roads		X
2. Public Lighting	X	
3. Public Transport	X	
<b>VIII. URBAN DEVELOPMENT</b>		
1. Town Planning	X	
2. Regional/Spatial Planning	X	
3. Local Economic Development	X	
4. Tourism	X	X
<b>IX. GENERAL ADMINISTRATION</b>		
1. Authoritative Functions (licenses, etc.)		X
2. Other State Administrative Matters (electoral register, etc.)	X	X
3. Local Police		X
4. Fire Brigades		X
5. Civil Defense		X
6. Consumer Protection	X	X

## Annex 2.6

### Details of Local Functions

Note: This review is based on the analysis made by Märt Moll, consultant to the Association of Estonian Cities.

Tasks fulfilled by local authorities in Estonia:

#### 1. *Education*

Under the Local Government Organization Act, rural municipalities and towns are responsible for maintaining preschool institutions (kindergartens), schools (forms 1–9), secondary schools (forms 10–12) and special interest schools (for example, music schools). About ten other laws and more than twenty decrees regulate the fields for which local authorities are responsible, including:

- a) seeing that the salaries of principals, their deputies and directors of studies are transferred to their accounts;
- b) organizing school transport;
- c) further training of teachers and other personnel;
- d) organizing methodological assistance to educational institutions;
- e) vocational counseling of children and youth;
- f) financing out-of-school activities within the local authority and the county;
- g) providing schools with special outfits, furniture, technical equipment and teaching materials;
- h) paying the salaries of teachers and other personnel;
- i) subsidizing public transport in the county within the limits of the reductions provided for schoolchildren;
- j) maintaining boarding schools and hostels;
- k) financing further training of other personnel.

#### 2. *Cultural Work, Sports, Issues Related to Youth*

Under the Local Government Organization Act, rural municipalities and towns are responsible for the maintenance of libraries, community centers, museums, sports facilities, et cetera. About ten other laws and more than twenty decrees regulate the fields for which local authorities are responsible, including:

- a) purchasing teaching materials, exhibits, equipment;
- b) purchasing books;
- c) subsidizing athletes;
- d) organizing and financing cultural and sports events in their own rural municipality or town or at the county level together with other local authorities;

- e) keeping an account of memorials and other objects of historic preservation;
- f) following requirements for historic preservation;
- g) organizing extracurricular events;
- h) vocational counseling;
- i) organizing other public events.

Maintenance and management of museums at the central and regional levels is the responsibility of either the Ministry of Culture or the Ministry of Education. Local authorities can assume responsibility for maintaining and managing museums under special contract concluded with the responsible ministry, whereby maintenance and management costs are covered from the budget of the ministry in question. The state budget provides resources for the annual payroll of four people in the central library of each county.

### 3. *Health Care*

Local authorities are responsible for the maintenance of health care and other related institutions. The field is regulated by about ten other laws and decrees under which local authorities are responsible for applying for funding, financing, organizing and supervising the use of financial resources of health care institutions, including:

- a) paying the salaries of the municipal doctor and other personnel;
- b) applying for funding for special purposes, organizing and supervising the use of those resources;
- c) covering maintenance costs of health care centers;
- d) creating favorable conditions for family doctors' activities;
- e) organizing and financing further training of personnel;
- f) organizing and keeping an account of activities and reports;
- g) meeting health protection requirements;
- h) organizing medical care for people without state medical insurance;
- i) covering the medical treatment costs of individuals without state medical insurance.

When a state hospital is transferred to a municipality, the local authority in question also receives the necessary financial resources for its maintenance. The state budget resources allocated for covering the medical costs of people without state medical insurance are deposited in a special account of the Ministry of Social Affairs. The corresponding costs of local authorities are covered according to submitted invoices.

### 4. *Social Care*

Under the Local Government Organization Act, rural municipalities and towns are responsible for organizing social assistance and providing social services, organizing care of the elderly and maintaining shelters and homes for elderly people. The field is regulated by six other laws and close to twenty decrees, under which local authorities are responsible for:

- a) organizing and financing provision of food for the needy;

- b) applying for funding, organizing and supervising the use of allocated resources, including paying salaries of social workers, supervisors and other personnel;
- c) providing home services;
- d) ensuring guardianship of minors, the elderly and the handicapped;
- e) social counseling;
- f) providing flats for those needing social care;
- g) paying remuneration to families who care for individuals in need of assistance;
- h) calculating and paying cost of living allowances (subsistence allowances);
- i) allocating and paying additional social benefits;
- j) completing the documents necessary for an individual to receive his or her pension;
- k) providing training for the unemployed and people seeking employment;
- l) working out a development plan for the local social care system;
- m) keeping the local social register;
- n) organizing relief work.

### 5. *Technical Areas*

Technical areas are regulated, in addition to the Local Government Organization Act, by almost twenty other laws and thirty decrees, under which local authorities are responsible for:

- a) housing and public services by
  - 1) planning, guiding, organizing and financing these areas;
  - 2) organizing maintenance of housing and construction of blocks of flats;
  - 3) establishing or choosing companies to fulfill the above tasks;
  - 4) issuing licenses for such activities, providing services, et cetera;
  - 5) organizing, coordinating and financing surveys;
  - 6) organizing street lighting and the lighting of public buildings;
- b) public transport by
  - 1) organizing school transport, including financing school bus services and subsidizing county public transport within the limits of reductions provided for schoolchildren;
  - 2) organizing public bus lines;
  - 3) choosing transport companies and issuing relevant licenses;
  - 4) confirming local bus fares and subsidizing local transport companies;
  - 5) participating in the organization and financing of public transport in the county;
- c) maintenance of public areas, including municipal streets and roads, by
  - 1) creating municipal gardens and parks and other green areas;
  - 2) organizing the maintenance of municipal streets, roads, squares and green areas in summer and winter;
  - 3) planning and maintaining cemeteries;
  - 4) planning and administering streets, squares and roads, and maintaining and constructing municipal roads;
  - 5) applying for funding for the maintenance and construction of state roads;

- 6) planning and organizing traffic;
  - 7) setting up traffic signs, traffic lights and fences and marking municipal streets and roads;
  - 8) organizing parking;
  - 9) supervising the use of municipal roads;
- d) territorial planning, construction and construction supervision, as well as working out municipal development plans by
- 1) drawing up a general plan;
  - 2) drawing up a detailed plan;
  - 3) issuing construction permits;
  - 4) organizing construction work;
  - 5) organizing construction supervision;
  - 6) organizing the examination of newly constructed buildings and facilities;
  - 7) organizing public tenders for design and construction work;
  - 8) working out and improving municipal development plans;
  - 9) together with other local authorities, confirming county plans and development plans.

6. *Emergency Services, Civil and National Defense, Public Order*

These areas are regulated, in addition to the Local Government Organization Act, by thirty decrees under which local authorities are responsible for:

- a) rescuing people and property and protecting the environment in the case of fire, natural and other catastrophes, explosions, traffic and other accidents;
- b) organizing supervision of fire services;
- c) providing emergency services;
- d) concluding contracts with emergency units of companies, associations of voluntary firefighters or state emergency institutions for providing emergency services;
- e) additional financing of emergency services under concluded contracts;
- f) adopting public order regulations;
- g) supervising public order;
- h) organizing civil defense;
- i) organizing civil defense training, establishing and managing a municipal civil defense fund;
- j) handling issues related to mobilization of the army and supplies during a state of emergency or a war.

7. *Utilization of Nature, Natural Resources, Water, Air, Soil Improvement, Environmental Protection and Waste Management*

These areas are regulated, in addition to the Local Government Organization Act, by more than sixty decrees under which local authorities are responsible for:

- a) organizing utilization of natural resources;
- b) concluding contracts on utilization of natural resources;



- c) organizing environmental valuation of facilities by experts;
- d) renovating and maintaining municipal soil improvement facilities;
- e) organizing utilization of municipal natural resources;
- f) organizing utilization of natural resources managed by the municipality;
- g) organizing management of municipal forests;
- h) organizing waste management;
- i) organizing utilization of bodies of water in the territory of the local authority;
- j) land management;
- k) organizing land valuation.

8. *Fulfilling the Tasks Delegated to Municipalities by the State, Including Implementing Reforms*

This area is regulated by more than ninety decrees under which local authorities are responsible for:

- a) handling applications concerning restoration of expropriated property;
- b) estimating the value of the above property, organizing restoration and compensation if property is not restored;
- c) handling privatization of apartments;
- d) handling applications concerning purchase and rent of land and placement of plots of land;
- e) handling procedures concerning determination of estimated taxable value of land;
- f) applying for funding for special purposes for the above areas, organizing and supervising the use of those resources;
- g) organizing and financing training of personnel;
- h) gathering data for property and land reform-related registers;
- i) organizing an account of the activities of the area;
- j) gathering and forwarding data to various state registers;
- k) registering births, deaths, marriages and divorces;
- l) keeping an account of men to be called into military service and reserves;
- m) gathering and submitting data for various statistical reports.



Chapter 3

# Local Government in Latvia

*by*  
*Edvins Vanags*  
*and*  
*Inga Vilka*



# Local Government in Latvia

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# Local Government in Latvia

*Edvins Vanags and Inga Vilka*

## 1. Legal and Constitutional Basis

Latvia's local government system consists of two levels. The first includes 486 rural municipalities, 70 town municipalities and 7 city municipalities;<sup>1</sup> the second, 26 regional governments and 7 republican cities.<sup>2</sup> Thus, cities are represented on both levels of local government simultaneously.

The principles of local government reform in Latvia are based on the demands of the European Charter of Local Self-government, which was accepted by the *Saeima* (parliament) on 22 February 1996, and legislation of the Republic of Latvia. Latvia has accepted twenty-six of the thirty paragraphs of the charter. Those not adopted include paragraph 2 of article 6, stipulating the conditions of service, training, remuneration and career development for local government employees; paragraph 2 of article 7, addressing financial compensation and social welfare protection of council members (deputies); paragraph 4 of article 9, requiring sufficiently diversified financial systems; and paragraph 8 of article 9, ensuring access to national capital markets. The *Saeima* did not accept these requirements because its deputies were not convinced that Latvia was ready to realize their terms. In the Declaration on Intended Action of the Latvian Cabinet of Ministers prepared in November 1998, it is stressed that attempts will be made to meet the terms of these remaining four paragraphs.

The highest governing document addressing public administration in Latvia is the law "On Local Governments" passed on 19 May 1994, since no provisions are made on this issue in the *Satversme* (the Constitution of the Republic of Latvia); from article 25, one can only conclude that local governments exist. Therefore proposals on amending the *Satversme* to include an additional chapter on the place and role of local governments in the administrative structure currently are being prepared.

### 1.1 Brief History of Local Governments

When Latvia was a socialist republic in the former Soviet Union, local governments were subordinate to the centralized administrative and bureaucratic structure. Their role was to implement state plans for economic and social development on their territory. The system of nomenklatura (the "list" of administrative positions that were considered to be crucial to the

soviet system) created top-down management designed to communicate planning directives and passively report compliance with them.

Though residents formally elected local councils, in actuality, local government in the true sense of the term did not exist during the soviet period. This point is demonstrated by the following facts.

1. The selection of candidates was undemocratic. Candidates were “nominated” after being recommended by communist party bureaus and committees. Usually these authorities would indicate the social group, profession, gender and age of the candidate so that those (or the one) nominated would be predetermined.
2. The nominated candidate ran unopposed in the elections.
3. Local governments had no authority; all important decisions were approved through local communist party institutions, and often through such institutions at higher levels, before implementation.

Local governments were “elected” every two and a half years, and working sessions were held at least four times a year. Riga was the only city in Latvia with a two-level local government system. The higher level was the city council and its executive institutions; the lower level was comprised of six district councils and their executive institutions. The number of deputies in all local councils was excessive. In 1987, 500 members sat on Riga’s city council, of which 301 (sixty percent) were workers. Each city district in Riga had from 160 to 250 council members, depending on the number of residents in the district.

The local council elections held in December 1989 were more democratic. For the first time in the postwar period such elections were competitive, with more than one candidate running for each post, and a majority system was implemented. Residents registered in the territory of the corresponding local government exercised active and passive rights of election. In actuality, the races were between supporters of the Latvian Popular Front and those of the soviet procommunist regime. In most cases the representatives of the Latvian Popular Front won.

The deputies of local councils elected in 1989 held office for five years. The number of deputies was less than in previous councils, but still rather high—from fifteen to one hundred twenty members, determined by the number of residents in each territory. One hundred twenty deputies were elected to the Riga city council, and from eighty to one hundred-twenty to each of the city’s district councils.

Local government laws were passed on 15 February 1990, when the Supreme Council of the Latvian SSR adopted three separate laws on district, city and rural (*pagasts*) local governments. These laws were based on those of the first Republic of Latvia on rural municipality (1922) and city (1930) local government, the latter of which also applied to Riga and its districts. The new provisions established the municipal council, which independently could address any issue in the competence of the local government, twenty-seven of which were mentioned in the law.



The council elected its chair, deputy chair and secretary from among its members. The chair represented the council, managed its work, presided over its sessions, authorized its decisions and supervised its activities.

The presidium of the council was established to address organizational issues. It was headed by the chair or deputy chair of the council, and its other members included the council secretary and the chairs of standing committees, as well as other individuals elected by the council if it chose to do so. The presidium of the council fulfilled the following functions:

- announcement and preparation of council sessions, organization of preliminary discussions of draft decisions, publicity of the work of the council;
- coordination of the work of council committees and working groups;
- assistance to deputies in accomplishing their tasks;
- organization of public discussions on draft decisions and other important issues as determined by the council;
- execution of council decisions and instructions.

The executive body of the council was the executive committee, which was established for the term of the council. In its first session subsequent to its election, the council elected the executive committee chair and, upon the chair's proposal, confirmed the deputy chair and members of the executive committee. With the exception of the chair, deputies who were elected to the executive committee resigned from the council.

In practice, the executive committee in most cases was not only an executive organ but also a decision-making body on certain issues. A reasonable distribution of power in local governments between the council chair and executive committee chair often was not achieved. This was the main reason for the initiative to introduce new local government laws.

To address the conflicts that arose from this double system of government, the Supreme Council issued laws "On Town/City Municipalities" and "On Rural Municipalities" on 24 April 1991. Subsequently, a new law on regional government (districts) was introduced on 15 February 1992. In accordance with these laws council presidiums and executive committees were abolished, and local boards were established that serve both executive and decision-making functions. The chair of the council is simultaneously the chair of the board.

These laws also determine that persons who are not deputies can be elected to the board, but the number of nondeputy members cannot exceed one-third of its full membership. This stipulation was introduced because the membership of many local councils did not include enough professional specialists—economists, lawyers, managers, et cetera—to address their responsibilities. However, since the board is invested with not only executive but also decision-making power, the appointment of persons who are not deputies is perceived as undemocratic. A council can delegate some of its functions to the board, the latter of which sets up the administrative structure of the local government. The new legislation also grants councils the option to appoint an executive director.

The law on regional governments reduced the district's control over the municipality. Nevertheless, a certain level of subordination was maintained. District governments can suspend illegal decisions made by municipalities, but only the court can repeal them. District governments are still responsible for allocating state subsidies among municipalities. They also determine the distribution of tax revenue between district and local authorities if such distribution is unregulated by law.

The laws on town/city and rural municipalities and regional governments adopted in 1991 and 1992 were oriented more towards decentralization and independence of local governments in comparison to the laws adopted in 1990 and 1994. From 1990 to 1992 local governments actively participated in the process of renewing the Republic of Latvia and ensuring political stability.

## 1.2 The Status of the Capital City

Due to the many peculiarities of the city's two-level system, a special law applying to the government of Riga was passed on 10 June 1992 and remained in effect until 1994. Previous to this, Riga's city council and district councils often had serious disagreements.

The institutions of Riga's government were established in accordance with the new law, including:

- the dome;
- the council;
- district (suburb) councils;<sup>3</sup>
- the board;
- district (suburb) boards;
- auditing commissions of the municipality and its districts (suburbs).

The Riga dome was the highest decision-making institution of the municipal government. It was comprised of sixty deputies, half of which were elected by the council from among its deputies, and half of which were elected by the six district councils (five deputies each). The Riga dome coordinated the activities of local government institutions and decided upon the most important issues concerning the city's development. Its responsibilities included:

- election of its chair, vice-chair and secretary, as well as release of these officers from their duties;
- election of the committee chairs and, upon their proposals, confirmation of the members of committees;
- endorsement of the regulations of the dome;
- suspension of unlawful and inappropriate decisions and orders of the municipal council, district councils and their boards and chairs;
- regulation of the distribution of funding among the municipal council and district council budgets and the reserve fund for the dome.

The establishment of the Riga dome diminished the role of the municipal council. However, the board was granted quite broad responsibilities as the main executive institution. It managed

the property of the municipal government; administered financial resources; established and maintained systems of public transportation, water supply and waste purification, collection and utilization; constructed, maintained and repaired bridges, streets and roads; established and monitored the use of gas supply; supervised educational and health services; and supervised the electrical network and its repair.

The functions of the district boards were also quite broad. They managed property placed under their care, administered the financial resources of the district, maintained and rented living and administrative facilities of the municipal government located in their districts, oversaw the maintenance of streets, supervised educational establishments and sporting and cultural institutions, supervised the work of the registry office and police department of the district, organized social care for the district's population, established local government enterprises, appointed and released the managing staff of these enterprises and resolved questions of adoption and guardianship, among other tasks.

To a certain extent the establishment of the Riga dome improved collaboration between the municipal council and its executive institutions on the one hand and district councils and their executive institutions on the other hand. Unfortunately, the problem was not completely resolved; the organizational structure of the Riga dome was quite inflexible, and the number of deputies to the municipal and district councils was too large. Disagreements continued concerning the division of responsibilities, supervision of property, et cetera.

The territories of the districts were not determined rationally; they were created artificially without consideration for historical neighborhoods or geographical boundaries. Therefore, the provisions of the law on Riga's government were insufficient. Accordingly, the law "On Local Governments" adopted on 19 May 1994 and in effect today created a single-tier local government for the capital.

### 1.3 Local Government Reform

Local government reform is one of the most important tasks targeted in Latvia's transformation. The concept of reform was accepted by the Cabinet of Ministers on 28 September 1993, which determined its main goals to be the democratization and decentralization of state power and administration, increasing accountability of local governments in fulfilling the tasks delegated to them, improvement of the quality of public services rendered to local residents and increasing public participation in the processes of administration.

The main principles of local government reform in Latvia were:

- democratization and decentralization of administration;
- autonomy of local government from the central government;
- independence of activities within the limits of the law;
- development of municipal and private property;

- establishment of independent local budgets;
- use of market (rather than command) methods of management.

The initiatives of local government reform included:

- drafting a new law on local government council elections;
- drafting a new law on local government common to rural and urban municipalities and regional governments;
- administrative–territorial reorganization;
- improvement of the local budget system;
- creation of territorial information systems;
- establishment of training institutions for the deputies and staff of local governments;
- organization of a system for negotiations and communication between the Cabinet of Ministers and local governments.

The legislative results of such initiatives include the following laws:

- “On Elections to the Town/City Dome, Regional Council and Rural Municipality Council” (13 January 1994);
- “On Local Governments” (19 May 1994);
- “On Local Government Budgets” (29 March 1995);
- “On Equalization of Local Government Finance” (29 March 1995);
- “On Administrative Territorial Reform” (21 October 1998).

In order to address the need for qualified deputies and staff of local government, the Project Management and Self-government Training Center of the University of Latvia, the Local Government Training Center of Latvia and regional training centers were established.

The core of local government reform in Latvia was territorial administrative reorganization. The average population for the representative organs of the first level of local government (town/city and rural municipalities) is 4.4 thousand. For rural municipalities alone, the average is 1.7 thousand—in one-third of them, the population is less than one thousand, and only two percent have five thousand inhabitants. Most towns (forty-four of seventy) have less than five thousand inhabitants; two-thirds of all districts (eighteen of twenty-six) are inhabited by less than fifty thousand residents, and only one (Riga district) has more than one hundred thousand inhabitants.

Preference is given to an integrated structure of local government rather than one based on settlements. A “settlement” in Latvia is formulated as the territory in which residents consistently live and in which the material conditions for residence are organized. Thus, settlements in Latvia are characterized as urban (town/city) or rural, the latter of which in turn are divided into villages and individual farms.

There were 73,944 settlements in Latvia at the beginning of 1998. The average number of settlements in one municipality is 131. In 99.8 percent of all settlements the population is less

than one thousand (see annex 3.2). The territories of ninety percent of all rural municipalities do not exceed two hundred square kilometers.

There is greater need for financial resources in small municipalities, which is one argument for reform. Research shows that the share of total budget revenue that is allocated to small municipalities is relatively bigger than that of large municipalities (see table 3.1); the share of grants to municipalities with populations of less than one thousand is one-half of the total budget revenue. Administrative expenditures per capita are relatively largest in the smallest rural municipalities. Such expenditures were *lat*<sup>4</sup> 19 (USD 33) per capita in rural municipalities with populations of less than 600, *lat* 17 (USD 29) for populations from 600 to 899, *lat* 15 (USD 26) for populations from 900 to 1,199, and *lat* 13 (USD 22) for populations from 1,200 to 1,499.

*Table 3.1*  
**State Grants as a Percentage of Total Budget Revenue  
in Latvian Rural Municipalities, 1996**

Number of Inhabitants	Number of Rural Municipalities	Grants to Total Budget Revenue [%]
0–999	174	49
1,000–1,999	224	43
2,000–2,999	57	24
3,000–3,999	14	18
4,000–4,999	10	13
5,000–5,999	4	7
6,000–7,999	3	3
8,000–9,999	2	6
10,000+	1	0
<b>Total</b>	489	22

#### 1.4 The New Law on Local Government

The law “On Local Governments” passed on 19 May 1994 was the first in the history of Latvia that applied to all types of self-government—rural municipalities, town/city municipalities and districts. According to the law a local government is an organ of administration that through elected representation—the council or dome<sup>5</sup>—ensures the execution of functions conferred upon it by legislation, by the Cabinet of Ministers and by local voluntary initiative, taking into consideration the interests of the state and of the inhabitants of the administrative territory. Local governments in the administrative sense are subject to public law, but in the scope of private law they have the

rights of legal persons. They are invested the right to participate in entrepreneurial activities, own and manage movable and immovable property, conclude agreements and engage in other private transactions, bring actions to court and complaints to administrative offices and have access to information from state offices that are located in the given administrative territory.

The economic basis of a local government is the property it owns, manages and uses in addition to its financial resources. Land, waters, forests and other fixed assets may be considered the property of local governments. Their responsibility with regard to such property is to provide the best possible conditions for service to the population, which is accomplished through local government enterprises and organizations.

Local governments may also acquire fixed assets of state and private property, as well as sell, rent and expropriate property in accordance with applicable legislation. Property disputes with state institutions or private individuals are settled in court. Local governments have the right to submit requests to the Cabinet of Ministers on the preemptive acquisition of property needed for public use, such as the construction of roads, streets, squares, bridges, viaducts, wharves, et cetera. Large local government enterprises in the spheres of trade, services and production will be privatized; the remaining should be transformed into nonprofit enterprises.

## 1.5 Relationship between the State Administration and Local Government

Coordination between the Cabinet of Ministers and local governments occurs on the following issues:

- drafting of laws and regulations that affect local governments;
- determination of general and specific grants allocated to local governments each fiscal year;
- identification of financial sources to administer additional functions expected of local governments;
- any other issues concerning local government.

The Union of Local and Regional Government of Latvia (ULRGL) represents local governments in negotiations with the state. A protocol is formulated annually based on negotiations between working groups formed by ULRGL and representatives of all ministries. The main area of conflict between the central and local governments is related to budget allocations. Negotiations between ULRGL and the Saeima also have been organized in recent years.

## 1.6 Organization of Middle-Tier Government

In 1992 and 1993 lengthy negotiations were held concerning the number of levels necessary for the local government system. Some heads of municipalities supported a single-level system, promoting the abolition of district governments and the creation of territorial state offices. However, the outcome was the continuation of the two-level system with more strictly defined

roles for each level and a reduction of the district's authority over the municipality. These principles were realized in the law "On Local Governments" passed on 19 May 1994.

In 1996 the central government prepared a proposal to abolish district governments and create territorial state offices. As a result, the law "On Elections to Town/City Dome, Regional Council and Rural Municipality Council" was amended, and only first-level local government councils, not regional councils, were elected in March 1997. The subsequent central government established in summer 1997 did not support this trend, and the law "On Local Governments" was amended in November 1997 authorizing the creation of district councils comprised of the chairs of municipal councils. These councils were charged with executing the functions of regional governments and those delegated by municipalities, as well as providing assistance in coordinating services such as education, health care, social welfare and cultural institutions.

The results of this experiment have revealed that such indirect representation at the regional level cannot ensure its impartial functioning; each deputy first and foremost promotes the interests of his/her municipality rather than those of the district. Thus, there is a new trend supporting a return to the direct election of regional councils by the next local elections in March 2001.

In addition to district governments, a number of ministries and other state institutions have representative offices in each region, including the revenue service, statistics office, police department, agriculture department, environmental inspection office, employment service, et cetera. They execute functions that are nationwide and require uniformity and central regulation through cooperation with district government structures.

In accordance with the law "On Local Governments" consultative councils were established in every district and republican city to coordinate local government and state activities. Such councils functioned from 1994 to 1997. Consultative councils were comprised of representatives of municipal and regional governments and state institutions. Their actions were ineffective mainly for two reasons: decisions required unanimous agreement of all representatives and were, in the end, recommendations rather than directives.

## 2 Local Politics, Decision Making

### 2.1 System of Local Elections

The Saeima passed the law "On Elections to the Town/City Dome, Regional Council and Rural Municipality Council" on 13 January 1994. Regular elections to councils are conducted every fourth year on the second Sunday of March. In compliance with the requirements established by the European Charter of Local Self-government, municipal councils are chosen through equal, direct, proportional elections by secret ballot. In 1994 district councils also were selected

by direct election, but due to the amendments in legislation discussed above, from 1997 district councils were comprised of the chairs of municipal councils.

The 1994 law on local elections significantly reduced (three- to four-fold) the number of deputies. The average number of deputies serving on local councils in Latvia is now smaller than that of West European countries and is almost as small as those in the United States. The number of local council deputies is proportionate to the population of the municipality:

- up to 2,000 inhabitants—seven deputies;
- from 2,001 to 5,000 inhabitants—nine deputies;
- from 5,001 to 50,000 inhabitants—eleven deputies;
- more than 50,000 inhabitants—fifteen deputies.

There are sixty deputies in Riga's city council.

The law on local elections also introduced changes in voting rights. In the 1989 elections all residents of what was then the Latvian SSR had the right to vote. According to the new law the right to vote for council deputies is granted to citizens of the Republic of Latvia who have reached the age of eighteen by election day, except:

- persons who are serving sentences in confinement;
- persons detained due to, accused of or charged with a crime if their case is considered to be a security threat;
- persons who legally have been declared incompetent or incapacitated.

Each individual eligible to vote may choose to do so either in the territory in which he or she is a legal resident or in the territory in which his or her real estate is legally registered.

Candidates for council deputy must be citizens of the Republic of Latvia who have reached the age of twenty-one by election day and (1) have been registered as residents of the territory in which they intend to run for office for a minimum of twelve months prior to election day, or (2) have been employed in the territory for a minimum of six months prior to election day, or (3) own real estate in the territory, with the following exceptions:

- persons who are serving sentences in confinement;
- persons who legally have been declared incompetent;
- persons who have been sentenced for especially severe crimes without the possibility of rehabilitation;
- persons who were formerly officials or employees of the KGB or the Ministry of Defense of the USSR;
- persons who do not possess proficiency in the state language at the highest (third) level.<sup>6</sup>

Only registered political organizations or their registered coalitions may submit lists of candidates for republican city council. Lists of candidates for municipal councils may be submitted by registered political organizations, their registered coalitions and voters associations. A voters association is formed by persons who sign a list of candidates signifying their support and by the individuals appearing on that list. A candidate list for municipal council must be signed by at least twenty voters.



The electoral commission accepts candidate lists only from supporters who have paid a security fee. If at least one candidate from the proposed list is elected, the security fee is returned.

On 9 March 1997 elections were organized in all 566 local governments—7 cities, 69 towns and 490 rural municipalities—managed by city, town and rural municipality election committees. For the first time local government budgets financed the elections.

Voter turnout was not high, especially in cities. In local elections, 737,656 voters participated, or 56.8 percent of those eligible to vote, which was lower than in the 1994 elections (58.5 percent). Lists of deputy candidates totaled 1,454, nominating 11,942 candidates for the 4,445 positions. Therefore, on average, 2.6 lists were submitted for each local contest and 2.7 candidates competed for each deputy position.

The distribution of lists and candidates according to political party, coalition and voters association is indicated in table 3.2. Voters associations submitted an overwhelming majority—eighty-five percent—of the total number of lists; parties, fourteen percent; and coalitions, one percent. Voters association lists were also more successful; ninety-five percent of the lists submitted by voters associations and eighty-five percent of those submitted by parties won representation in local councils. Forty-three percent of voters association candidates and only nineteen percent of party candidates were elected deputies. In summary, eighty-eight percent of all deputies elected were nominated by voters associations and twelve percent by parties and their coalitions.

*Table 3.2*  
**Lists of Candidates and Elected Deputies Accordingly to Parties,  
Coalitions and Voters Associations in Latvia, 1997**

Nominating Organization	Candidate Lists			Candidates		
	Total	Number Winning Representation	Percent Winning Representation	Total	Number Elected	Percent Elected
Parties	202	171	85	2,442	467	19
%	14	13	—	20	11	—
Coalitions of Parties	19	19	100	315	48	15
%	1	1	—	3	1	—
Voters Associations	1,233	1,170	95	9,185	3,930	43
%	85	86	—	77	88	—
<b>Total</b>	1,454	1,360	—	11,942	4,445	—
%	100	100	—	100	100	—
Average	—	—	94	—	—	37

The major national parties participated in the elections, but in general they are not very involved in local politics. The most active and successful were the Latvian Peasant Union (forty-eight lists won representation and 171 candidates were elected deputies), the democratic party Saimnieks (forty-one lists, eighty-three deputies), the union Fatherland and Freedom (sixteen lists, forty-three deputies) and the union Latvia's Way (thirteen lists, forty-one deputies).

Most candidates (sixty-five percent) and elected deputies (sixty-eight percent) were between the ages of thirty-one and fifty. Only ten percent of the candidates and six percent of the elected deputies were thirty years of age or younger. Seven percent of the candidates and six percent of the deputies were sixty-one years of age or older (see table 3.3). The eldest candidate was eighty-six years old; the two eldest elected deputies were seventy-eight. The eight youngest candidates were twenty-one years of age, and the four youngest elected deputies were twenty-two.

*Table 3.3*  
**Age of Candidates and Elected Deputies**  
**in Latvia, 1997**

Age	Candidates		Elected Deputies	
	Total	%	Total	%
21–30	1,155	10	282	6
31–40	4,123	34	1,565	35
41–50	3,586	30	1,459	33
51–60	2,267	19	903	20
61–70	714	6	219	5
70+	97	1	17	1
<b>Total</b>	11,942	100	4,445	100

Fifty percent of all elected deputies had earned a higher education, and forty-six percent have comprehensive or secondary specialized education. Only three percent do not have higher or secondary education (see table 3.4).

Sixty-one percent of all elected deputies were men; thirty-nine percent were women. Ninety-four percent were nominated as candidates from place of residence, five percent from place of employment, and one percent from place of real estate ownership.

*Table 3.4*  
**Level of Education of Candidates and Elected Deputies  
 in Latvia, 1997**

Level of Education	Candidates		Elected Deputies	
	Total	%	Total	%
Higher Education	5,613	47	2,229	50
Incomplete Higher Education	178	2	58	1
Comprehensive Secondary Education	1,879	16	591	13
Incomplete Secondary Education	161	1	55	1
Secondary Specialized Education	3,820	32	445	33
Basic Education	291	2	67	2
<b>Total</b>	11,942	100	4,445	100

## 2.2 Forms of Direct Democracy

Forms of direct democracy (local referendum, public hearing, et cetera) are not very popular in Latvia. There is no law on local referendum, but the recognition of the political importance of public opinion appears to be accepted, especially concerning the issue of territorial administrative reform. In some local governments—for example, in Riga—public hearings have been organized on the concept and plan for territorial development.

## 2.3 Distribution of Power among Different Levels of Government

The system of government in Latvia is subdivided into two groups: state administration and two-tiered local government. The general principles of the distribution of responsibilities between local and central governments are:

- subsidiary—the best solutions to problems are found at the level closest to the people; no task is solved at a level higher than necessary;
- decentralization of authority;
- division of responsibilities for the execution of concrete functions;
- direct correlation between responsibilities and financial resources.

The division of responsibilities between municipal and regional governments is based upon the principle that if an issue demands the combining of financial, material, informational or human resources of many municipalities, the task is transferred to the jurisdiction of the district government.

As established by the Satversme of the Republic of Latvia passed in 1922 and reinstated in 1993, Latvia has a typical democratic parliamentary system. Ultimate responsibility lies with the head of the government—the president of ministers—while the president of state performs mainly representative functions. The president of state chooses the president of ministers, who nominates the ministers of the cabinet. The Saeima must endorse the nomination of the president of ministers and the proposed government with a vote of confidence. The cabinet is comprised of the president of ministers, ministers and state ministers.

A ministry is a central institution of executive power that assists the cabinet in realizing tasks determined by the Satversme and by law. Ministries and other state administrative institutions in some cases have territorial offices, mainly at the regional level, that work in close cooperation with district and municipal governments.

The main responsibilities of the central government are:

- legislation and state administration;
- economic policy;
- foreign affairs;
- defense;
- public order and law enforcement;
- long-distance communication and transport;
- employment;
- energy resources;
- social insurance;
- higher education and scientific research.

The overall function of local government is to provide for the social, economic, cultural and educational needs of its population (see section 3.2.1). To fulfill its functions a local government is obligated to:

- develop a social and economic plan and master plan for the territory;
- draft and approve its budget;
- manage and use rationally and effectively its real estate and movable property;
- collect taxes and duties;
- use its financial resources rationally and effectively within the parameters of the accepted budget;
- inform the ministries and the cabinet about issues related to the activities of the territory.

In performing its functions a local government has the right to:

- form institutions and enterprises and participate in entrepreneurial endeavors;
- obtain and expropriate movable property and real estate, privatize local government property, conclude agreements and engage in other private transactions;
- introduce local duties and levies, establish tax rates and exemptions;
- submit claims to the court and complaints to administrative institutions;
- receive pertinent information from state institutions.

Municipal councils have the right to approve binding regulations and to enforce them, if not provided by law, on the following issues:

- construction;
- maintenance and protection of public forests, waters, natural reserves and cultural monuments;
- trade in public places;
- public order;
- maintenance and renovation of buildings and their grounds;
- sanitation;
- placement of promotional materials, posters, advertisements and other information in public areas;
- use of public transport;
- maintenance of public spaces, parks and natural reserves;
- cattle-raising;
- protection of engineering networks;
- other tasks assigned by law and by regulations of the Cabinet of Ministers.

Rural municipal councils also have the right to issue and enforce binding regulations on the use and storage of chemicals and fertilizers.

District councils and republican city councils have the right to issue and enforce binding regulations, if not provided by law, on the following issues:

- preventative measures against the spread of epidemics;
- preventative measures against and public order in cases of natural disasters or other extraordinary situations;
- protection of natural reserves and cultural monuments.

Such regulations are binding for all residents and legal persons in the respective administrative territory.

## 2.4 Internal Structure of Local Government Decision Making

The representative body of local government is the council. The distinction between the formation of municipal and district councils is the following: the former is comprised of directly elected deputies and the latter of the chairs of municipal councils. The council chair is elected by secret ballot from among the deputies of the respective council by simple majority.

The council may review any issue that is in the competence of the local government, and it has the exclusive right to:

- approve its statutes;
- approve the local budget and its amendments and report on budget expenditures;
- approve the plan and prospective programs of social and economic development and environmental protection of the administrative territory, as well as the master plan for territorial development;

- make recommendations for and approve changes in the borders of the administrative territory and subsequently in the composition of the local government;
- approve the territorial division of the local government and its administrative institutions;
- form, reorganize and liquidate local government enterprises and organizations, approve their regulations and charters and appoint and dismiss their heads;
- elect and recall the council chair, vice-chair, members of standing committees, and the chair and members of the audit commission;
- appoint and dismiss the executive director;
- determine the compensation of deputies and the salaries of the council chair, vice-chair and local government employees;
- determine the local tax structure in accordance with the law;
- determine fees for services rendered by the local government and its enterprises and organizations;
- approve administrative regulations of the local government and establish penalties for their violation;
- decide on issues concerning the sale and purchase of real estate and procedures for conducting other transactions with local government property; accept and manage donations, bequests and loans; and undertake other economic obligations on behalf of the local government;
- repeal illegal and inappropriate orders and decisions of the council chair and the heads of local government enterprises and organizations;
- elect representatives to local or state unions, committees, boards and working groups;
- determine the organization of and procedures for elections;
- elect court assessors;
- make decisions on other issues as stipulated by law.

The statutes of local government, formulated in accordance with the law “On Local Governments” and model statutes approved by the Cabinet of Ministers, determine the organization of the work of the council, which is conducted at its meetings and by standing committees. Council meetings must be convened at least once a month and must be open to the public. A decision can be adopted if the meeting is attended by more than one-half of the deputies. Unless law stipulates other provisions, decisions of municipal councils must be approved by a simple majority of the deputies. Procedures for decision making at the district level are as follows:

- if none of the deputies expresses objection to a proposal, the decision is adopted without a vote;
- if any of the deputies objects to a proposal, a vote is taken.

Decisions of the council must be made public to every resident in accordance with procedures set forth by the local government’s statutes.

The council elects the membership of standing committees from among its deputies. These committees prepare issues for review at council meetings, submit statements on issues that are within their competence, oversee the work of local government enterprises and organizations,

review budget drafts, et cetera. Two standing committees—financial, and education and cultural affairs—are compulsory for every local government. Other standing committees may be set up in accordance with the statutes of the local government.

Each voters association or political organization must be represented on each committee proportionate to the results of the council elections. Every deputy has to be a member of at least one committee. The work of committees is conducted at closed meetings. A committee's members elect its chair, with the exception of the financial committee, which is headed by the chair of the council.

The council may establish boards, commissions or working groups comprised of deputies and residents of the municipality.

The chair of the council oversees its work, coordinates the review of issues by committees, represents local government in all capacities, authorizes decisions of the council and signs agreements and other legal documents on behalf of the local government. The chair is a full-time employee of the local government. During his or her term, the chair may not pursue other employment with the exception of scientific, pedagogical or creative endeavors. Upon proposal by the chair, the council appoints an executive director who is responsible for the activities of local government institutions, enterprises and organizations. The executive director cannot be a deputy. If a local government does not nominate an executive director, the chair of the council performs these duties

The law “On Local Governments” established new procedures for the election of the auditing commission. Previously the council elected the members of the auditing commission from among its deputies. Now the municipal council elects members of the auditing commission not from among its deputies, but from among the voting population of the municipality; representation of each political organization or voters association is proportionate to the number of their delegates to the council. The district council elects the members of its auditing commission from among the chairs of the municipal auditing commissions.

The main tasks of the auditing commission are to monitor the council's spending within the approved budget and to oversee the legality and appropriateness of financial and economic activities of local government institutions, enterprises and organizations.

## 2.5 Public Participation in Decision Making

Residents of an administrative territory have the right to attend local government council meetings. The meetings of the council must be held in venues appropriate to host residents, representatives of the media and officials of municipal and district institutions. The public has the right of free access to any decision of the council or auditing commission, orders of the chair and the protocol of open meetings of the council.

The council chair, deputies and the executive director have office hours at least once a week during which residents may approach them with questions, concerns or proposals. Not only deputies but also residents may be members of boards, commissions or working groups set up by the council.

The laws of the Republic of Latvia provide the right for residents to establish and participate in social organizations and political parties, to lodge formal complaints and applications, to question administrative documents of government institutions, et cetera. One such law is “The Order of Reviewing Applications, Complaints and Proposals in State and Local Government Institutions” passed by the Saeima on 27 October 1994.

Residents participate in local government activities through open roundtable discussions and other meetings, sociological questionnaires, discourse through newspapers and other forms of mass media and participation in interest groups, advisory councils, et cetera.

The extent of public participation in decision making depends, to some extent, on access to information. The central government has proposed the preparation of a state-supported program to inform inhabitants on territorial administrative reform and other processes involving local governments.

## 2.6 Ethnic Issues, Multicultural Government

Latvia is a multinational and multicultural state. Latvians comprised 55.5 percent of the population on 1 January 1998—more than in 1989 (52.0 percent), but less than in 1935 (77.0 percent). The national composition of the remainder of Latvia’s population included Russians (32.4 percent), Belarusians (3.9 percent), Ukrainians (2.9 percent), Poles (2.2 percent), Lithuanians (1.3 percent), Jews (0.4 percent), Estonians (0.1 percent), Germans (0.1 percent) and other nationalities (0.9 percent).

The proportion of Latvians in Riga was 38.7 percent, and of Russians, 47.2 percent; in Daugavpils (the second largest city in Latvia) Latvians comprised 14.3 percent of the population, and Russians, 58.5 percent. In other districts, the vast majority of the population was Latvian: Ventspils—95.3 percent, Talsi—91.1 percent, and Kuldiga—89.4 percent.

In 1998, almost twenty percent of Latvian males and nineteen percent of Latvian females had spouses of a different nationality. The proportion of residents who were citizens of Latvia was 72.7 percent, citizens of the former USSR, 26.6 percent; and citizens of the Russian Federation, 0.5 percent. Many Russians and other minorities possess Latvian citizenship. Foreigners or noncitizens applying for naturalization must be residents in Latvia for at least five years from 5 May 1990 and must pass an examination demonstrating Latvian language proficiency, basic knowledge of Latvian history and the Satversme, and the words of the national anthem.

According to the law “On Local Governments,” councils may set up standing committees on the affairs of foreigners and noncitizens if at least one-fourth of the inhabitants registered in the administrative territory fall into this category.



Russian is the primary language of instruction in 99 preschools (seventeen percent of the total), and in 114 preschools Latvian and Russian or Latvian and Polish are the languages of instruction (nineteen percent). At the beginning of the 1997–98 academic year, thirty-two percent of school-age children (108 thousand) studied in schools in which the language of instruction was Russian, and twelve percent (41.3 thousand) attended courses taught in Latvian and Russian or Polish, Ukrainian, Lithuanian or Belarusian.

## 2.7 Local Government Associations and International Contacts

By law, local governments have the right to cooperate on issues of common interest and may establish public organizations or join such organizations to do so.

The law “On Local Governments” states that local government organizations that include representation of more than half of the municipalities and more than half of the districts have the right to represent local governments in negotiations with the Cabinet of Ministers. One such organization is the Union of Local and Regional Governments of Latvia (ULRGL), which was organized in May 1992. By the end of 1998 ULRGL membership included 494 local governments: 399 rural municipalities, 71 town/city municipalities and 24 districts. In order to join ULRGL, a council must formally decide to pursue membership and pay membership dues. According to the ULRGL’s statutes, its goal is to unite local authorities on a voluntary basis, seek resolution to their common problems and create policies for local authorities in Latvia. The ULRGL has the rights of a legal person. Its main tasks are to:

- represent and protect the interests of local government in state administrative institutions;
- ascertain and represent a common point of view on policy questions regarding local authorities;
- promote cooperation among local authorities;
- provide local governments with necessary information and services;
- organize the training of deputies and staff of local governments;
- organize the creation of a joint data processing system for local governments;
- promote the establishment of enterprises to resolve common problems of local governments;
- facilitate the social protection of local government employees;
- promote collaboration with local authorities and their associations in other countries and with international institutions.

Its first years of activity indicate that ULRGL is a strong institution and has been successful in protecting the interests of local government. In collaboration with the Local Government Training Center of Latvia, Self-government and Project Management Training Center of the University of Latvia and other such programs, ULRGL organizes courses, conferences and seminars for deputies and local government staff. ULRGL also publishes the monthly journal *Logs* (Window) and a weekly information bulletin.

The ULRGL maintains contacts with national associations of local authorities in Denmark, Sweden, Estonia and Lithuania and is involved in PHARE and other international programs and projects. In October 1998 the ULRGL was admitted as a member of the Council of European Municipalities and Regions (CEMR) and the International Union of Local Authorities (IULA). ULRGL also participates in the European Council (EC) as a member and in the European Union (EU) as an observer.

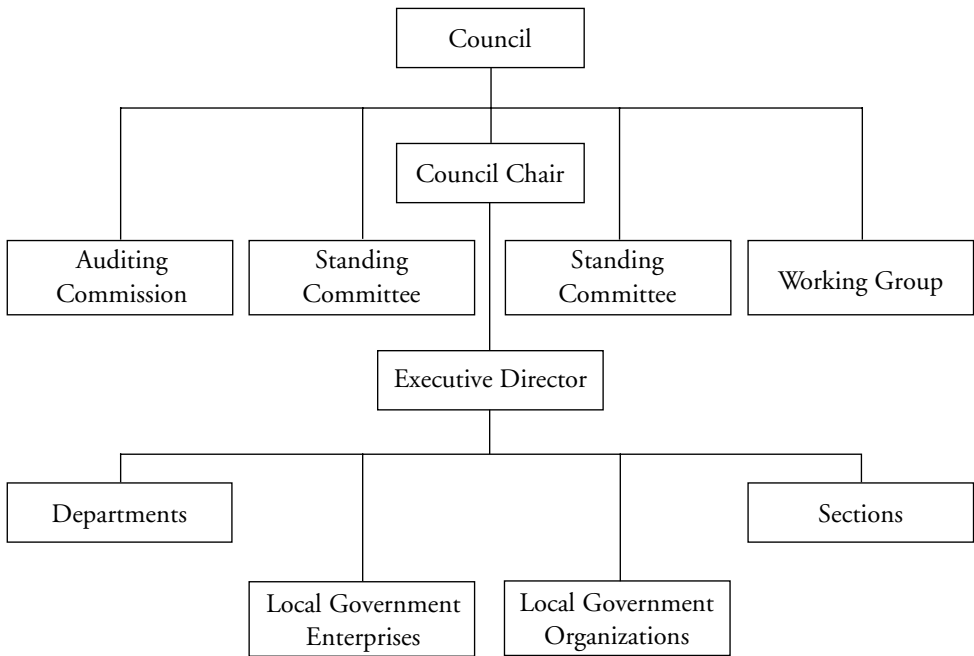
### 3. Local Administration, Service Provision

#### 3.1 Structure and Operation of Local Administration

There are no restrictions on the formation of administrative structure for Latvian local governments in the law “On Local Governments”; rather, each local government’s statutes determine it. A model of this structure is shown in figure 3.1. Administrative offices in cities and towns usually are divided into departments and sections, but such divisions do not exist in most rural municipalities, as their staff in most cases does not exceed five to seven employees. Each local government institution and enterprise has its own internal governing structure.

Figure 3.1

**Model Organizational Structure of Latvian Local Governments**



According to the law “On Public Civil Service” adopted on 21 April 1994 local government administrative institutions are included on the list of public civil service positions. To date, however, local government employees have not taken the qualification examination or participated in the training program for civil servants.

Local government statutes also state whether or not the position of executive director exists in each administrative territory. The executive director:

- fulfills the terms of regulations and other normative acts issued by the council;
- supervises the heads of local government institutions;
- prepares proposals to the council concerning the repeal of illegal and inappropriate decisions of local government institutions;
- recommends the appointment or dismissal of heads of local government institutions and enterprises;
- makes recommendations on the formation, reorganization and liquidation of local government institutions and enterprises;
- manages local government property and financial resources and concludes business transactions in accordance with procedures and frameworks approved by the council;
- drafts the plan for social and economic development, for construction in the territory and for the budget of the corresponding local government and submits them to the council;
- performs other duties as determined by the local government statutes and decisions of the council.
- In local governments where the executive director is not nominated, such duties are performed by chair of the council.

### 3.2 Control, Audit and Supervision of Local Governments

The auditing commission monitors internal control of local government; it is elected by the council of the administrative territory for a four-year term. Its membership is proportionate to the number of deputies from each political organization or voters association elected to the council.

The main tasks of the auditing commission are to:

- monitor the spending of local government finances in accordance with the adopted budget;
- ensure the legality and effectiveness of the financial activities of heads and officials of local government institutions and enterprises;
- ensure that the local government’s financial resources, real estate and movable property are managed in accordance with decisions of the council and the interests of residents;
- conduct audits organized by the State Audit Office.

The auditing commission must perform an audit of every local government institution at least once annually.

The State Audit Office and the Ministry of Environmental Protection and Regional Development also supervise local governments. If the chair of the council violates the Satversme, laws, regulations of the Cabinet of Ministers or court orders, the minister responsible for local government affairs may suspend his or her official duties. The suspension results in dismissal if upheld by a court or if the affected chair does not appeal the suspension in court within two weeks.

The Saeima may dismiss a local government council if it:

- repeatedly violates the Satversme, laws, regulations of the Cabinet of Ministers or court orders;
- repeatedly passes decisions or pursues activities that are the competence of the Saeima, the Cabinet of Ministers, ministries, other state administrative institutions or the courts;
- does not elect a chair, vice-chair and standing committees or does not establish an auditing commission within two months of its first meeting or upon resignation of the officials or dismissal of institutions in question;
- fails to attract a working quorum (a simple majority of the deputies) to three meetings in succession.

### 3.3 Local Service Delivery

#### 3.3.1 Functions

According to the law “On Local Governments” the responsibilities of local governments in Latvia are:

- administrative, socioeconomic and cultural tasks stated in the law “On Local Governments” that are permanently binding;
- the administrative, socioeconomic and cultural tasks stated in other laws that are binding for a specified period of time;
- state administrative functions that have been delegated to the local government in accordance with the procedures stated in the law “On Local Governments”;
- functions that have been delegated to the local government by other local governments in accordance with the procedures stated in the law “On Local Governments”;
- single tasks assigned by state administrative institutions in accordance with the procedures stated in the law “On Local Governments”;
- voluntary initiatives.

These functions, their legislative background, institutions responsible for their oversight and sources of financing are illustrated in table 3.5.

The execution of functions that are assigned by the law “On Local Governments” is financed fully from the budget of the corresponding local government. When additional functions are delegated by law that cause an increase in expenditures, new sources of income to fulfill these

responsibilities must be stated in that law. The execution of additional functions may be legally delegated to local governments for a specified period of time if the sources of additional financing simultaneously are identified to provide for any increase in expenditures. Local governments organize the execution of such functions and are responsible for assuring their realization. Currently, the most common temporarily delegated function of local governments is the denationalization of property and land.

*Table 3.5*  
**Local Government Functions in Latvia**

Function	Legal Background	Responsible Institution	Financing Source
1. Compulsory			
Permanent Governments”	Law “On Local	Local government budget	Local government
Temporary	Other laws	Local government source must be stated in the law	Additional financing
State administrative	Laws or regulations of Cabinet of Ministers	State administrative institution	Budget of state administrative institution
Individual	Decisions of Cabinet of Ministers	Local government	Cabinet of Ministers or local government budget
2. Delegated from Other Local Governments	Contract between local governments	Local government that delivered the function	Financing source must be stated in the contract
3. Voluntary Initiatives	Decision of local government council	Local government	Local government budget

If stipulated by law or by the regulations of the Cabinet of Ministers, local governments may be authorized to execute the responsibilities of state administrative institutions. In such instances, financial resources simultaneously must be allocated from the budget of the state administrative institution to the local government to cover the cost of the assignment. The local government organizes the execution of such delegated functions, but the state administrative institution is responsible for assuring its completion.

On the basis of a written contract, local governments can engage one another in the execution of functions that are within their competence. The sources of financing for these functions must be envisaged in the concluded contract. In such cases, the local government to which these

functions have been delegated is responsible for their execution and oversight. Functions that are the exclusive competence of the council and those delegated to a particular local government by a state administrative institution may not be delegated to another local government.

The Cabinet of Ministers or individual ministries may delegate specific tasks to local governments. In delegating such tasks the Cabinet of Ministers or the relevant ministry accordingly must transfer financial means to the local government, or the local government voluntarily may support the task through its own resources.

State administrative institutions do not have the right to delegate functions and tasks to local governments if financing is not ensured. In practice, however, demands for commensurate financial resources to support the functions of local governments are not observed.

According to the law “On Local Governments,” the main functions of municipalities are to:

- organize municipal services to inhabitants (water supply and sewage networks; heating; collection and disposal of household waste; collection, disposal and purification of sewage);
- maintain its administrative territory (construction, reconstruction and maintenance of streets, roads and squares; provision of lighting for streets, squares and other public areas; collection and disposal of industrial waste; establishment and maintenance of cemeteries);
- regulate the use of public forests and waters;
- provide education and promote culture (registration of children of compulsory school age and administration of educational institutions; establishment and maintenance of institutions to support extracurricular activities; protection of the right of access to primary and secondary education; provision of resources and maintenance of museums and cultural monuments; establishment and maintenance of public libraries);
- provide health care for inhabitants;
- ensure social assistance for underprivileged families and socially unprotected persons (families with many children, orphans, abandoned children, the politically repressed, the disabled, pensioners, the unemployed, et cetera);
- oversee adoption and guardianship issues;
- establish and maintain an accommodation fund and render assistance to inhabitants concerning accommodation issues;
- promote entrepreneurial activity in the administrative territory (restricting monopolies and promoting competition, issuing permits and licenses for entrepreneurial activities, et cetera);
- take measures to prevent unemployment, including the temporary assignment of public jobs to the unemployed;
- maintain public order;
- manage construction in accordance with the master plan of the administrative territory;
- collect and provide information necessary for state statistics;
- oversee the registration of marriages;
- organize civil defense.

The last function is also compulsory for district governments.

District governments have other functions as stated in the law “On Local Governments”:

- management of public transportation services;
- representation of the district government in the regional health insurance fund;
- organization of continuing education for pedagogical employees and support for research.

In addition to the functions stated in the law “On Local Governments” municipal and district governments execute local administrative, socioeconomic and cultural functions for a specified period of time as stated in laws (see annex 3.4).

### 3.3.2 Different Forms of Service Delivery

Local governments have the right to establish institutions and enterprises, to cooperate with public and private companies, to contract the private sector to manage projects, to cooperate with other local governments and to privatize local government property in order to perform municipal services.

In the period from 1992 to 1 July 1998 local governments privatized 1,137 retail trade, public catering and consumer services units (see table 3.6), the selling price of which was lat 14,259 thousand or USD 24,584 thousand. Eighty-two percent of national property (932 units) was privatized by legal persons, and eighteen percent (205 units) by individuals. A vast majority of property was sold from 1992 to 1994 in the first wave of privatization. The privatization of retail trade, public catering and consumer services units is almost complete.

*Table 3.6*  
**Privatization of Local Government Retail Trade, Public Catering  
and Consumer Services Units in Latvia**

Year	Privatized Units			
	Total	Retail Trade Units	Public Catering Units	Consumer Services Units
1992	302	157	29	116
1993	423	189	42	192
1994	231	125	31	75
1995	68	29	8	31
1996	45	24	8	13
1997	45	19	6	20
1998 (first half)	23	16	3	4
<b>Total</b>	1,137	559	127	451

SOURCE: Privatization Process in Latvia, *Statistical Bulletin* (Central Statistical Bureau of Latvia, Latvian Privatization Agency) 2:8 (1998).

As a result of privatization, the share of local government ownership in public services has been greatly reduced and in fact is currently less than the share of the private sector, with the exception of preschool establishments (see table 3.7). But privatization of local government apartments has been initiated only for 121 thousand flats, or twenty-nine percent of the total; 40 thousand of these (fourteen percent) are in republican cities. Privatization was possible by voucher until 1999.

*Table 3.7*  
**Sale of Selected Market Services  
in Latvia by Form of Ownership, 1997 [%]**

Market Services	Total Turnover	Public Sector			Private Sector
		Total	State	Municipal	
Repair of Personal and Household Goods	100	2	0	1	98
Laundries, Dry Cleaners, Hairdressers, Beauty Shops and Other Personal Services	100	8	2	6	92
Preschool Establishments	100	95	1	94	5
Other Private Educational Services	100	60	50	8	40
Health Services	100	56	19	30	44
Culture, Recreation and Sports	100	7	5	0	93
Advertising Services	100	9	8	0	91
Legal, Accounting, Copying and Other Commercial Services	100	33	26	3	67

SOURCE: Privatization Process in Latvia, *Statistical Bulletin* (Central Statistical Bureau of Latvia, Latvian Privatization Agency) 2:8 (1998).

### *3.3.3 Cooperation between Local Governments*

Local governments may cooperate in order to perform the functions that they have been assigned and in which they are interested. Such cooperation is possible if contracting is allowed by the local government statutes and within the framework of the local government budget.

A very important amendment was introduced on 14 October 1998 allowing local governments with mutual interests and by mutual agreement to establish common institutions to execute common tasks. All local councils involved must agree upon and approve the same statutes in



accordance with which the common institutions are able to act. Local governments in Latvia cooperate mainly in the following spheres:

- education;
- culture;
- health and social care;
- water supply;
- collection and disposal of waste;
- repair and maintenance of roads;
- student transportation;
- public order;
- organization of common building boards and rural municipal courts,
- common territorial development plans;
- common information systems.

An example of such cooperation is the establishment of the Local Government Training Center of Latvia. Wider cooperation among local governments also helps to determine in which cases cooperation is sufficient and in which the amalgamation of municipalities would be more beneficial.

## 4. Local Finance, Economic Development

### 4.1 Local Government Economic Basis

The economic basis of local governments is composed of the property and possessions owned by the municipality as well as financial resources accumulated from:

- the share of tax payments of legal and individual persons that is allocated to local government budgets;
- general (block) grants and specific (targeted) grants from the state budget;
- loans;
- local duties and other payments;
- fines;
- revenues from the management of local government property and business activities of local government institutions and enterprises;
- voluntary contributions of legal and individual persons;
- other revenues.

Local government property is separate from state and other types of property. Local governments manage, utilize and administer their property as set forth by law. It must be used to satisfy the needs of the inhabitants of the respective administrative territory either through public use (roads, streets, squares, parks) or by establishing institutions and enterprises that satisfy the rights of inhabitants and render necessary services to them.

Local government enterprises providing public services function according to the principles of nonprofit organizations. The local government may use part of its property in business transactions to acquire income necessary to satisfy the needs of the population or privatize or expropriate such property in accordance with procedures established by law. Municipalities have preemptive acquisition rights if real property is being expropriated in the administrative territory of the local government that is deemed necessary to the provision of public services.

Data concerning local government expenditure of gross domestic product (GDP) and general government expenditure are shown in table 3.8.

*Table 3.8*  
**Local Government Expenditure to GDP  
and to General Government Expenditure in Latvia [%]**

Year	Local Government Expenditure <sup>a</sup> to GDP	Local Government Expenditure <sup>a</sup> to General Government Expenditure
1994	10.3	26.0
1995	10.8	26.2
1996	11.7	26.2
1997	9.4	24.2
1998	9.4	25.2

a. Including local government basic and special budgets.

The basic local government budget covers expenditures foreseen during the year and is generated from all revenues with the exception of those earmarked for specific purposes, gifts and donations, which are allocated to a special budget that supports projects linked specifically to these revenues.

As seen in table 3.8, the percentage of local government expenditure to GDP in 1998 was the same as in 1997 but decreased relative to 1996. The share of local government expenditure to general government expenditure increased by one percent compared to 1997, but decreased by one percent compared to 1996. It is expected that the proportion of local government expenditure to GDP will be about ten percent in 1999, and to general government expenditure, about twenty-three percent.

Division of competence between the state and local governments in general corresponds to the principles of decentralization. But the state now entrusts new functions, such as central heating, social care, et cetera to local governments without the allocation of corresponding financial resources. Rather than increasing the portion of local government funding from the general state budget, the opposite tendency is observed.

## 4.2 Structure of Revenues and Expenditures of Local Government Budgets

The structure of local government budget revenues and expenditures in 1998 is exhibited in table 3.9 and table 3.10. More than half of total local government revenues consists of tax revenues, with the exception of district governments; 91.1 percent of their total revenues are grants. But on average for all types of local government the share of grants is about one-third of total revenue. The main source of tax revenue in local governments is personal income tax—41.2 percent. The next largest sources of tax revenue are from property (7.2 percent) and real estate and land (4.8 percent).

*Table 3.9*  
**Revenue Structure by Type of Local Government in Latvia, 1998 [%]**

Type of Revenue	Republican Cities	Town and Rural Municipalities	District Governments	Total
Tax Revenue	70.6	45.8	0.0	54.1
Nontax Revenue	9.6	14.7	8.4	11.6
General Grants	1.6	11.8	40.6	9.3
Specific Grants	18.0	24.0	50.5	23.4
Mutual Accounts	0.2	3.7	0.5	1.6
<b>Total</b>	100.0	100.0	100.0	100.0

*Table 3.10*  
**Expenditure Structure by Type of Local Government in Latvia, 1998 [%]**

Type of Expenditure	Republican Cities	Town and Rural Municipalities	District Governments	Total
Financing of the Economy	27.2	19.9	2.8	21.9
Social Security	8.9	6.3	16.3	8.5
Health Care	2.5	1.6	1.2	2.0
Education	43.6	50.5	56.7	47.7
Culture	4.3	6.5	7.4	5.5
Administration	9.5	12.5	14.7	11.3
Other Expenditure	4.0	2.7	0.9	3.1
<b>Total</b>	100.0	100.0	100.0	100.0

Formally, only state taxes are collected in Latvia. In 1995 and 1996 there were three types of taxation—personal income, property and land—that were fully delegated to local government budgets. From 1997, however, only land taxes and property taxes are exclusively local; a proportion of personal income taxes now remains in the state budget. It has been proposed that taxation of property be unified rather than the current system of separate land and real estate taxes.

The largest local government expenditure is education (47.7 percent). From 1997 health care mainly is financed from the state budget. Local government administrative expenditure is 11.3 percent and is larger in municipalities (12.5 percent) than in republican cities (9.5 percent).

### 4.3 Organization of the Local Budget

According to the law “On Budget and Finance Management” passed on 24 March 1994, local governments have the right to draft and approve their budgets independently and to raise budget revenue privately in order to ensure a permanent and secure financial base. Furthermore, the law “On Local Government Budgets” of 29 March 1995 grants local governments the right to adjust tax exemptions for payments to local budgets as well as to impose local government duties and determine their rates in accordance with the law “On Taxes and Fees.” Municipalities have the right to impose duties on:

- local government services;
- entertainment in public places;
- tourism;
- trade in public places;
- keeping certain animals;
- transportation across special zones;
- advertisement in public places;
- ownership of boats, motorboats and yachts;
- use of the local government symbol.

Local authorities also have the right to claim a part of the revenue from some state taxes—personal income tax, natural resources tax and excise tax. The rate of personal income tax is twenty-five percent. Since 1997 it is shared; 71.6 percent is allocated to the local government and 28.4 percent to the state health care budget. Natural resources tax is levied on pollution within the boundaries of particular territories, on pollution above acceptable limits and on the excessive use of natural resources. Forty percent of such tax payments is allocated to the state budget and sixty percent to local budgets for environmental protection. Part of the excise tax on diesel fuel is paid to local governments to support the maintenance of motorways.

Local authorities receive special grants from the state in order to carry out projects such as investment in territorial planning. General grants from the state may be distributed as the local authorities see fit. Many local governments receive general grants in addition to those from the state from more wealthy districts through the local government financial equalization fund.

Briefly, the criterion for allocating general grants to local authorities is the difference between level of expenditure and level of revenue per capita, taking the age structure of the population into consideration. The system of local government financial equalization was introduced in 1995 based on recommendations of the European Council and on the Danish experience. The goal of this equalization system is to provide financial resources that ensure approximately equal opportunities to meet the needs of all residents.

Local governments also have the right to take short- and long-term loans and to make loan guarantees as determined by the laws “On Budget and Finance Management” and “On Local Government Budgets.” In accordance with the latter, local governments may take loans in the amount and according to procedures determined by the Cabinet of Ministers, which may be used only as appropriated. Local governments are not allowed to guarantee loans by properties that are necessary for the fulfillment of their responsibilities. Short-term loans may be sought to offset short-term deficit. Loans from the state budget must be repaid by the end of the fiscal year. Long-term loans may be sought to fund economic and social programs. Such loans may not be used to finance recurrent expenses of the local government. Almost one-third of the total number of loans borrowed by local governments in 1998 via the treasury was used to invest in the reconstruction and repair of heating systems.

Since 1995 the central government has gradually reduced access to private capital markets by local governments. Today local governments borrow mainly from the treasury but also from the environmental investment fund and the local government credit fund and, in special cases, with the permission of the minister of finance, from commercial banks. Such restrictions contradict the demands of the European Charter of Local Self-government on free access to national capital markets. For the most part, local governments are unable to undertake many large-scale projects because the proportion of their budgets allocated for investment is only a small percent of total financial resources.

#### 4.4 Local Economic Development

One of the most important functions of local government is the promotion of economic development. The following local economic development initiatives are in progress:

- privatization of local government property and enterprises;
- organization of public-private ventures;
- job creation incentives;
- assistance to businesses for land acquisition;
- tax breaks and exemptions;
- formation of special organizations that promote economic development (for example, support centers for small and medium-sized enterprises);
- development of technical and social infrastructure;
- enhancement of the economic environment;

- collaboration on local economic development programs;
- promotion of international trade and investment.

A local government is responsible for conceptualizing a long-term social and economic development plan, which is then used as the framework for the territory's spatial development plan. Such policy is closely connected with state national planning and EU regional policy, since Latvia hopes to join the EU in the near future. Matters of district economic development are significant particularly due to enormous regional disparities. Positive changes in the conceptualization and implementation of district policy have been observed since 1996, when the concept "On the Facilitation of Regional Economic Development" was prepared. Subsequent legislation (the laws "On Regions Deserving Special Support" and "On Territorial Development Planning") and other normative documentation were prepared in 1997 and 1998, and eighty-four districts and municipalities were granted the status of regions deserving special support. The regional fund was formed, the basic purpose of which is to promote entrepreneurial activity in these areas by financing investments, making interest payments and providing loans and credit guarantees to support enterprises.

## 5. Next Steps in the Transition Process

Further reform is necessary to strengthen local government and to ensure wide and qualitative service to residents. Future initiatives include:

- implementation of democratic territorial administrative reform;
- encouragement of cooperation among local governments;
- development of the local budget system;
- improvement of territorial statistical systems;
- improvement of methods for social and economic planning;
- creation and implementation of district economic policy utilizing EU prestructural and structural funds;
- introduction of the principles of strategic management, total quality management and business administration;
- greater participation by local inhabitants in the decision-making process;
- reinstatement of direct elections for district councils;
- amendment of the Satversme to include the principles of local government;
- creation of a code of ethics for deputies and staff of local governments.

Some of these tasks are included and detailed in the "Declaration on Intended Action" of the Cabinet of Ministers prepared in November 1998. The main issues concerning the further development of local government mentioned in the declaration follow.

1. The Cabinet of Ministers will continue to pursue adherence to the articles of the European Charter of Local Self-government that Latvia to date has been unable to fulfill.
2. By 31 December 2000, new concepts will be prepared:

- on granting free access to credit markets for local governments;
  - on the role of local governments in investment;
  - on the stabilization and supervision of local government finances.
3. A permanent and stable tax base for local governments will be determined.
  4. Financial independence and responsibilities of local governments will be increased.
  5. The share of the general state budget allocated to local governments gradually will be increased.
  6. A concept on the development of supervision over local government actions and audit systems will be prepared by 31 December 1999.
  7. In the sphere of territorial administrative reform the Cabinet of Ministers will support the amalgamation and cooperation of local governments, and by 31 December 1999, the following will be prepared:
    - a concept on state support for ensuring action in planning regions;
    - a state support program proposal on involving inhabitants in territorial administrative reform and other processes concerning local governments.

On 21 October 1998 the Saeima passed the law “On Administrative Territorial Reform.” Its goal is to create administrative territories run by municipal and regional governments capable of economic development that will provide quality services to their inhabitants. This plan is to be realized by 30 November 2004 in two stages, the first (by 31 December 2003) headed by local government initiative and the second (from 1 January 2004) supervised by the Ministry of Environmental Protection and Regional Development. The following initiatives are planned in preparation of such reform:

- analysis of territorial administrative reform;
- preparation of cooperative projects among local governments;
- realization of cooperative projects among local governments.

An analysis of administrative territories will be undertaken in accordance with methodology approved by the Council on Administrative Territorial Reform and will include the following:

- reporting on the social and economic situation of administrative territories;
- evaluating the attitude of inhabitants towards territorial administrative reform;
- formulating the criteria for new territorial formation;
- formulating the tasks for cooperative projects among local governments.

The preparation of cooperative projects among local governments in accordance with methodology approved by the Council on Administrative Territorial Reform will involve:

- evaluating the effectiveness of local government activities and preparing suggestions for the reform of local governments;
- designing proposals for the reform of territories;
- designing structural projects and cooperative agreements for newly created local governments;
- organizing public discussions on cooperative projects.

After such evaluation is carried out, the following administrative territories will be introduced:

- regions (districts, *apriņīti*);
- areas (*novadi*);
- rural municipalities (*pagasti*);
- towns (and republican cities);
- the capital.

An “area” is a new territorial administrative division formed by the amalgamation of rural municipalities, town municipalities or a combination of the two that operates under one local government. The local governments that carry out such reform in accordance with this law will be awarded an extraordinary grant from the state budget in the amount of one to five percent of the total sum of the annual budgets of the amalgamated local governments.

The following criteria must be provided for the territorial administrative reform of municipalities:

- long-term development of the territory;
- financial revenue base;
- infrastructure for performing the functions of local government;
- number of inhabitants;
- economic, geographic and historical basis for unification of local governments;
- access to local government services;
- other conditions proposed by the district council.

The state will be divided into regions that are required to provide:

- functions of district governments;
- regional functions of the central administration;
- regional planning and development;
- cooperation with regional governments and state administrative institutions.

The Cabinet of Ministers will prepare drafts on the division of the state’s territory into regions, on regional state administration and on regional government functions and will submit the drafts for local government discussion by 31 December 2000. Accordingly, when determining the division of responsibilities among state administrative institutions, regional governments and municipal governments, the subsidiary principle will be observed.

To coordinate this reform, the Cabinet of Ministers established the Council on Administrative Territorial Reform. The council is comprised of an equal number of representatives from the Union of Local and Regional Governments of Latvia and from state administrative institutions. The Council on Administrative Territorial Reform will:

- provide evaluation of administrative territories and cooperative projects and drafts of normative acts concerning territorial administrative reform;
- confirm the methodology of analysis and design of cooperative projects;
- prepare proposals based upon the analysis of the administrative territories and cooperative projects.



To support territorial administrative reform in the region, each district council will:

- perform the necessary activities for analysis listed above;
- provide resolutions on the results of such analysis;
- provide local governments, state institutions and inhabitants with information on the progress of such analysis.

The first attempts to amalgamate small and medium-sized municipalities in 1992 and 1993 were unsuccessful because they were prepared “from above,” without participation of the local governments, and proposed compulsory cooperation. The new law and reform initiatives are based on serious analysis of the economic, social and political background of reform and voluntary amalgamation of local governments.

Research in some districts of Latvia shows that heads of local governments, deputies and staff as well as inhabitants in most cases are against compulsory amalgamation of municipalities by the central government. Territorial administrative reform, accompanied by financial reform and regional development policies, cannot be successful without involvement of local governments and residents.

There has been a tendency towards financial centralization in Latvia. In order to improve local government finance, it is necessary in the future to:

- ensure free access to the national capital market;
- work out the normative execution of functions between local governments and the state and methods to ascertain optimal proportions allocated between the state and local government budgets;
- introduce local government taxes by law and real estate and personal income taxes as local taxes;
- transfer the administration of local taxes to local governments;
- reduce the number of tax exemptions;
- ensure stability of the systems of taxation and budget management;
- improve the system of equalization of local government finances.

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## Notes

- <sup>1</sup> Hereafter, all three are referred to as “municipalities” unless otherwise noted.
- <sup>2</sup> Hereafter, both are referred to as “districts” or “regional governments” unless otherwise noted, except for section 1.2 on the capital, which discusses “districts” that are subunits of the municipality of Riga. A republican city is one that has the status of a district.
- <sup>3</sup> In this section, the term “district” refers to subunits of the Riga municipality.
- <sup>4</sup> The *lat* is the Latvian currency.
- <sup>5</sup> According to the law, the body of elected representatives of a rural municipality or district is called a “council”; of a town/city municipality, a “dome.” Hereafter, the term “council” is used to indicate the basic elected representative local government unit for all three categories.
- <sup>6</sup> Language skills are tested through examination by a special commission.

## Annex 3.1

### Major General Indicators

Size of territory	64,600 square kilometers
Population density	38.1 inhabitants per square kilometer
Population (1 January 1998)	2,458,403
Pensioners	651.5 thousand (26.5 percent of population)
of which old-age pensioners	511.2 thousand (20.8 percent of population)
Children under 18 years of age	609.9 thousand (24.8 percent of population)
Major ethnic divisions	
Latvians	55.5 percent
Russians	32.4 percent
Others	12.1 percent

Per capita GDP (at current prices) 2,242.24 USD

Note: This figure was calculated on the basis of an exchange rate of USD 0.58 per *lat*, the Latvian currency. This rate was in effect in December 1998.

Data on annual general government budget [%]	
General government budget revenue (1997)	100.0 percent
of which	
Central government basic budget	43.6 percent
Central government special budget	37.6 percent
of which	
Special social security budget	30.1 percent
Local government basic budget	16.5 percent
Local government special budget	2.3 percent

Central government debt  
as percentage of GDP (end of 1997) 12.2 percent

Unemployment rate  
—registered unemployed as share of  
economically active population (1997) 7.5 percent

Inflation rate (1997) 8 percent

## Annex 3.2

## Population, Settlements and Administrative Units

*Table 3A.1*  
**Settlements by Population Categories in Latvia**

Population	Number of Settlements	Percentage of Settlements	Number of Inhabitants	Percentage of Inhabitants
0–1,000	73,796	99.8	627,687	25.5
1,000–1,999	64	0.1	89,246	3.6
2,000–4,999	49	0.1	146,248	6.0
5,000–9,999	12	0.0	96,250	3.9
10,000–49,999	18	0.0	350,198	14.3
50,000–99,999	3	0.0	226,247	9.2
100,000–999,999	2	0.0	922,527	37.5
1,000,000+	—	—	—	—
<b>Total</b>	73,944	100.0	2,458,403	100.0

*Table 3A.2*  
**Municipalities by Population Categories in Latvia**

Population	Number of Municipalities	Percentage of Municipalities	Number of Inhabitants	Percentage of Inhabitants
1–1,000	181	32.1	137,844	5.6
1,000–1,999	224	39.8	312,400	12.7
2,000–4,999	111	19.7	321,645	13.1
5,000–9,999	23	4.1	175,011	7.1
10,000–49,999	19	3.4	362,729	14.8
50,000–99,999	3	0.5	226,247	9.2
100,000–999,999	2	0.4	922,527	37.5
1,000,000+	—	—	—	—
<b>Total</b>	563	100.0	2,458,403	100.0

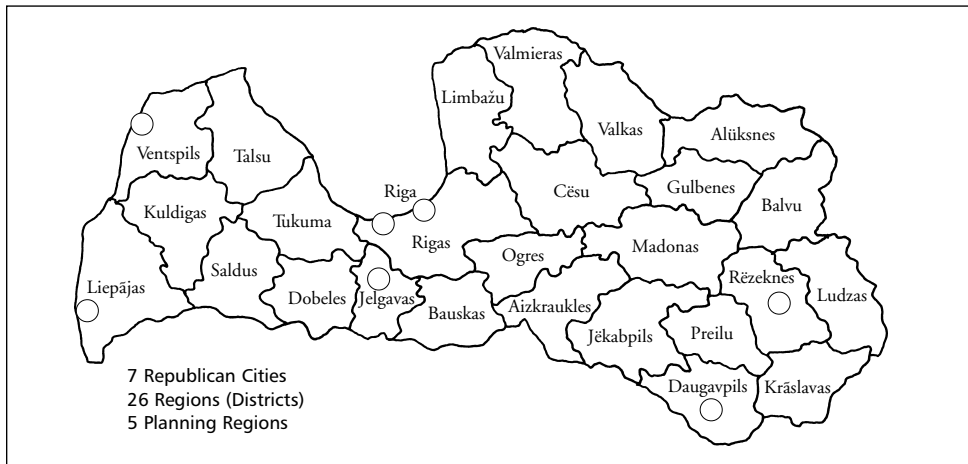
Average population of a town/city and rural municipality	4.4 thousand
Average population of a rural municipality	1.7 thousand
Average population of a district	47.0 thousand

*Table 3A.3*  
**Local Government Units in Latvia, 1 January 1998**

Type of Municipality	Number
Rural	486
Town	70
City	7
District	26
<b>Total</b>	<b>589</b>

Number of administrative personnel in public administrative institutions (1998, third quarter)	
Employed by the state	7,912
Employed by local governments	8,304
Number of other public employees in public administrative institutions (1998, third quarter)	
Employed by the state	7,193
Employed by local governments	1,078

*Figure 3A.1*  
**Administrative Map of Latvia**



## Annex 3.3

### Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in Latvia (presented in chronological order of adoption; date of adoption is given in brackets):

- Law on Elections for the Town/City Dome, Regional Council, and Rural Municipality Council (13 January 1994)
- Law on Taxes and Fees (2 February 1994)
- Law on Budget and Finance Management (24 March 1994)
- Law on Public Civil Service (21 April 1994)
- Law on Local Governments (19 May 1994)
- Law on Order of Reviewing of Applications, Complaints and Proposals in State and Local Government Institutions (27 October 1994)
- Law on Local Government Budgets (29 March 1995)
- Anticorruption Law (10 November 1995)
- Law on Regions Deserving Special Support (22 May 1997)
- Law on Equalization of Local Government Finance (5 March 1998)
- Law on the Status of Deputy of Town/City Dome, Regional and Rural Municipality Councils (17 March 1998)
- Law on Territorial Development Planning (15 October 1998)
- Law on Administrative Territorial Reform (21 October 1998)



## Annex 3.4

## Responsibilities of Administrative Tiers

*Table 3A.4*  
**Specific Functions of Local Government Units in Latvia**

Functions	All Municipalities	District Governments	Central or State Territorial Administration	Other Government	Remarks
<b>I. EDUCATION</b>					
1. Preschool	X				also private
2. Primary	X				also private
3. Secondary	X				also private
4. Technical	X		X		
5. Other, especially further education of pedagogical employees		X			
<b>II. SOCIAL WELFARE</b>					
1. Nurseries	X				also private
2. Kindergartens	X				also private
3. Welfare Homes	X				
4. Services for the Elderly and Handicapped	X				
5. Special Services (for the homeless, families in crisis, etc.)	X				
6. Social Housing	X				
7. Other, especially assistance for the politically repressed and the unemployed	X		X		

*Table 3A.4 (continued)*  
**Specific Functions of Local Government Units in Latvia**

Functions	All Municipalities	District Governments	Central or State Territorial Administration	Other Government	Remarks
<b>III. HEALTH SERVICES</b>					
1. Primary Health Care	X	X			also private
2. Health Protection	X	X	X		
3. Hospitals	X	X	X		also private
4. Public Health	X	X	X		
5. Other, especially regional sickness insurance fund		X			
<b>IV. CULTURE, LEISURE, SPORTS</b>					
1. Theaters	X		X		also private
2. Museums	X	X	X		also private
3. Libraries	X	X	X		also private
4. Parks	X		X		
5. Sports, Leisure	X		X		also private
6. Cultural Centers	X	X	X		also private
<b>V. PUBLIC ACTIVITIES</b>					
1. Water Supply	X				also private
2. Sewage	X				also private
3. Electricity	X		X		
4. Gas			X		
5. Central Heating	X				
<b>VI. ENVIRONMENT, PUBLIC SANITATION</b>					
1. Refuse Collection	X				also private
2. Refuse Disposal	X				also private
3. Street Cleaning	X				
4. Cemeteries	X				
5. Environmental Protection	X	X	X		

*Table 3A.4 (continued)*  
**Specific Functions of Local Government Units in Latvia**

Functions	All Municipalities	District Governments	Central or State Territorial Administration	Other Government	Remarks
<b>VII. TRAFFIC, TRANSPORTATION</b>					
1. Roads	X		X		
2. Public Lighting	X				
3. Public Transportation	X	X	X		also private
<b>VIII. URBAN DEVELOPMENT</b>					
1. Town Planning	X				
2. Regional/Spatial Planning	X	X	X		
3. Local Economic Development	X	X	X		
4. Tourism	X	X	X		also private
<b>IX. GENERAL ADMINISTRATION</b>					
1. Authoritative Functions (licenses, etc.)	X		X		
2. Other State Administrative Matters (electoral register, etc.)	X		X		
3. Local Police	X				
4. Fire Brigade	X		X		
5. Civil Defense	X	X	X		
6. Consumer Protection				X	



Chapter 4

# Local Government in Lithuania

*by*

*Arunas Beksta*

*and*

*Algirdas Petkevicius*



# Local Government in Lithuania

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# Local Government in Lithuania

*Arunas Beksta and Algirdas Petkevicius*<sup>1</sup>

## 1. Overview of Local Government Reform

The formation of local government and the improvement of territorial administrative organization were initiated in Lithuania prior to the restoration of independence. On 12 February 1990<sup>2</sup> the Supreme Council of the Lithuanian Soviet Socialist Republic adopted the Law on the Foundation of Local Self-government, modifying the previous model and providing for a new local government structure.

The law defined local government as “the independent activity of residents of territorial administrative units and of local self-government institutions accountable to them aimed at deciding their own affairs and at implementing these decisions.” The following were indicated as the principles of local government: (1) direct participation of citizens in preparing, discussing, adopting and implementing decisions on public issues; (2) authority of representative bodies over other local government organs; (3) accountability of local government bodies and of officials to residents; (4) economic independence; (5) publicity of and responsiveness to public opinion; (6) social justice; (7) assurance of legality; and (8) preference for contractual relations in local government activities.

Two tiers of government were established: lower-level units (regional towns, urban settlements, localities) and upper-level units (regions and cities). This system was criticized from its very introduction because it was based on the territorial division that existed during the soviet period. This and other laws were drafted and adopted by the centralized government; therefore, a biased approach hardly could have been avoided, especially taking into consideration insufficient experience with and absence of democratic traditions in the country. Stasys Kropas, a local government expert, defined the deficiencies of this period as (1) the absence of a coherent system of regional and local government, (2) undefined functions of the central and local government, (3) the absence of a realistic economic-financial basis for local governments, (4) an imperfect system of internal administration in local governments, (5) an insufficiently clear strategy of local government development and (6) undefined rights and duties of local government employees.<sup>3</sup>

The law primarily defined internal structures and content for local government but did not stipulate territorial administrative redivision. Although its content was very formal, two tiers of local government existed prior to this law; only small and limited modifications were introduced. As a result, discussions about possible territorial administrative redivision of the country and about local government reform continued from the beginning of 1991. One of the most

significant working groups involved in preparing the reform strategy and drafting necessary legislation was the group of Professor Vaitiekunas, which began functioning in 1991 and was appointed formally by the government in 1993. The priorities of the group were (1) to separate clearly central executive authority and local government, (2) to create territorial administrative units accessible to residents, (3) to create a hierarchical system of territorial administrative units enabling effective administration of the country and optimizing public expenditures, (4) to create favorable conditions for regional state administration and for the improvement of national administration and (5) to integrate all territories, towns, villages, national parks, natural reserves and resorts in one effectively functioning system.<sup>4</sup>

Despite an abundance of proposals, the Public Administration Reform and Local Authorities Committee of the *Seimas* (parliament) submitted the draft Law on Territorial Administrative Units and Their Boundaries in November 1993, which conceptualized ten counties and fifty local governments. On 20 December 1993 the Lithuanian government approved and submitted to the *Seimas* a draft that proposed ten counties and fifty-five local governments.<sup>5</sup> The law was implemented in 1995, replacing the former system of two levels and five categories of 581 administrative units with a system of two levels and two categories of 66 administrative units. Consequently, the structure currently functioning in Lithuania (see figure 4.1) includes:

- higher administrative units or counties (*apskritis*), the activities of which are assigned and supervised by the state government;
- lower level administrative units; depending on the type of residential area, the unit may be designated as rural (forty-four) or urban (twelve), though there is no difference concerning their competencies;
- around five hundred neighborhoods, which do not have status as territorial administrative units (these communities had the rights of local governments before the reform).

*Figure 4.1*  
**System of Administration in Lithuania**

State Level	Government	
Level 2: Higher Administrative Units (subordinate to the state administration)	10 Counties	
Level 1: Self-government Administrative Units	44 Rural Local Governments	12 Urban Local Governments
Submunicipal Level: Territorial Units (subordinate to self-government)	Neighborhoods	

In fact, a superficial and gradual approach to territorial administrative reform took precedence; the only initiative truly realized was the abolition of the first tier of local government (regional towns, urban settlements and localities). There were many reasons for this approach. First, the government may not have wanted to destroy the existing administrative structure or simply lacked sufficient funds or clear strategies. Second, the ruling party—the Lithuanian Democratic Labor Party had a majority of the parliamentary seats at that time—was unwilling to destroy the territorial structure of its well-functioning local party offices. Regardless, this step was not perceived as an end goal, but rather as the first stage of reform. Subsequent steps of reform will be described in section 6.

## 2. Legal and Constitutional Basis

Currently local and county government are regulated by a number of laws, among which the most important are the Law on Local Self-government (adopted 7 July 1994 and amended thirteen times since), the Law on Elections to Local Government Councils (adopted 7 July 1994 and amended seven times since), the Law on the Status of Local Government Councilor (adopted 7 February 1995), the Law on Territorial Administrative Units and Their Boundaries (adopted on 19 July 1995 and amended twice since), the Law on Governing of the County (adopted 15 December 1994 and amended eight times since), the Law on Temporary Direct Governing in Urban and Rural Local Governments (adopted 28 March 1995 and amended twice since).

### 2.1 Legal Basis of Local Government

The development and operation of local governments are legally defined in the Constitution of the Republic of Lithuania and in the Law on Local Self-government. Chapter 10 of the constitution, “Local Government and Administration” is specifically concerned with the activities of local governments. It grants administrative units the right to free and independent governance within the limits of their competence, implemented through local government councils. Members of local government councils are elected for three-year terms on the basis of universal, equal and direct suffrage by secret ballot by the residents of their administrative unit who are citizens of the Republic of Lithuania. Law establishes procedures for the organization and activities of self-government institutions, and local government councils have the right to form executive bodies for the direct implementation of laws and the decisions of the government and local government council.

The constitution gives local governments the right to draft and approve their own budgets, to establish local dues and to levy taxes and duties. Local governments also must have a reliable financial basis. According to the Law on Methodology for the Establishment of Local Government Budgetary Revenues (adopted 2 July 1997, amended 2 December 1997), personal income tax is ascribed to the local government budget upon deduction of mandatory social insurance, in accordance with the Social Insurance Law (for more about local finances see section 5).

The Law on Local Self-government regulates the principles and functions of local governments in Lithuania. Local self-government is defined as the right and power of institutions elected by the residents of an administrative unit of the territory of the Republic of Lithuania to freely and independently regulate and manage public affairs and meet the needs of local residents according to the constitution and the law.

The law establishes that the principles of self-government are:

- coordination of the interests of the municipality and the state;
- direct participation of citizens in municipal council elections, polls, public meetings and petitions;
- accountability of self-government institutions and officers to residents;
- publicity of and response to public opinion;
- lawfulness and social justice;
- economic independence.

The law stipulates that the competence of self-government institutions is autonomous and is delegated by the state. They are entitled to free activities, initiatives and adoption of decisions. Other problems that do not fall within the competence of state institutions and that affect the population of the administrative unit are resolved by local self-governments. State functions are delegated to local authorities by this law or other laws; state institutions supervise and control self-government institutions that execute the functions delegated by the state only in cases provided by law.

The law enumerates autonomous competencies of the council and of the local government itself. Those delegated by the state include: civil registration; registration of municipal, state and private enterprises and public organizations; management of state parks (national and regional); organization of the municipal police, civil security and fire prevention; and implementation of other functions delegated by law.

According to the Law on Local Self-government, the relationship among local government councils, local government executive bodies and state institutions is regulated by the constitution and by law. Decisions of the local government council and board and instructions of the mayor are binding for all enterprises, agencies, organizations, officials and residents of the local government.

## 2.2 The Status of Neighborhoods

According to the Law on Local Self-government, the local government council is entitled to decide on the division and boundaries of the territory into neighborhoods. This law also stipulates that the mayor is charged with the appointment and dismissal of chief executives of neighborhoods and approval of the statutes of their activities. Chief executives of neighborhoods are authorized to issue certificates to residents on their social status, organize the maintenance of cemeteries,

organize the collection of local fees, publicize and oversee the implementation of decisions of the local government council and of the mayor in the neighborhood, register births and deaths in rural areas, issue permissions for burials and carry out functions of the notary public. In practice, neighborhood administrations also provide consultations to residents, issue licenses and other essential documents, maintain streets and oversee environmental control. Since the local government mayor approves the responsibilities of the chief executive, functions may vary from neighborhood to neighborhood.

Neighborhood administrations face considerable difficulties, even in addressing the most basic services. They are often unable to provide the necessary resources and/or are not empowered to solve social problems. Often the chief executives of neighborhoods must simply refer a resident to the local government center. The main reason for this is insufficient administrative capacity to provide a wider range of services. Currently, most neighborhood administrations employ four to six administrative employees. Additionally, the authority of the chief executive is often quite limited, meaning that residents must travel to local government centers to receive services.

It is noteworthy that some neighborhood centers are larger than their local government centers in terms of both number of residents and economic potential. This is true, for instance, in the Elektrėnai neighborhood, with a population of eighteen thousand residents (seventeen thousand in the center), which is more than the town of Trakai, the local government center. Another example is the town of Vievis, the population of which is eleven thousand (six thousand in the neighborhood center); the number of residents of the local government center, Trakai, is nearly equal to that of Vievis's center alone.

### 2.3 The Status of the Capital City

A specific issue related to local government is the legal status of the capital city.

Thus far Vilnius enjoys the same rights and obligations as all other local governments. However, there are proposals that the capital should have special legal status. Currently there are two drafts of such legislation. One proposes to provide the city council the exclusive right to make decisions on changes in the administrative borders of the local government; currently this right is exercised by the Seimas. The draft grants the local government of the capital city ownership of land within its territory including all resources, parks, water reservoirs, cultural monuments, et cetera. It also stipulates that all expenditures arising out of circumstances related to Vilnius's status as the capital shall be covered by the state budget. The second proposal stipulates that the Seimas shall determine an additional annual grant earmarked for the local government of Vilnius in the amount of no less than five percent of the local government's budget. It also envisages that a separate amount of no less than two percent of the local government's budget shall be granted annually to finance state programs and events in the capital on the basis of agreements with Vilnius's municipal authorities.

The general outlook for both drafts is skeptical. First, if one municipality receives unique treatment, others will make claims for similarly constructed preference: for instance, Klaipeda might request special provisions as a major port city. Such arguments can be countered, of course, because Vilnius's municipal institutions are more capable and have more responsibilities than those of other municipalities. Second, after adopting a capital law it would be necessary to change more than ten other laws to harmonize existing legislation. Opponents claim that the Vilnius city municipality can achieve its goals by recommending changes to other laws rather than by creating a specific capital law.

Arguments for a specific capital law are based on the fact that Lithuanian ministries and counties (institutions of the state level) supervise municipal functions that are usually addressed by many communities and local governments; for example, the Vilnius local government does not own any land or buildings. The existing budgetary system is also unsatisfactory; it finances numerous events on behalf of the state. Additionally, because an equalization system redistributes revenues among municipalities, Vilnius receives a small proportion of taxes collected in the city. A capital law would assist the establishment of a tax basis to fund the city budget.

There are five major goals that the city of Vilnius wishes to achieve by this law:

- direct election of the city mayor;
- local government ownership of city property;
- transfer of ownership of state property in the city to the local government, with the exception of buildings that are used by the state administration;
- establishment of a system of (at least partial) fixed taxation to fund the city budget;
- subordination of the city police to the local government.<sup>6</sup>

Some believe that the local government of Vilnius should exercise the functions of both local government and county administration. It is, however, quite unclear if any specific law on the capital city shall ever be enacted.

## 2.4 Legal Basis of County Governance

In reference to the second—county—tier, the constitution stipulates that the government according to procedures established by law organizes higher level administrative units. It also indicates that representatives be appointed by the government to supervise observance of the constitution and the law, and that in specific cases the Seimas may introduce direct administration on local government territory.

The legal status of county administration is defined in the Law on Governing of the County. According to this law, "The county is a higher level administrative unit of a territory of the Republic of Lithuania, in which governing is organized by the government through the county governor, ministries and other governmental institutions." The county governor is appointed

and dismissed by the government on proposal by the prime minister. The primary source of county revenues is the state budget. It also is stated clearly in the law that county administration is a part of the state administration and that the boundaries of counties are to be approved or changed by the Seimas on proposal of the government. Therefore, it may be said that county administrations are territorial agents of the Lithuanian government.

According to the law, the county governor is charged with (1) implementing state policy in the fields of social care, education, culture, public health, territorial planning, administration of memorials, land use, agriculture and environmental protection; (2) coordinating activities of ministry units and other government institutions in the territory of the county and of executive institutions of local governments in implementing regional programs; and (3) identifying priorities of and preparing programs for county development.

## 2.5 Relationship between the State Administration and Local Government

Interests of central, regional and local authorities often differ. Conflicts arise particularly on the distribution of authority and revenues. Much depends on which political parties prevail at the central and local levels. From 1992 to 1996, the Lithuanian Democratic Labor Party was the leading power in the Seimas, while the opposition held most local government councils. As a result, local governments opposed the transfer of functions to county administrations. Later, however, when the same political parties predominated at both the central and local levels, such conflicts waned. This problem also exists with regard to the transfer of functions from central government ministries to county administrations. Additionally, in some neighborhoods both the administrative staff and residents aspire for more autonomy from the local government administration.

It is also expedient to outline the legal aspects of interrelations between local governments and the different branches of state administration: parliament, the president, the government and the county administration.

The Seimas established the Public Administration Reform and Local Authorities Committee to address (1) preparation and discussion of draft laws and other acts related to public administration reform, territorial administrative division and the organization of work in local governments; (2) preparation of proposals on territorial administrative reform; (3) submission of proposals on the dismissal of and elections to local government councils; (4) resolution of problems related to economic, social and organizational activities; (5) provision of statistical support to local governments; and (6) exercising parliamentary control of local government institutions.

Other parliamentary state institutions also are involved in local government affairs. One example is the Committee of Budget and Finance, which discusses proposals on the composition of local government budgets. By decision of the Seimas, direct rule may be temporarily introduced on the territory of a local authority up to the expiration of its current term of office. Upon introducing

direct rule, the municipal council and its executive institutions are divested of their authority. The Seimas ombudsperson is charged with investigating citizens' complaints on the abuse of power by local government officials or unnecessary bureaucracy. The State Control Office, also subordinate to the Seimas, monitors the legality and appropriateness of state property use, adherence to the state budget and ensuring the financial discipline of state institutions. Concerning local governments, the State Control Office supervises the appropriate and effective use of state budget funds and analyzes overall municipal budget performance.

The president has a senior adviser who is specifically in charge of local government. He or she may organize meetings with local government officials during which opinions are exchanged on how to resolve important problems. The president also approves the coats of arms of local governments.

Although local governments are not subordinate to the central government, there are a number of issues on which cooperation is necessary. For instance, in collaboration with local government institutions, the government establishes the directions of development in the fields of education, culture, health care and social security. The government also liaises with local governments on issues related to territorial planning.

In accordance with the Regulations on Government Work of 29 December 1997, mayors or their deputies may submit certain issues to the government for consideration. Drafts of legal acts related to the activities of local governments must be coordinated by the Association of Local Authorities of Lithuania as indicated by the government decree amending these regulations. Mayors or deputy mayors—on approval of the prime minister—may be present during sittings of the government when issues related to their activities or proposals are discussed.

The Ministry of Public Administration Reforms and Local Authorities of the Republic of Lithuania, created in 1994, is specifically charged with state policy in the field of local government. The ministry works with local governments on proposals for draft laws and decrees in fields related to local government competencies.

### 3. Local Politics, Decision Making

#### 3.1 System of Local Elections

Since the county is a territorial unit of state administration, no elections are conducted at this level. Only municipal government has autonomous power, enjoys the right of self-government and forms elected bodies. The Constitution of the Republic of Lithuania indicates, as previously mentioned, that local government councilors are elected “on the basis of universal, equal and direct suffrage by secret ballot by the residents of their administrative unit who are citizens of



the Republic of Lithuania.” Procedures for elections are described in detail in the Law on Elections to Local Government Councils. The law foresees that elections be held on the basis of a proportional system of representation.

Since the end of 1996, elections to local government councils are held every three years; previously, the term of office of councilors was two years. This amendment was made for two reasons. First, local government councils and administrations were unable to function effectively with such a short tenure in office. Second, the proportional system of representation conflicted with that of parliament, which is a mixed system; seventy-one deputies are elected on the basis of territorial representation, and seventy on the basis of proportional representation. There are arguments that at the local level electors may be more familiar with concrete personalities than at the national level. Therefore, it would be more understandable if the majority system prevailed in local elections.

Both issues are closely related to political considerations. At the time that the two-year term was adopted, the ruling party had an interest in limiting the possibility of local government councilors (among whom the opposition predominated) to govern effectively. The proportional system complies with the interests of large political parties that may use such a system to eliminate their competitors. Under the existing system, the voter does not identify with specific candidates; rather, the choice is based on preference for one or another political party. This system does have some advantages; for instance, the composition of local government councils is more stable under the proportional system of representation.

Law concerning the organization of elections stipulates that electoral areas are formed in the territory of a local government, and all citizens of the Republic of Lithuania who have the right to vote and reside permanently in the territory of that local government may participate in elections. The law indicates that the number of councilors elected in each electoral area is proportionate to the population as follows:

- more than 500,000 inhabitants—fifty-one councilors;
- from 300,000 to 500,000 inhabitants—forty-one councilors;
- from 100,000 to 300,000 inhabitants—thirty-one councilors;
- from 50,000 to 100,000 inhabitants—twenty-seven councilors;
- from 20,000 to 50,000 inhabitants—twenty-five councilors;
- up to 20,000 inhabitants—twenty-one councilors.

The law also establishes that persons eighteen years of age and older are entitled to vote, and persons twenty-one years of age and older are entitled to run for office. Elections are announced by the Seimas no later than five months prior to the completion of the term of office of local government councilors and must be conducted no earlier than two months prior to and no later than one month after the expiration of this term of office. The Supreme Electoral Commission, district electoral commissions and local electoral commissions are formed to conduct and supervise the elections.

A candidate may be registered only by a political organization registered in accordance with the Law on Political Parties and Political Organizations. A list of candidates in order of preference must be submitted no later than sixty-five days before the elections. It may include neither fewer than five candidates nor more than the total number of council seats plus five. The threshold of votes is four percent for political parties and six percent for coalitions.

*Table 4.1*  
**Mandates Won by Parties in the 1997 Local Elections in Lithuania**

Party	Number of Mandates
Homeland Union (Lithuanian Conservatives)	493
Lithuanian Democratic Labor Party	212
Lithuanian Christian Democratic Party	180
Lithuanian Social Democratic Party	136
Lithuanian Central Union	135
Lithuanian Peasants Party	84
Electoral Action of Lithuanian Poles	56
Lithuanian Liberal Union	44
Lithuanian Nationalist Union	23
Lithuanian Citizen's Alliance	20
Lithuanian Union of Former Political Prisoners and Deportees	20
Lithuanian Women's Party	14
Lithuanian National Party "Young Lithuania"	9
Lithuanian Democratic Party	7
Lithuanian Russians Union	7
Lithuanian Freedom Union	6
Christian Democratic Union	5
Lithuanian Party of Economy	5
National Progress Party	3

### 3.2 Forms of Direct Democracy

The constitution and laws do not provide for local and regional referendums. Local authorities may organize polls on decisions made by local governments, proposals to change the names of localities, the merging of local governments and other issues. The results of such polls are only advisory in nature.

Although on the whole residents have not expressed overwhelming interest in municipal affairs, sometimes local polls attract a lot of attention. This is true especially concerning the forthcoming territorial administrative reform. Although the significance of these polls should not be exaggerated, they are important for maintaining close relations between local government institutions and residents.

In some cases the law requires mandatory consultations with residents. For example, the Law on Territorial Administrative Units and Their Boundaries indicates that the names of localities be changed by the government on proposal by a local government council, taking into account the opinion of residents. Such a requirement is also included in the Law on Territorial Planning, which indicates that the public must discuss documents concerning territorial planning. In such cases, those organizing such projects are charged with calling public meetings to discuss proposals.

### 3.3 Distribution of Power among Different Levels of Government

There are two types of structures in the Lithuanian government system: central and local. Central institutions are ministries, departments and inspectorates that are subordinate to the government. Some have other organs subordinate to them, some have regional divisions (Ministry of Social Affairs and Labor, Ministry of Defense, Ministry of Environment, Culture Heritage Protection Department), though these do not always coincide with county geographical boundaries, and some have local divisions (such as the State Tax Inspection).

In 1995 the implementation of the Law on Territorial Administrative Units of the Republic of Lithuania and Their Boundaries and the Law on Governing the County established the higher administrative units, or counties, which are supervised by the state government. Counties have no direct influence on the decisions of municipalities; the principle behind them is to bring government decisions closer to the populace. The intention was to transfer some ministry functions to counties, but in practice, most of the functions of municipalities were transferred to counties, which created tension between the first and second levels of administration.

The respective laws describe in detail which functions should be performed by each level of authority. The functions of local governments are enumerated in the Law on Local Self-government, and those of county administrations by the Law on Governing of the County. Many other laws indicate specific tasks delegated to each level of authority.

In reality, the distribution of authority does not comply entirely with legal requirements. For instance, county administrations currently supervise agriculture, health care, child and elderly care, regional units of civil protection, disaster management and educational inspectorates, but other responsibilities, such as cultural heritage, transport and vocational schools, have not yet been transferred. Government ministries openly demonstrate their unwillingness to cede authority over such areas. This poses a serious problem for county administrations, because in many cases they already have structures adjusted to the management of these functions.

The most acute issues on which local governments and county administrations disagree are education and health care. Local governments also claim that they should oversee construction inspectorates and land management. Therefore, situations arise in which a decision is made by a level of authority that is not legally entitled to do so. It is not easy to resolve such disputes since the authority that actually (but not legally) controls a certain area of activity often has governmental influence to delay the transfer of functions. The Law on Governing of the County and the Law on the Enforcement of the Law on Governing of the County have been amended a number of times in order to change either the spectrum of functions that county administrations perform or the schedule of transferring these functions to county administrations by other levels of authority.

Since elections to local government councils are based on the proportional system of representation, governing bodies of political parties have great influence. This has conflicting consequences: on the one hand, local politicians who are members of the controlling parties in the Seimas have better access to the government, though their decision-making independence tends to be more restricted; on the other hand, local politicians who are not members of the ruling parties in parliament do not have access to the government and thus the benefits for their respective local governments suffer, though they may exercise greater decision-making independence. This does not mean that their respective parties politically do not influence them, but such influence is less extensive.

### 3.4 Internal Structure of Local Government Decision Making

At the local government level the main deliberative body is the council. Councils coordinate activities of other bodies of local government, provide guidance on economic and cultural activities, supervise the rational use of natural resources, ensure the observance of laws and the implementation of government decrees, maintain public order and protect citizens' rights and legitimate interests. The functions of the council are to:

- approve the council's statutes;
- elect and dismiss the mayor and deputy mayor;
- form committees, the board, administrative and other commissions; alter their composition; approve candidates nominated by the mayor for chairs of committees and commissions; approve regulations for the competencies of the mayor, the board and other officers;
- determine the structure, officers and staff and remuneration of the administration;
- terminate powers of councilors prior to the expiration of their terms of office in cases and in accordance with procedures provided in the Law on the Status of Local Government Councilor;
- approve and manage the municipal budget and report on the implementation thereof;
- approve procedures for acquisition and utilization of nonbudgetary funds and resources and report on their use;
- establish fees, prices and tariffs for services rendered to residents by public municipal enterprises;
- approve budgetary allocations to institutions and organizations that receive financing from the municipal budget, utilize bank credits, take and lend loans in the manner prescribed by law, establish conditions for the use of bank credits by local authority executive institution, as well as for the lending and granting of loans;

- adopt decisions to establish, reorganize and liquidate institutions, enterprises, and organizations maintained by municipal budget funds;
- establish payment for sale of land and utilization of municipal equipment, facilities and natural resources;
- approve the master plan for the development of the territory and amendments thereof, as well as general schemes for the development and establishment of settlements and towns;
- approve rules concerning the protection of natural reserves, maintenance of order and sanitary conditions in towns and settlements and trade in marketplaces;
- establish the procedure of approval of local authority contracts and agreements with enterprises, institutions and organizations and with other local authorities and foreign enterprises;
- adopt decisions to join local authority unions and international self-government organizations;
- consider issues raised by the mayor, board, other organs formed by the council, councilors, officers of the administration, heads of municipal enterprises and organizations and adopt decisions thereon;
- on its own initiative or upon proposal by or demand of the government representative or other institutions, repeal or withdraw decisions and ordinances of the council, mayor, board and other self-government institutions that contradict the law or decisions of the government or the council;
- approve the symbols of the municipality, submit proposals to approve the coat of arms of the local authority;
- adopt decisions concerning the division of the territory into neighborhoods and establish their borders and submit proposals concerning the altering of the limits of the local authority territory.

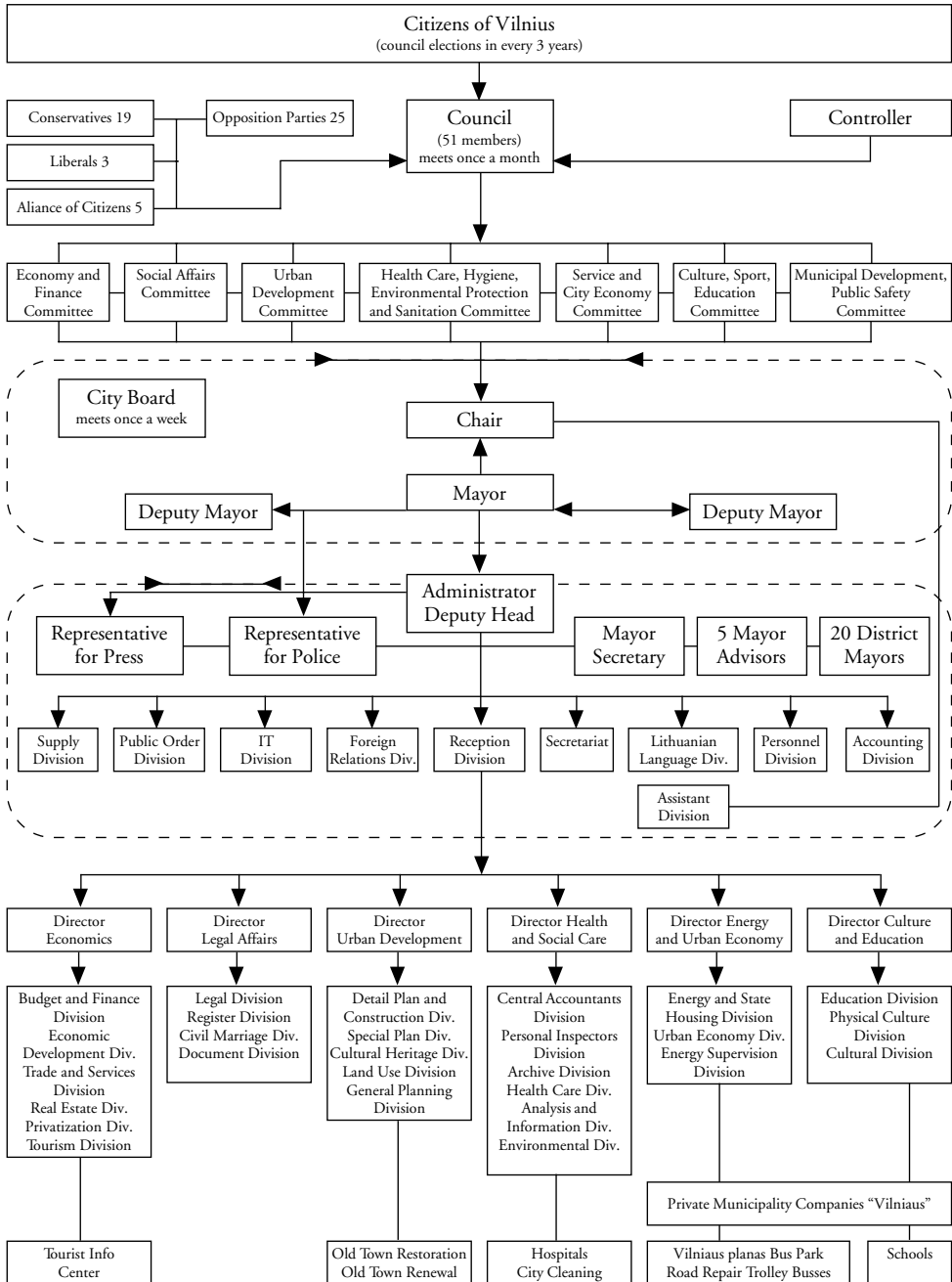
The council works in accordance with an activity plan that is submitted by the mayor after collecting proposals from committees, commissions, political factions, the board and councilors. The activity plan indicates the schedule of council meetings, issues to be discussed, meetings with residents, et cetera.

According to the Law on Local Self-government, the council may form committees, commissions and other bodies. The council exercises its powers by discussing and resolving issues during its meetings and those of institutions formed by it.

The number of committees and commissions varies in different local governments and is established by the council, but as a rule there are three to seven committees. For instance, in the urban local government of Vilnius, there are seven committees; in Kaunas—seven; in Taurage—four; in Alytus—four; in Silute—three.

There is no uniform structure of council committees; each decides its own. For example, the council of Jurbarkas is comprised of twenty-five councilors who form four committees: economics and finance; agriculture and business; ecology, health and social care; and education, culture and sports. The council of Vilnius, comprised of fifty-one councilors, forms seven committees (see figure 4.2).

Figure 4.2  
Local Government Structure of Vilnius



Committees conduct a preliminary analysis of issues, prepare and submit proposals to the council, mayor or board and supervise how laws and decisions of the council, mayor and board are observed. They draft decisions for council sittings, discuss and submit proposals, deliberate on candidates nominated for executive positions of institutions formed by the council, discuss the draft budget of the local government and investigate proposals and complaints of residents and social organizations. Committees may submit recommendations to the administrative units and to local government agencies and enterprises after consultation with the mayor or the board. Heads of the local government administration and enterprises are obligated to attend committee meetings when requested.

In practice committees discuss all issues considered by the council. After the relevant committee approves a draft decision, other committees discuss the issue, and the full council considers their written opinions. According to the observations of the authors of this report, members of committees usually act not as representatives of their political parties but rather as specialists representing certain spheres of expertise, which demonstrates a lack of political consciousness. Only when major disagreements occur on committee decisions do political factions come into play.

Decisions of the council are adopted by majority vote of all councilors participating in the meeting. In the event of a tie, the mayor's vote determines the outcome.

The council may form commissions to resolve important issues and prepare recommendations. The council defines the purpose, duration, tasks and number of members of such commissions. While some commissions are mandatory (for instance, the administrative commission), others may be set up by the council as deemed necessary.

The political head of the local government is the mayor. According to the Law on Local Self-Government, the council elects the mayor and, on recommendation of the mayor, the deputy mayor, for the council's term of office. The mayor and deputy mayor are elected by secret ballot from among the councilors by simple majority of the total number of councilors.

The mayor and deputy mayor are responsible for exercising powers delegated by the state. The mayor determines the agendas of, convenes and presides over council meetings; coordinates activities of council committees and commissions; and signs council decisions and the minutes of its meetings. The mayor supervises the implementation of council decisions.

Statutes approved by the council regulate the work of the mayor. While executing his/her powers, the mayor:

- represents or authorizes other persons to represent the council and the board in court, relations with other local authorities and in state, foreign and self-government institutions;
- proposes candidates for deputy mayor, committee and commission chairs and other heads of bodies formed by the council;

- appoints and dismisses the administrator and chief executive and approves the regulations of the chief executive's activities;
- drafts and presents to the council for approval contracts and agreements with enterprises, institutions and organizations functioning on the territory of the local authority, with foreign enterprises and with other local authorities;
- organizes general education and training of children and youth; supervises the promotion of general and ethnic culture; organizes primary health care, disease prevention and care for the sick, disabled and elderly; ensures that hygiene and environmental protection requirements are respected; and develops recreation and tourism of the residents;
- arranges charity events and distributes funds and donations in accordance with procedures established by the council.

While executing these and other powers, the mayor may adopt ordinances.

The role of the mayor is indeed considerable. In addition to his or her council duties, the mayor also presides over the board. In cases in which the council does not form a board, the mayor exercises these functions. Therefore, the mayor is both legislative and executive head of the local government.

The Law on Local Self-government provides that if the mayor or deputy mayor fails to exercise or poorly exercises powers delegated by the state, the government representative<sup>7</sup> informs the council, warns the officers in question and establishes a deadline for correction of the shortcomings. If such shortcomings are not addressed within the established period, the government representative submits a directive to the council requesting dismissal of the officer. The government representative's appeal must be considered at a council meeting within two weeks. If the council does not dismiss the officer, the government representative appeals to the Seimas for the introduction of direct rule. The powers of the mayor or deputy mayor may be terminated:

- when a court ruling on crimes committed by them is in force;
- for refusal to resign from another job or office;<sup>8</sup>
- when direct rule is temporarily introduced in the local government territory.

In accordance with the Law on Local Self-government, the council may decide to form a joint executive institution—the board—from among the councilors. If the board is formed, the mayor and deputy mayor are *ex officio* members of the board; the mayor nominates board members who are approved by the council.

The mayor drafts the agenda of a board meeting. It may be supplemented or amended by council decision on proposal of the board members, the controller or the government representative. Board decisions concerning issues of the council's autonomous competence must be signed by the mayor. The mayor is entitled to ignore board decisions concerning functions delegated by the state if the said decisions contradict the law. If a mayor ignores a decision of the board and in the process violates the rights of citizens or organizations, the issue may be appealed in court.



Statutes approved by the council regulate the competence of the board. Should the board not be formed, the mayor exercises the powers assigned to the board. In accordance with the Law on Local Self-government, if the council forms a board, the latter shall:

- upon instruction of the council, set prices and tariffs for services provided by municipal enterprises;
- upon authorization by the council appropriate additional municipal budgetary funds and other resources;
- organize analysis for the development of the respective territory, prepare drafts of and implement long-term social, cultural, economic, investment, demographic and ecological programs;
- organize the drafting of a master plan of the respective territory;
- control construction and renovation of facilities and protection of landscape, architectural and cultural monuments;
- prepare recommendations for the council to found, reorganize and liquidate institutions, enterprises and organizations financed by municipal budget funds;
- manage, utilize and protect municipal property;
- compose draft budgets and reports and submit them to the council for approval; form nonbudgetary funds in accordance with regulations approved by the council; monitor the effective and lawful use of local government funds;
- oversee the implementation of rules established by the council and set penalties for their violation;
- organize the construction and use of residential premises, arrange and supervise waiting lists for state support and rent and sell residential premises belonging to the municipal fund;
- examine and analyze migration processes; organize, in conjunction with territorial labor exchanges, the rational employment of residents and the improvement of their skills;
- in conjunction with other state institutions, prepare and implement preventive measures as well as emergency relief in the event of disaster, natural calamity or epidemic;
- call annual meetings of residents to announce local authority affairs and report on council activities.

According to the Law on Local Self-government, the local government administration is headed by the administrator, who:

- is accountable to the mayor and implements the mayor's ordinances and directives;
- prepares meetings of the council and board and the execution of documents;
- is responsible for the internal working procedures of the administration;
- issues orders that are within the competence of the administrator.

The administrator is appointed and dismissed by the mayor. If a board is formed, it appoints and dismisses the administrator on recommendation of the mayor.

In 1997 the posts of mayor's advisers and of local government secretary were introduced. Due to unclear legal regulations, the administrator's authority sometimes overlaps with that of the

advisers and secretary, thus resulting in conflict.<sup>9</sup> However, the local government secretary is perceived as the chief advisor to the mayor while the administrator generally is involved in administrative management, and thus has higher status, as this post has executive authority and performs more strategic functions.

At present, the chief executive is the local government officer of the neighborhood, appointed and dismissed by the mayor. A local government councilor may be appointed as a chief executive. The chief executive's functions are described in the Law on Local Self-government. In accordance with the current government program, these functions will be broadened, although concrete drafts have not yet been finalized. The role of chief executive is further described in section 2.2 on the status of neighborhoods.

### 3.5 Public Participation in Decision Making

The only law stipulating obligatory public participation in decision making is the Law on Territorial Planning adopted on 12 December 1995, which together with government regulations enacting the law divides the planning and consideration process into three stages, as in western countries.

*Figure 4.3*  
**Territorial Planning Process in Lithuania**

Stage	Planning Process	Consideration Process
I	Decision to prepare a project	Publicity on beginning of planning process
II	Preparation of project	Public hearings
III	Project is prepared	Consideration of the prepared project. Public claims and appeals.

During the three years in which the law has been in force, several problems have arisen. Local governments have a positive attitude regarding the publicity of planning and in effect carry out all necessary procedures to inform the public. The public has the right to such knowledge, yet has proven to be fairly inactive. The participants in public hearings are mostly those having direct interest (investors or specialists); the opinion of the general public is rather insufficiently presented. Nongovernmental organizations, which tend to be vehicles for the expression of local public interests and needs, are still in their infancy in Lithuania. Some of the main problems that have been identified are:

- the procedures for involving public participation in decision making formally are implemented, but participants are only beginning to internalize their role in a new democratic planning process;

- public planning concerning land use has not been clarified in detail vis-à-vis private ownership of land;
- the public is able to halt a project in its final stage, after sufficient investment in the planning process has been expended, and no mechanism of compensation is provided;
- vestiges of the closed, bureaucratic decision-making system still exist;
- there are no provisions for negotiations between opposing factions to resolve conflicts; disagreements are treated like civil conflicts or complaints, which are investigated formally at the county level and in court.

Despite these shortcomings, it is very important that the process of public participation in decision making has commenced.

According to the amendments of the Law on Local Self-government of December 1997, council meetings are open to the public. The local authority controller, local authority administrator, county governor and the members of the Seimas have the right to participate in and, with the consent of the council, to take the floor at such meetings. The council's statutes establish the procedures for participation of representatives of state institutions, enterprises, offices and organizations as well as residents at council meetings. Experts and public representatives may participate in the work of committees and commissions in accordance with procedures established by the council.

Analysis of the extent to which the public has participated in and has exerted influence at council meetings is difficult due to the short period of implementation to date.

### 3.6 Ethnic Issues, Multicultural Government

The territorial administrative redivision of Lithuania has not faced major problems related to ethnic issues. It is, however, noteworthy that in some municipalities in Lithuania (for instance, the rural local government of Vilnius and the rural local government of Salcininkai), the Polish minority predominates. Problems sometimes arise concerning issues over which local governments exercise autonomous rights, such as primary and secondary education and the requirement that all employees of state and local government administrations must be proficient in the Lithuanian language. Although there are schools in the Republic of Lithuania in which subjects are taught in languages other than Lithuanian (primarily Russian and Polish), local administrations on a number of occasions have attempted to close existing Lithuanian schools, thus limiting access of the Lithuanian-speaking population to education. Laws and regulations governing the use of the Lithuanian language are sometimes ignored. Nevertheless, the significance of these tensions should not be exaggerated; as a rule, a balance is achieved. Although sometimes these local governments lobby for more autonomy from the rest of the country on the basis of ethnicity, such opinions are usually representative of extremist political groups of the respective minorities.

In practice, the only issue on which disagreement exists is the plan to merge Vilnius's urban local government with some areas of its rural local government, in which the Polish minority

predominates. Since a majority of residents in the city are Lithuanian, there are some fears that the rights of Polish residents in the rural municipality may be compromised. Generally speaking, however, ethnic issues do not seem to factor critically in the context of territorial administrative reform.

### 3.7 Local Government Associations and International Contacts

Institutional cooperation among local governments is accomplished by the Association of Local Authorities of Lithuania (ALA), which was recognized as a result of the Law on the Basic Regulations of the Association of Local Authorities of Lithuania of 28 March 1995. The association is charged with representing the common interests of its members—local governments—in all institutions of state and government. The law provides that the activities of the association be based on the principles of volunteerism of its members and that every local government council may be a member of the association.

Representation in the ALA is based on the following provisions: the quota for seats in the congress of the association is one person for ten council members. Additionally, local governments in which the number of residents exceeds one hundred thousand elect one representative for each one hundred thousand residents. Local governments elect their representatives to the congress proportionate to the number of seats won by each political party in local council elections.

The decision-making bodies of the association are the congress, the council (comprised of mayors and the president of the association), the board (comprised of the president, two vice-presidents and mayors of local governments that coincide with county centers), the revision commission and the administration headed by the administrative director. The board supervises a number of committees established to address specific issues such as economy; budget and finance; education, culture, sports; et cetera.

The law indicates that the Association of Local Authorities of Lithuania represents local governments in the Seimas, in relations with the president and government and in international organizations. Recent amendments to the Law on Local Self-government (adopted 23 January 1997) stipulate that all drafts of laws and other legal acts related to local government activities should be coordinated by the ALA. However, one question that has been raised is if the administrative capacities of the association are sufficient to cope with all these issues and to defend effectively the interests of local governments. Algirdas Astrauskas, assistant to the president, noted in a recent publication that the association currently lacks sufficient professionalism and has less influence on the government than other interest groups.<sup>10</sup>

Other associations and organizations representing local governments and counties may also be established, but legislation does not stipulate their activities.

Local governments often join efforts when dealing with:

- construction and infrastructure;
- urban development and planning of territories in each other's proximity;
- issues related to the implementation of services provided to the population.

Legislation does not regulate cooperation between Lithuanian local governments and their counterparts in foreign countries, but municipalities attach great importance to international collaboration. International relations departments exist in all cities and in many district municipalities. The ALA represents the interests of its members to foreign local authorities and international organizations and helps local authorities to cooperate with foreign partners. A goal of the association is the implementation of the provisions of the European Charter of Local Self-government. It works in concert with sister organizations in Denmark and Sweden and receives financial support from foreign partners and various international programs, including the EU Twinning Cities Program, ECOS/Ouverture and PHARE.

Some current partnerships were established during the communist era, when cooperation with other East European countries and soviet republics was encouraged (sixteen Lithuanian municipalities have agreements with Polish towns). The priorities of such partnerships have shifted to the implementation of joint projects in social care, water purification and tourism. Cross-border cooperation between neighboring districts of Lithuania, Poland, Russia, Latvia and Belarus is a new phenomenon. Additionally, the Euro-region "Nemunas" and consequently the Council of Cross-border Cooperation were established, involving neighboring regions of Lithuania, Latvia and Belarus. The main goals of this council are to develop common strategy to address environmental protection and social services.

Many Lithuanian municipalities have concluded bilateral agreements with neighboring countries, especially with Poland and Germany. Cooperation with Scandinavian countries is also increasing. To give some examples of effective cross-border cooperation in Lithuania, the Utena municipality negotiated a project with the Lindshopping municipality in Sweden to address care of the elderly and the disabled. Pasvalys was the first town in Lithuania to participate in the Elderly Care Center project, which was initiated with partners from Denmark, Sweden and Norway. The Kaunas region participates in the Forest for Mercia project, which aims to develop an international network to support the efficient use of forest resources. The region also participates in tourism projects such as East-West Know-How with Papst Erlebniswelt, Austria, and Tourism in Large Cities and Capitals with Potsdam-Mittelmark, the Dacorum borough and Riga. The Kretinga region has jointly founded a business development center with Bornholm county, Denmark.

New relationships with "nontraditional" countries, such as the United States, France, Italy, Taiwan, Greece and Japan, have been developed. For instance, the Zarasai municipality has an agreement with Di Amasen, Italy on the preparation of joint tourism development programs, training programs for municipal officers and education and health care improvement.

Partners in foreign countries are selected according to common size and interests.

Great attention is given to the exchange of information and experience, training for municipal officers, education and cultural projects. In new agreements signed by Lithuanian municipalities with foreign partners special attention is paid to local government reform and cooperation in the fields of financial policy, decision-making processes and public administration.

## 4. Local Administration, Service Provision

### 4.1 Structure and Operation of Local Administration

Local government administration is divided into various structural units such as departments, divisions, agencies and subdivisions. In addition, there are a number of divisions subordinate to the local government administrator, including the secretariat; language control service; accounting office; and personnel, information technology, economic, public order, foreign affairs and civil protection divisions. For example, in the administration of the urban local government of Vilnius, there are six departments that are further divided into divisions and subdivisions. Its departments address economics, energy and urban economy, culture and education, urban development, health care and social security and legal affairs. The economics department, for instance, consists of six divisions: privatization, budget and finance, real estate, economic development, services and tourism. Most are further divided into subdivisions. For the complete structure of units in Vilnius, see figure 4.2. In small local governments, such as the rural local government of Tauragė, there are no departments in the administration.

Employees of local governments are differentiated as elected officials (such as the mayor, the deputy mayor, members of committees and commissions), “A” level officials (such as local government controllers and their deputies, chief executives of neighborhoods and others whose task is to assist politicians in carrying out their functions) and “B” level officials (in fact, most of employees of local government administration). Besides politicians and officials, civil servants comprise the remainder of local government personnel, such as teachers in schools, nurses in hospitals and employees of various companies providing services for residents.

“A” level officials are appointed by elected officials for the latter’s term of office; thus, their own tenure expires when the elected official steps down. The tenure of office of “B” level officials, according to the law, does not expire in this manner. They may be dismissed due to a lack of qualifications, the restructuring of the respective agency or local government or if they openly oppose state policy in the media or during political or public events. Political considerations may also influence the decision to dismiss certain “B” level officials. In such cases, officials often agree to leave their offices on the basis of mutual agreement with the local government.

County administrations do not have elected officials. The county governor and deputy county governor are appointed by the government for its tenure of office and thus are “A” level officials.

Advisors to the county governor and other officials whose appointment is made by the county governor also belong to this category.

The county governor usually is dismissed after parliamentary elections, when the composition of the government changes. “B” level officials of the county may be dismissed on the same grounds as those of local governments. In practice, about fifty percent of “B” level county officials were replaced after the last parliamentary elections

The system of civil service is presently under reform. In accordance with the draft law, civil servants will be divided into categories (career officers, civil servants whose appointment is conditional upon political or personal trust, public governors and acting civil servants), three levels, depending on the minimum level of education necessary for the position, and thirty categories.

In local government administration, the council, board and mayor have decision-making power. Local government administrators may also issue binding decisions; they are entitled by law with the agreement of the mayor to appoint and dismiss heads, deputy heads and administrative employees of units of local governments.

The main task of local government administration is to implement decisions of the council, mayor and board, as well as to provide technical services for them. The structure and regulations of local government units are subject to council approval, and the number of personnel and level of remuneration are subject to the mayor’s or board’s approval. The council, mayor and board are required to observe laws and government decrees.

The board controls the activities of structural units through the mayor and the administrator, and the activities of local government enterprises and institutions through the heads of the respective administrative units in charge of supervising them.

The functions of local government units vary depending on the structure chosen by the council. Respective divisions supervise companies and institutions (joint stock companies, schools, cultural institutions, et cetera) that are run by the local government. For example, in the urban local government of Vilnius, the energy and state housing division is in charge of a number of companies providing and maintaining heat and water supply; the urban economy division supervises companies providing public transport and services such as street lighting; the education division supervises kindergartens, primary and secondary schools and clubs for youth; the cultural division manages libraries, museums, cinemas and other cultural establishments; the physical culture and sports division supervises sporting academies, clubs and other related institutions; the health care division manages hospitals and clinics.

The Law on State and Local Government Enterprises regulates local government institutions. In accordance with this law, local government enterprises have the status of legal persons. Their

liability is limited to the management of their own property; they are not liable for the obligations of local governments. The local government, by council decision, may assign enterprises specific mandatory tasks, fix prices and tariffs, establish their offices of administration and appoint their employees.

## 4.2 Control, Audit and Supervision of Local Governments

According to the Law on Local Self-government, the council elects a controller by secret ballot for its term of office. The controller must be a citizen of the Republic of Lithuania who has a higher education. The controller supervises the use of municipal budgetary funds and the legitimacy, expediency and effectiveness of the use of municipal property and state property entrusted to the local authority.

The main problem related to activities of the controller is a lack of independence from the local government council. The council may dismiss the controller by a majority vote on proposal of at least one-third of the councilors. Although the controller is accountable to the council and not to the executive, this position is generally not considered independent. Rather, independent auditing companies should conduct both internal and external audits of local governments.

There are two control institutions subordinate to the Seimas: the ombudspersons and the state controller, whose activities are regulated by the Law on Seimas Ombudsmen of 1 November 1994 and Law on State Control of 30 May 1995. The ombudspersons investigate citizens' complaints concerning abuses of power or prohibitively bureaucratic activities of the following officials: employees of the institutions of the state government and administration, employees of local government councils and their departments and persons whose duties affect the performance of organizational, gubernatorial or administrative functions. The ombudspersons may request that local government institutions abrogate, suspend or amend decisions that conflict with laws and legal acts. They also may request the imposition of disciplinary penalties on local government officials or bring to court requests to abrogate a disputable decision.

The State Control Office supervises the legal and effective use of state property, the fulfillment of the state budget and financial discipline of state institutions. While performing its functions concerning local self-governments, the State Control Office determines if local authorities are using state funds appropriately and efficiently and, if necessary, evaluates municipal budget performance and the economic and financial activities of municipal offices and enterprises.

Initially, supervision over the legality of local government activities was conferred on the government representative, in accordance with the Law on the Government Representative of 1 July 1993. Later, however, this position was abolished. In accordance with the Law on Amendments and Supplements to the Law on County Management and the Abrogation of the Law on Government Representative (25 February 1997), these functions were transferred to



the office of county governor. However, the constitutional provision on representatives of the government was not repealed. As a result, on 14 May 1998 the Law on Administrative Supervision of Local Governments was adopted by the Seimas, which reestablished the institution of government representatives.

In accordance with recent legislation, government representatives, who are appointed by the government, carry out the administrative supervision of local governments. Their scope of supervision includes ascertaining if local governments are observing the constitution and the law and if they are implementing government decrees. One government representative is appointed for each county, who is entitled to supervise the local governments in the territory of that county.

If the government representative decides that a decision of a local government council, board or controller or an order of a local government administrator or chief executive of a neighborhood is in conflict with the requirements provided by law or government decree, he/she may require the head of the relevant local government institution to suspend the act in question and to discuss its amendment or abrogation. The government representative may also require the local government council, board or mayor to implement a law or government decree. Decisions of government representatives may be repealed in court.

The Seimas in accordance with the constitution and the Law on Temporary Direct Governing of Urban and Rural Local Governments temporarily may introduce direct governance in the territory of a local government. The latter foresees six occasions in which direct governance may be introduced: (1) when local government institutions threaten the integrity of constitutional order; (2) when courts establish that the local government council does not observe the constitution or violates the law; (3) when the local government council does not elect the mayor, deputy mayor and local government institutions within the specified period; (4) when the local government council does not convene or does not meet three consecutive times, in accordance with the Law on Local Self-government;<sup>11</sup> (5) when the mayor and the local government council do not observe the requirements of article 3.9 of the Law on Local Self-government;<sup>12</sup> and (6) when the results of repeated elections to local government councils are invalidated. In such situations, temporary direct governance may be introduced by the Seimas upon recommendation of the government. The period of direct governance lasts only until regular elections to local government councils are held.<sup>13</sup>

### 4.3 Local Service Delivery

Local governments are charged with providing services in the fields of education, social security, health care, culture and leisure and communal economy.

In the field of education local governments establish, reorganize and abolish primary and secondary schools, as well as appoint and dismiss, with the approval of the Ministry of Education and the

county governor, the heads of these institutions. They also approve the regulations of educational institutions, ensure their functioning and maintenance, administer the registration of children under the age of sixteen and organize transport to school for children in remote areas.

The functions of local governments concerning social security focus on providing social services and benefits. Local governments may also engage in social care if they have adequate material resources. Generally local governments establish, reorganize and abolish local government institutions in charge of social services and regulate the activities of social service providers. Local governments also collect and analyze data on persons who are in need of social support, administer their registration and establish the scope and methods of assistance.

Concerning health care, local governments manage primary health care centers, clinics and ambulance services, centers of psychological health and a number of other public health institutions. Local governments also organize health control.

In the field of culture and leisure local governments manage libraries, museums, cinemas, theaters and other cultural establishments. Since such institutions may be subordinate to various central, regional and municipal organs, local governments are responsible only for those that they establish. However, they may not reorganize or abolish such institutions without the permission of the Ministry of Culture.

Concerning economic issues, local government services provide communal services such as water, gas, electricity and heating supply; waste collection and treatment; and administration of engineering networks. These services may be provided by both state and local government enterprises, joint-stock companies, private and nonprofit companies, et cetera. Local governments also address public transport, construction and maintenance of local roads and various construction projects.

Specific divisions of the local government administration handle residents' requests and monitor certain services. For instance, in the urban local government of Vilnius requests for compensation for illegal deportation and applications for financial concessions are handled by the budget and finance division; licenses for registration of residences and for commercial activities are handled by the division of economic development; issues related to water supply and heating are addressed by the energy and urban economy department; licenses for retailing alcoholic beverages are granted by the division of trade and services; social support for pensioners, the handicapped and large families is provided by the health and social care department.

County administrations are also involved in service delivery, though to a much lesser extent. They primarily address services that bear a regional dimension, such as the administration of certain educational and cultural institutions, maintenance of regional roads, et cetera. The only functions that are specifically ascribed to county administrations are agricultural issues and construction inspection; institutional structures are established specifically to address these issues.

As previously mentioned, some local services may be provided by the private sector. The process of privatizing some heating supply facilities is presently under consideration, but it most likely will be limited in scope and will include small-scale units. Some sectors of public transport have been privatized, but the majority of public transportation services still are provided by local governments. Generally speaking, privatization of local services should be carefully implemented to avoid the creation of monopolies.

There are no specific legal restrictions on the privatization of local services, but local governments manage a number of companies specifically designated for such service provision that would not be able to function without local government support. Local governments have the right to privatize up to thirty percent of their shares in such companies.

## 5. Local Finance, Economic Development

### 5.1 Revenue

Local government revenues generally consist of tax revenues, nontax revenues and grants. The first includes:

- personal income tax, after mandatory health insurance is deducted;
- land tax, tax on renting state land and use of state water reservoirs for commercial or amateur fishing;
- tax on real estate of enterprises and organizations;
- stamp duties;
- tax on the use of marketplaces;
- inheritance and donations tax;
- other minor taxes established by law.

Nontax revenues include:

- revenues received from municipal property;
- fines and revenues from the sequestration of property;
- local duties;
- revenues from the services of local government budgetary institutions;
- interest on funds in current accounts;
- revenues from nonagricultural state land leased or sold in accordance with established procedures;
- other nontax revenues established by law.

Grants are either general or earmarked. The former include grants for the creation of reserves for unforeseen expenses during the planned budgetary year, for the equalization of tax-related revenues and for the equalization of structural differences in expenditures caused by objective factors that do not depend on local government activities. Loans taken by local governments are also included in local government budgetary revenues.

The most important source of municipal revenues in 1996 was personal income tax (see table 4.2). Revenue-sharing from this tax represented fifty-seven percent of all revenues when transfers are included, and seventy-five percent when transfers are excluded. Transfers from the central government amounted to almost one-fifth of total municipal revenues for 1996. Corporate profit tax was the second most important source of revenue, representing eight percent of the total, followed by taxes on property (land, enterprise assets, and land rental), which represented about seven percent. The remaining income sources were quite small. In 1997 the most notable changes in revenue structure were a decrease in the relative importance of personal income tax, which was down forty-eight percent, and an increase in the relative importance of transfers from the central government, which were up to a third of total municipal revenue.

*Table 4.2*  
**Municipal Revenues in Lithuania [%]**

Type of Revenue	1995	1996	1997	1998
1. Tax Revenue	69.7	69.3	66.5	73.6
1.1 Taxes on Income Profit and Capital Gain	60.6	60.0	56.5	65.1
Personal Income	49.7	52.5	51.7	65.1
Corporate Profit	10.9	7.5	4.8	0.0077
1.2 Taxes on Immovable Property (land, land rent, immovable property)	6.2	6.2	7.3	6.3
1.3 Other Taxes	2.9	3.1	2.7	2.2
Stamps	2.7	3.0	2.5	2.0
Marketplace	0.2	0.2	0.2	0.2
2. Nontax Revenue	3.2	4.2	4.7	5.3
2.1 State Property Income	0.0	0.0	0.0	—
2.2 Fines and Forfeitures	1.3	1.1	1.2	—
2.3 Loans from Economic Entities	—	—	1.5	—
2.4 Sales of Fixed Capital Assets	0.0	0.0	0.0	—
2.5 Other	1.9	3.1	2.0	—
3. State Budget Loans	0.4	0.1	—	—
4. State Budget Grants	19.7	19.1	16.3	—
5. Other Budget Transfers	7.1	3.4	12.5	—
6. World Bank Loan	—	3.9	—	—
7. Other	2.9	—	—	—
<b>Total</b>	100.0	100.0	100.0	100.0

The composition of local government revenues has undergone major changes over the past five years. These changes mainly reflect the reform of revenue assignments. The importance of shared personal income tax revenues increased, especially after 1995, when municipalities stopped receiving shares of value added tax. In contrast, corporate profit tax has consistently declined as a source of revenue for municipalities; in 1998 it was assigned entirely to the central government.

## 5.2 Expenditures

As a reference point, municipal expenditures in Lithuania in 1996 exceeded all central government expenditures on the economy and social affairs combined. Over the past six years, however, the relative importance of the local government sector has declined somewhat (by roughly nine percent) in relation to the national and general government consolidated budgets (see table 4.3). The decrease in the relative importance of municipal budgets was pronounced in 1995 and, to an even greater extent, in 1996. Municipal governments now handle expenditures worth about six percent of gross domestic product (GDP)—half the level of the first years of independence. In real terms, both central and local government expenditures declined in the early years of the transition, but, while in recent years real central government expenditures have decreased minimally or actually increased, real municipal expenditures generally have continued to fall. It is difficult to offer a simple, straightforward interpretation of these trends. To some extent, the reduction in the local government share of the national budget reflects a realignment of national expenditure priorities; the Seimas has cut local expenditures more deeply than central government expenditures. During this period, however, there have also been complex changes in the role of the government and the assignment of responsibilities among the levels of administration, and such changes are reflected in these trends.

*Table 4.3*

### **Relative Size of Municipal Budgets and National Budget Expenditure in Lithuania**

<b>Year</b>	<b>Municipal Budgets/GDP [%]</b>	<b>Municipal Budgets/General Government Total Expenditure [%]</b>
1994	11.2	32.7
1995	11.1	31.8
1996	9.0	28.7
1997	7.6	22.9

Traditionally, the most important component of local expenditures has been the social sector, which includes education, culture and recreation, health and social assistance (see table 4.4). In 1996, social sector expenditures represented four-fifths of total municipal expenditures; education accounted for half of the total, and health care for a little over a quarter. The other major component

of municipal budgets in 1996 was housing and municipal economy, which represented thirteen percent of total expenditures. For 1997 (through July 1), over half of all municipal expenditures were on education alone. The other two most important categories were welfare and housing, each representing approximately one-tenth of overall expenditures. The figures for 1997 reflect the shift of responsibilities for health services from local governments to the state health insurance fund.

*Table 4.4*  
**Municipal Expenditures by Sector in Lithuania [%]**

Sector	1995	1996	1997	1998
Education	36.3	39.2	48.5	51.1
Health Care and Services	23.1	22.6	5.3	1.2
Social Security and Welfare	8.9	9.6	11.0	11.85
Recreation, Culture and Religious Affairs	3.4	3.5	4.3	5.26
General Public Services	2.9	3.0	4.1	—
Public Order and Safety	0.7	0.5	0.8	—
Expenditure on the Economy	17.7	17.0	18.5	18.9
Other Expenditures	7.0	4.6	7.5	—
<b>Total</b>	100.0	100.0	100.0	89.4

The relative importance of social service expenditures in local budgets has increased throughout the transition. This reflects a change in priorities, especially toward education and health. As real budget resources have decreased over the years, social services have been spared from major cuts. It should be noted, however, that real GDP has declined over the transition period; consequently, real resources spent on the social sectors have also declined. Thus, real expenditures were lower in 1996 than in 1992.

Both the municipal and central governments spent approximately one-tenth of their budgets on capital expenditures and the rest on current expenditures (see table 4.5). The share of capital expenditures recorded an increase in 1996 from the level of the transition years. Capital public expenditures as a percentage of GDP were low; however, they were quite inadequate given the postponed investment in infrastructure over the five-year period. The main items of current expenditures were wages and salaries (including social security contributions) and subsidies and transfers. Wages and salaries represented a third of total municipal government expenditures in 1996 and a quarter of central government expenditures. The difference is largely explained by the greater responsibilities of municipalities in the area of social services, which tends to be labor-intensive. Concerning subsidies, the largest amounts were allocated to fuel and energy at both levels of government, closely followed by transport and communications.

*Table 4.5*  
**Classification of Expenditures of Municipal Governments in Lithuania [%]**

Expenditure Type	1995	1996	1997	1998
Current Expenditure	84.9	89.6	87.9	86.2
Wages and Salaries, Social Security Contributions	41.7	46.3	47.1	—
Subsidies and Other Transfers	12.1	13.5	15.1	—
Transfers to Households	7.4	8.4	10.6	—
Capital Expenditure	14.5	9.3	9.2	11.0
Loans (not including repayments)	0.0	0.1	0.1	—
Loans Repaid with Government Guarantees	—	—	2.8	—
Transfers to the State Budget	—	1.0	—	—
Repaid Loans to the State Budget	0.6	—	—	—
<b>Total</b>	100.0	100.0	100.0	97.2

### 5.3 Taxes

Law regulates all taxation; municipalities may not introduce their own taxes. According to the Law on Local Self-government, the council establishes local duties in accordance with procedures established by the Law on Local Duties (6 June 1996). Local government can establish local duties within the territory of the municipality only on:

- excavation and fencing of public spaces and traffic limitations;
- trade and services in public spaces;
- commercial advertisements in and on municipal property;
- public parking and entrance to protected areas.

Local duties comprise part of the nontax revenues of the municipality.

### 5.4 Municipal Borrowing

According the Law on Local Self-government, the local authority has the right to use bank credits and borrow and grant loans. No explicit limits are placed on the level of borrowing; however, there also are no provisions for bankruptcy and defaults, collateral provisions or using municipal assets to guarantee the repayment of loans.

The Law on Methodology for the Establishment of Local Government Budgetary Revenues of 2 July 1997 stipulates that the central government can issue loans to offset temporary shortages in municipal budgets. This practice is already being utilized: the central government has provided financing for municipal bridge construction at zero interest. Other than these short-term loans, municipalities rarely have engaged in borrowing; commercial bank loans have been used on a small scale.

Municipal credit limitations were established in 1998. Annual debt cannot exceed ten percent of the annual budget, and general debt, twenty percent. These limitations and the equalization system in fact prevent the introduction of an independent capital investment policy.

## 5.5 Local Economic Development

All municipalities are responsible for economic development, but few actually implement such plans. One of the main detriments is uncertainty regarding revenue sources.

As recognized by municipalities themselves and international experts,<sup>14</sup> economic efficiency and political accountability at the local level in Lithuania could be enhanced greatly by allowing local governments discretionary revenue authority. At the moment municipalities have the right to exempt enterprises from local land rent and local land and real estate taxes, but they do not have the right to increase any tax.

Trends in economic development planning can be exemplified by the capital city of Vilnius.<sup>15</sup> A current objective is the separation of municipal property from state property. Only once this has occurred will it be possible to maintain an appropriate inventory and ensure effective management. Such property can provide considerable municipal income. The city also strives to improve the economic situation and expand economic activity through conventional methods: creating an environment favorable to business through the development of clear procedures for obtaining project approval, issuing permits and acquiring real estate; promoting economic opportunities; and developing the social, technical and recreational infrastructure. The city also plans to sell trade and service companies, which are included in the national list of to-be-privatized properties.

All municipal enterprises that provide public services are registered as joint limited liability enterprises. Some of them are classified as special enterprises, which can privatize up to thirty percent of their shares to the year 2001. Municipal enterprises are not the only institutions that may provide public services; funding for special tasks is allocated through open tenders, which can be won by any company—private or municipal. The process of privatization must be accomplished carefully and logically, taking into consideration the following:

- avoidance of monopolies;
- assurance that services for socially supported persons are addressed;
- creation of fee policies that are regulated by municipal councils before privatization;
- financial stability and accountability of enterprises to be privatized.



## 6. Next Steps in Transition Process

The second stage of territorial administrative reform foresees the creation of additional local governments, increasing the number from fifty-six to ninety-three. This stage will be conducted in two steps. The first will be completed before the local council elections in the year 2000. During this step, six local governments will be abolished and seventeen new local governments will be established. At the end of this process, the number of local governments will increase to sixty-seven. The second step will be completed before the 2003 elections; the remaining planned local governments will be established during this period.

The key factors driving reform are (1) increasing resident participation in managing local affairs and (2) increasing access of residents to local government administrative institutions. As far as the latter is concerned, it is noteworthy that, on the basis of 1996 statistical data, there were only nine local governments in Lithuania with populations under thirty thousand. In twenty-four local governments this number was between thirty and fifty thousand; in thirteen, between fifty and seventy thousand; in five, between seventy and one hundred thousand; and in five, over one hundred thousand. The size of municipal territories varies from 9 square kilometers in the urban local government of Visaginas to 2,412 square kilometers in the rural local government of Varena. Generally, however, there are only four rural local governments (out of forty-four) with territories less than one thousand square kilometers.

Therefore, the intention to increase the number of local governments and thus decrease their size is rational. In comparison with other European countries, Lithuanian local governments are among the largest. Residents are inconvenienced by travelling long distances to local government administrative centers in order to obtain various documents or to arrange consultations. An alternative solution, however, is to increase the competencies of neighborhoods. It is currently a point of debate if changing the current institutional structures will achieve the goals stated.

At the end of 1997 and in 1998 a number of steps were taken: the typical organizational structure of the county governor's administration was approved; the program for transferring territorial functions of ministries, departments and other central government institutions to counties and local governments was prepared; and amendments to the Law on County Management were drafted. It is foreseen that amendments to the Law on Local Self-government will be adopted by the first quarter of the year 2000 aimed to clarify the functions of local government institutions and transfer more economic functions to the executive authorities. The introduction of direct election of the mayor by residents is also under consideration, as are plans to draft a law regulating the control of local government budgets.

In the field of general public administration, a new Law on Civil Service is likely to be adopted, which will introduce a reclassification of officials. The new Law on Public Administration will define the scope of public administration and establish the basic principles of procedures concerning relations between residents and public administration institutions.

In discussions about administrative reform, specific principles have emerged. The government should extend the rights of municipalities, and government decisions on local issues should be negotiated with the Association of Local Authorities of Lithuania and take into consideration the availability of financial resources. In this way, the involvement of municipalities in decision-making will be increased. In the most recent budget approval process, ALA proved that it was an effective body in representing self-government issues. Transparency of municipal activities and increased involvement of citizens, nongovernmental organizations and other interest groups in the decision-making process are also desirable.

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- <sup>2</sup> Independence was restored on 11 March 1990.
- <sup>3</sup> S. Kropas, “Vietos savivaldos bruožai Lietuvoje atkurus Nepriklausomybę” (The features of local self-government in Lithuania after the restoration of independence), *Savivaldybe* 1–2 (1993): 16.
- <sup>4</sup> S. Vaitiekunas, “Busimasis Lietuvos administracinis-teritorinis padalinimas: butinybė ar užgaida” (The future territorial administrative set-up in Lithuania: Necessity or caprice), *Savivaldybe* 1–2 (1993): 36–39.
- <sup>5</sup> One more local government (the urban local government of Visaginas) was established later.
- <sup>6</sup> Gediminas Rainys, director of the Department of Economics of the Vilnius City Municipality, provided this information.
- <sup>7</sup> See section 4.2 for more on government representatives.
- <sup>8</sup> The Law on Local Self-government prescribes that: “The mayor and deputy mayor may not hold any other elected or appointed office, work in any other state or private enterprise or receive any other salary, with the exception of payment for creative activities.”
- <sup>9</sup> This problem is discussed in A. Astrauskas, *The System of Local Self-government in Lithuania in 1990–1997* (Copenhagen: 1997).
- <sup>10</sup> A. Astrauskas, *The System of Local Self-government in Lithuania in 1990–1997* (Copenhagen: 1997), 15.
- <sup>11</sup> The Law on Local Self-government stipulates that the local government council must convene within two weeks of the announcement of election results.
- <sup>12</sup> The Law on Local Self-government stipulates that: “The mayor and deputy mayor shall be directly responsible for exercising the powers delegated by the State. If the mayor or deputy mayor fails to exercise or poorly exercises the powers delegated by the State, the Government shall inform the council about this, and shall warn the said officers as well as

establish the term for addressing the shortcomings. If the shortcomings are not addressed within the established time, the Government shall appeal to the council with a directive to dismiss the mayor or deputy mayor. The Government appeal must be considered at a council sitting within two weeks. If the council does not dismiss the mayor or deputy mayor, the Government shall appeal to the Seimas for the introduction of direct rule.”

- <sup>13</sup> The central authorities have declared direct rule a number of times. Most, however, related to insufficient participation in local elections. There were two cases when local government councils were dismissed and direct rule was introduced on other grounds. On 12 September 1991 parliament adopted a decree whereby direct rule was introduced in the local governments of Vilnius and Salcininkai for six months and in the settlement of Snieckus for one year. The decree was based on the Law on Temporary Direct Governance in Administrative Territorial Units of 17 December 1990. The reason for introducing direct rule was related to anticonstitutional activities of the respective local governments during the transitional period between March 1990 when independence was declared and September 1991 when it was actually recognized, and to “actions of the officers of Salcininkai and Snieckus councils that support[ed] the coup organizers in the former Soviet Union and Lithuania 19–21 August 1991.”

On 15 April 1993 parliament also dismissed the council of the urban local government of Vilnius (the capital). The chair of the council, his deputy and the mayor and his deputy were dismissed and the direct rule was introduced. The decree was suspended on 29 April 1993 due to support from the president, and the council of Vilnius was given the opportunity to correct its mistakes. Nevertheless, on 17 September 1993 the decree was reinstated, dismissing the council, and new elections were held 28 November 1993.

- <sup>14</sup> World Bank, *Lithuania: An Opportunity for Economic Success*, vol. 2, *Analytical Background*.
- <sup>15</sup> Kostas Kozlovas, “Activities of the New Economics Department,” *Vizija* (Newsletter of the Canadian Urban Institute, Program Lithuania) 8 (1997): 4.

## Annex 4.1

### Major General Indicators

Total area	6,530,100 square kilometers
Population density	56.8 per square kilometer
Population	3,707,200
Pensioners	879,800
School-age children (eighteen years old and under)	959,000
Major ethnic divisions (1997)	
Lithuanians	81.6 percent
Russians	8.2 percent
Poles	6.9 percent
Belarusians	1.5 percent
Ukrainians	1.0 percent
Jews	0.1 percent
Other	0.7 percent
Per capita GDP	
At current prices	2,127.50 USD
At constant prices (base 1993)	762.50 USD
National debt	USD 1,203.65 million (in foreign currency) USD 624.775 million (in national currency)
Unemployment rate	6.2 percent of labor force (124,500)
Inflation rate	13.1 percent

*Table 4A.1*  
**General Government Finances in Lithuania, 1997 [in USD thousands]<sup>a</sup>**

	General Government	National Budget	State Social Security Fund Budget	Compulsory Health Insurance Fund Budget	Extrabudgetary Funds
Revenue	3,108,730	2,059,369	857,810	327,340	282,503
Expenditure	3,153,564	2,153,107	865,259	300,631	252,858
Surplus/Deficit	-44,834	-93,738	-7449	26,709	29,644

- a. Consolidated general government revenues and expenditures are calculated excluding intragovernmental transactions among the national budget, state social security fund, compulsory health insurance fund, extrabudgetary funds (received and transferred) and government cash balance from previous years.

## Annex 4.2

## Population, Settlements and Administrative Units

*Table 4A.2*  
**Size of Counties by Population in Lithuania, 1996**

Population	Number of Counties	% of Total
0–200,000	3	30
200,000–500,000	5	50
500,000+	2	20
<b>Total</b>	10	100

Smallest county—Taurage, 130,100 residents

Largest county—Vilnius, 897,900 residents

Average number of people in a county—371,200

SOURCE: *Lithuanian Department of Statistics.*

*Table 4A.3*  
**Size of Municipalities by Population in Lithuania, 1996**

Population	Number of Municipalities	% of Total
0–30,000	9	16
30,000–50,000	24	43
50,000–70,000	13	23
70,000–100,000	5	9
100,000+	5	9
<b>Total</b>	56	100

Smallest municipality—Neringa town, 2,600 people

Largest municipality—Vilnius city, 573,200 people

Average number of people in a municipality—66,300

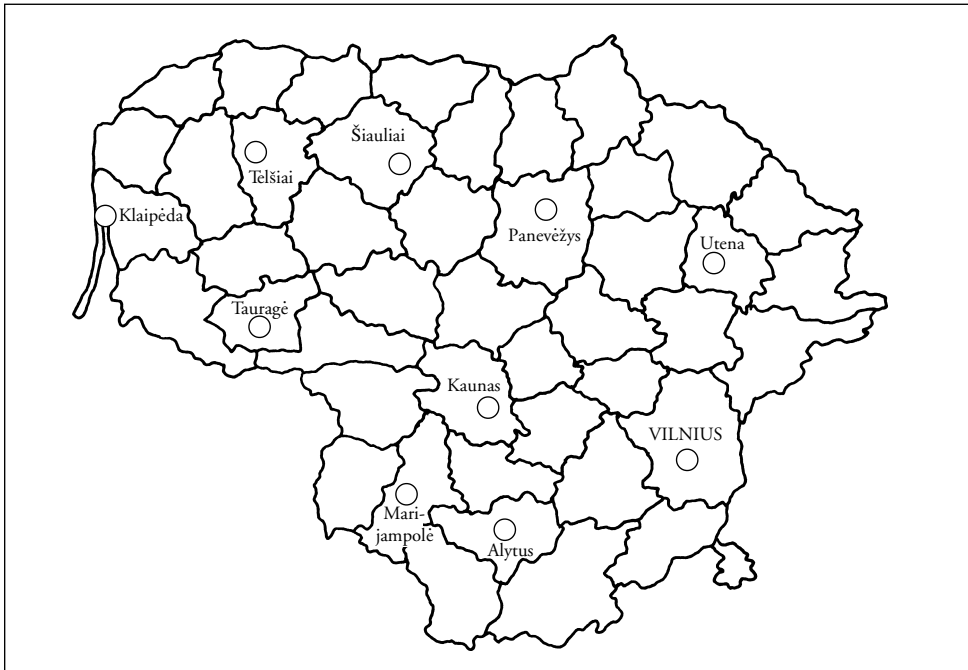
SOURCE: *Lithuanian Department of Statistics.*



*Table 4A.4*  
**Government Administrative Personnel in Lithuania, 1998**

Type of Institution	Number of Administrative Posts
Chanceries of the Seimas, President and the Government	743
Institutions Subordinate to Parliament and to the Government (departments, committees, boards, inspections, offices)	1694
Ministries	2,209
Institutions Subordinate to Ministries (research centers, departments, boards, offices, inspectorates)	2,596
State Tax Inspection and Territorial Subdivisions	3,492
Customs Department and Territorial Subdivisions	2,907
Administrations of County Governors	3,704
Local Governments (local authorities)	7,648

*Figure 4A.1*  
**Administrative Map of Lithuania**



## Annex 4.3

### Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in Lithuania (presented in order of adoption; dates of adoption and amendment are given in brackets):

- Law on Budgetary Structure (adopted 30 July 1990, amended 24 September 1992, 19 November 1992, 12 October 1993, 14 February 1995, 23 May 1995, 31 October 1995, 14 May 1996, 6 June 1996, 5 June 1997, 2 July 1997, 2 December 1997)
- Law on Temporary Direct Governance in Administrative-Territorial Units, I-891 (adopted 17 December 1990)
- Decree of the Supreme Council “On Direct Rule in Rural Local Governments of Vilnius and Salcininkai and in the Settlement of Snieckus, Ignalina Region” (adopted 12 September 1991)
- Constitution of the Republic of Lithuania (adopted 25 October 1992, amended on 20 June 1996 and on 12 December 1996)
- Seimas Decree “On the Dismissal of the Vilnius Council and on Measures to Improve Order in Local Governments,” I-127 (adopted 15 April 1993)
- Seimas Decree “On the Suspension of Validity of Seimas Decree of 15 April 1993 ‘On the Dismissal of the Vilnius Council and on Measures to Improve Order in Local Governments,’” I-143 (adopted 29 April 1993)
- Seimas Decree “On The Dismissal of the Vilnius Council and on Measures to Improve Order in Local Governments,” I-127 (adopted 28 November 1993)
- Law on Local Self-government (adopted 7 July 1994, amended 4 April 1995, 5 July 1995, 14 September 1995, 14 March 1996, 28 March 1996, 7 May 1996, 23 January 1997, 25 February 1997, 3 June 1997, 24 June 1997, 6 November 1997, 14 May 1998, 17 November 1998)
- Law on Elections to Local Government Councils (adopted 7 July 1994 and amended seven times since)
- Law on Governing of the County (adopted 15 December 1994, amended 4 April 1996, 30 May 1996, 12 December 1996, 25 February 1997, 24 June 1997, 16 October 1997, 21 October 1997, 15 October 1998)
- Law on State and Municipal Enterprises (adopted 21 December 1994, amended 27 April 1995, 25 June 1996, 2 July 1997, 9 December 1997)
- Law on Territorial Administrative Units and Their Boundaries (adopted 19 July 1994, amended 14 September 1995, 26 June 1997)

- Law on the Status of Local Government Councilor (adopted 27 February 1995)
- Law on Temporary Direct Rule in Urban and Rural Local Governments (adopted 28 March 1995, amended 13 March 1997, 29 May 1997)
- Law on Basic Regulations of the Association of Local Authorities of the Republic of Lithuania (adopted 28 March 1995)
- Law on Officials (adopted on 4 April 1995, amended 30 May 1996, 20 August 1996, 16 January 1997)
- Law on Administrative-territorial Units and Their Boundaries (adopted on 19 July 1995 and amended twice since)
- Law on Territorial Planning (adopted 12 December 1995, amended 26 June 1997, 7 October 1997)
- Law on Local Duties (adopted 6 June 1996, amended 7 April 1998)
- Law on Methodology for the Establishment of Local Government Budgetary Revenues (adopted 2 July 1997, amended 2 December 1997)
- Law on Administrative Supervision of Local Governments (adopted 14 May 1998)

## Annex 4.4

## Responsibilities of Administrative Tiers

*Table 4A.5*  
**Functions of Local Government Tiers in Lithuania**

Functions	Municipalities (alone or in cooperation, esp. in associations)	Regional/ District/ or Urban Govern- ments	Central Government or State Territorial Adminis- tration	Other Government	Remarks
<b>I. EDUCATION</b>					
1. Preschool	X	X	X		all governmental institutions (municipalities, counties, Ministry of Education and Science) can establish educational institutions
2. Primary	X	X	X		preschool institutions, primary and secondary schools are the municipality's responsibility
3. Secondary	X	X	X		
4. Technical	X	X	X		
5. Other	X	X	X		
<b>II. SOCIAL WELFARE</b>					
1. Nurseries	X		X		
2. Kindergartens	X		X		
3. Welfare Homes	X	X			can be private or affiliated with religious organization
4. Personal Services for Elderly and Handicapped	X				
5. Special Services (for homeless, families in crisis, etc.)	X				
6. Social Housing	X				
7. Other					

Table 4A.5 (continued)  
**Functions of Local Government Tiers in Lithuania**

Functions	Municipalities (alone or in cooperation, esp. in associations)	Regional/ District or Urban Governments	Central Government or State Territorial Administration	Other Government	Remarks
<b>III. HEALTH SERVICES</b>					
1. Primary Health Care	X				
2. Health Protection	X				
3. Hospitals	X	X	X		can be private
4. Public Health			X		
<b>IV. CULTURE, LEISURE, SPORTS</b>					
1. Theaters	X	X	X		
2. Museums	X	X	X		
3. Libraries	X	X	X		
4. Parks	X	X	X		
5. Sports, Leisure	X	X	X		
6. Cultural Centers	X	X	X		
<b>V. PUBLIC UTILITIES</b>					
1. Water Supply	X				
2. Sewage	X				
3. Electricity				X	by state enterprises
4. Gas				X	by state enterprises
5. Central Heating	X				decentralization is in process

*Table 4A.5 (continued)*  
**Functions of Local Government Tiers in Lithuania**

Functions	Municipalities (alone or in cooperation, esp. in associations)	Regional/ District or Urban Governments	Central Government or State Territorial Administration	Other Government	Remarks
<b>VI. ENVIRONMENT, PUBLIC SANITATION</b>					
1. Refuse Collection	X				
2. Refuse Disposal	X				
3. Street Cleaning	X				Ministry of Transport and Communication is responsible for intercity roads
4. Cemeteries	X				
5. Environmental Protection	X	X	X		
<b>VII. TRAFFIC, TRANSPORT</b>					
1. Roads	X		X		
2. Public Lighting	X				
3. Public Transport	X				
<b>VIII. URBAN DEVELOPMENT</b>					
1. Town Planning	X				
2. Regional/Spatial Planning	X	X			
3. Local Economic Development	X	X			
4. Tourism	X	X	X		

*Table 4A.5 (continued)*  
**Functions of Local Government Tiers in Lithuania**

Functions	Municipalities (alone or in cooperation, esp. in associations)	Regional/ District or Urban Governments	Central Government or State Territorial Administration	Other Government	Remarks
<b>IX. GENERAL ADMINISTRATION</b>					
1. Authoritative Functions (licenses, etc.)	X		X		
2. Other State Administrative Matters (electoral register, etc.)	X				
3. Local Police	X		X		
4. Fire Brigades			X		
5. Civil Defense			X		
6. Consumer Protection			X		new law is under consideration





Chapter 5



# Local Government in Poland

*by*

*Andrzej Kowalczyk*

**Decentralization: Experiments and Reforms**



# Local Government in Poland

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# Local Government in Poland

*Andrzej Kowalczyk*

## 1. Overview of Local Government Reform

The adoption of the Act on Local Self-government in March 1990 signified the first step of local government reform in Poland. Elections to local councils were held in May of that year. Since voivodship (*województwo*) councils were simultaneously abolished, a system was introduced in which local government existed only at the municipal (*gmina*) level.

An official appointed by the prime minister, the voivode (*wojewoda*), is the chief of the state administration. The territorial office (*rejon*) was introduced in August 1990 to address social services that remained the responsibility of the state administration—such as secondary schools, health care, law enforcement, fire protection, sanitation, veterinary control and building inspection—based on the system of counties (*powiat*) that existed before 1975. Most territorial offices (268 in total), though organs of the state administration, were established in cities that before 1975 had been seats of the county authorities. However, while the former counties were quasi-local governments (the county council was an elected body, but it is problematic to classify the system that existed before 1989 as authentic local government), the territorial offices were exclusively bodies of the state administration.

The act of March 1990 provided for a local government assembly (*sejmik wojewódzki*) at the voivodship level. It was a body adjudicating disputes between citizens and the municipalities, but it also served as an advisory body to the voivode. Nonetheless, since it was comprised of delegates from each municipality, it could be regarded only as a quasi-local government body.

In April 1992 parliament (the *Sejm* or Diet) passed the Constitutional Act (the so-called “small constitution”). The new basic legislation reflected changes that had occurred in Poland since 1989, but in subsequent years the *Sejm* continued to work on an entirely new constitution. The many disputes that surfaced during this time in discussions among experts and politicians revolved mainly around proposals on the number of tiers of the local government structure.

From the very start of the transformation of Poland’s government framework in 1989–90, work has progressed on the comprehensive reform of public administration. Reform was aimed to change the territorial division of the country in existence since 1975, comprised of 49 voivodships and nearly 2.5 thousand municipalities. The intention was to reduce the number of voivodships,

which seemed too large for a democratic and decentralized state, and to restore the second tier of local government—counties. In 1993 a map was published on the division of Poland into 338 counties (including forty-five urban counties). Although work simultaneously was completed on the demarcation of new voivodships—in three variations: 12, 17 and 25—for political reasons (during the period before elections to parliament) the maps of these changes were not presented to the public. Since some local communities opposed the plan to divide Poland into counties, in 1993 a second version of the map was presented showing 368 counties, including forty-eight urban centers. Here it should be mentioned that at the time they were abolished in 1975, 395 counties—including seventy-eight urban ones—and 17 voivodships—including five cities that were granted the rights of voivodships—existed in Poland.

When the Alliance of the Democratic Left, the Polish Peasant Party and the Union of Labor (all leftist) assumed power in 1993, work on local government reform came to a halt due to strong opposition to the introduction of counties by the Polish Peasant Party. The main argument presented was that the introduction of this second tier of local government would deprive municipalities of authority and of government funds. In the opinion of some experts, another reason that was not voiced publicly was the conviction that under the new territorial division of the country the Polish Peasant Party, whose main electorate was in rural areas and small towns, would lose seats in the Sejm on account of the introduction of a new election law after the creation of counties and the reduction in the number of voivodships, which would favor parties with broader support in large and middle-sized cities.

From 1994 to 1996 the Polish government and the Sejm did take some steps to reform public administration. These included: (1) a pilot program extending the power of large cities by transferring some state administration tasks to local authorities and the Act on the Local Self-government of Warsaw, which created a unique two-tiered system, in 1994, both of which were prepared by the previous government, (2) introduction of the Civil Service Act and (3) governmental reform itself that abolished some ministries. Nonetheless, the bulk of the work on introducing the second and third tiers of local government stalled.

The situation started to change in 1996, when the Ministry of Internal Affairs and Administration<sup>1</sup> appointed a team of experts to continue work on the division of the country into counties and voivodships. Discussions ensued in October 1996 in ten large regional centers involving scholars and representatives of municipalities and of the territorial administration. The result of these talks was a report on the principles of reform entitled “An Effective, Friendly, Safe State: Program for Decentralization of State Functions and Development of Local Self-government.” Most of the principles contained therein resembled projects that the former government prepared in 1992–93. One of the most important elements included in the 1997 project was a preliminary estimate of the cost of reform, taking into account the number of full-time jobs necessary for new local government units of the second tier and the number of public administration employees in liquidated voivodships who would lose their posts. The project also contained calculations of the approximate revenues and expenditures of the proposed counties.

A coalition of the center-right came to power as a result of the parliamentary elections of autumn 1997. One of its main campaign promises was completion of the local government reform initiated in 1990. A few weeks after the new government was formed it sent a bill to the Sejm proposing the division of the country into counties and voivodships, but the bill encountered strong resistance from the opposition (many points resembled those presented by the leftist government a few months earlier) as well as from parliamentarians of the ruling coalition, especially representatives of the nationalist parties and deputies from voivodships slated to be abolished. The bill was amended based on many months of discussion, and in summer 1998 the Sejm passed an act on the creation of the county tier in Poland. The division of the country into voivodships, the third tier of local government, aroused even more debate. The government proposed twelve voivodships, but numerous deputies were against this, favoring twenty-five or even twenty-seven. The Polish Peasant Party and small rightist groupings remained strongly opposed to the reform for reasons mentioned previously. Others protested that the aim of the reform was to cast the government's financial troubles on local government. They also claimed that the reform would raise conflict among the various tiers of local government. However, a compromise solution was reached, and sixteen voivodships were approved. The increase from the number presented by the project was a success of the leftist opposition (Alliance of the Democratic Left, which demanded a return to seventeen voivodships as before 1975).

According to a decision taken by the Sejm in summer 1998 Poland was divided into 16 voivodships and 373 counties, including 65 urban counties, on 1 January 1999. At the same time, the 268 territorial offices were abolished, and most of their tasks were transferred to the new counties.

Some local communities, especially in cities that aspired to become district seats, protested against the reform (for example, they blocked roads and railway lines and held demonstrations in Warsaw in front of the parliament building and the seat of the central government). The final decision to increase the number of voivodships to sixteen was made largely under pressure from inhabitants of the threatened voivodships. In order to mollify social tensions, provincial assemblies and various institutions of the voivodship tier were established in some of the former territorial centers (the seat of the voivode is supposed to be located in another city). Although an impediment to the functioning of regional bodies and an inconvenience to residents, this compromise prevented the firing of qualified employees and limited the migration of officials to the new seats. The government also invited local governments to suggest alterations in the division of counties and voivodships from 1 February 1999.

## 2. Legal and Constitutional Basis

The constitution adopted in April 1997 (after a referendum) states that Poland is a unitary state and that local government ensures decentralization of public authority. Legal residents of units of the basic territorial division comprise a local government community, and local government exercises public authority by performing the tasks assigned to it.

The 1997 constitution regulates relations between the state administration and local government. The prime minister, voivodes and regional accounting chambers supervise local governments. Organs of local government that violate the constitution or acts of parliament may be dissolved upon motion of the prime minister. Local governments have the right to form associations and participate in international associations of local and regional communities and to cooperate with local and regional communities of other states.

Chapter VII of the constitution, entitled “Local Self-government,” is devoted entirely to this issue, averring that the basic unit of local government is the municipality, while the Act on Local Self-government defines other units of both strictly regional and regional and local government. A certain digression is necessary here. During work on the constitution some political parties—mainly the Union of Freedom—tried to include a clause establishing the county as the second-tier local government unit. However, the influential Polish Peasant Party was opposed to this idea; its leaders proposed that the second tier should be the voivodship, which at the time was solely an organ of the state administration. During parliamentary debate the Polish Peasant Party forced the notion that exclusively the municipality would be mentioned by name as a unit of local government in the constitution. Since the constitution encountered such strong resistance from rightist parties and opposition groups, the Alliance of the Democratic Left succumbed and omitted mention of counties and voivodships. Another reason for this exclusion was the fact that the constitutional debates took place before the parliamentary elections scheduled for autumn 1997.

The constitution establishes that units of local government are legal persons and grants them the right to own property. Public tasks that serve to satisfy the needs of the local community are assigned to local governments. The state administration may also commission local governments to assume additional responsibilities. Administrative courts resolve disputed issues between organs of local government and of the state administration. The powers of individual tiers of local government are elaborated in an act that amended the organizational reform of the government of 24 July 1998 defining the authority of public administration organs. An important concept introduced in the new constitution is the ability to dismiss a local authority before expiration of its term of office; referendums may be held on issues concerning a given community, including the dismissal of an organ of local government chosen in direct elections.

## 2.1 Legal Basis of Municipalities

As mentioned above, according to the constitution the primary unit of local government in Poland is the municipality. Its tasks are described in the Act on Local Self-government of 1990, according to which there is no formal urban and rural division of municipalities. In practice, the following distinctions are made in official statistics and in the titles of local governmental institutions: (1) urban (municipality with a local council for one large or medium-sized city),

(2) urban-rural (municipality with a local council for one town and several nearby villages) and (3) rural (municipality composed exclusively of rural settlements). Thus the system of local government is not always integrated with its settlement network.

Although the constitution states that the basic unit of local government is the municipality, the Act on Local Self-government of 1990 permits the creation of “auxiliary units” within the municipality, including quarters and housing estate councils in large cities. On account of the rather low level of political culture in Poland, units of this type are rather uncommon. Their counterparts in rural areas, however, are councils that have a long tradition of representative governance.

Tasks of the municipality are defined in the Act on Local Self-government of 8 March 1990, which states that the jurisdiction of the local council extends to all matters falling within the terms of reference of the municipality unless stipulated otherwise by separate legislation. Two basic types of responsibilities are distinguished: obligatory functions and those delegated by the state administration. Obligatory tasks may be assigned only by parliamentary acts; those currently falling under the jurisdiction of municipalities include:

- land use, local development and environmental protection;
- local roads, streets, bridges and traffic control;
- water supply, sewage, waste disposal, electricity and gas supply;
- local public transportation;
- health care;
- social services;
- housing;
- preschools and primary education;
- culture and libraries;
- physical training and sport;
- maintenance of marketplaces;
- maintenance of public parks;
- maintenance of cemeteries;
- local public security and fire protection;
- maintenance of public utility buildings.

The state administration may transfer some of its authority and responsibilities to a municipality by specific legislation or mutual agreement and must finance such activities in full. Delegated functions can include the registration of marriages, births and deaths; the provision of identity cards and drivers licenses; civil defense; sanitation; environmental protection; building control; et cetera.

A municipality is a legal person and may promulgate local law. The prime minister exercises supervision over the activities of the municipality, while the regional accounting chamber regulates its financial activities; both institutions have authority over only the legality of decisions.



## 2.2 Legal Basis of Counties

According to the authors of the 1990 reform (J. Regulski, W. Panko, M. Kulesza, A. Kuklinski, J. Stepień, P. Buczkowski, L. Kieres and others), the establishment of the municipal level was only the first step in the process of revitalizing local government in Poland. On 1 January 1999 counties were introduced as the second tier. According to the Act on County Self-government of 5 June 1998, the county carries out certain statutory tasks, namely in:

- education;
- health care and promotion;
- social welfare;
- profamily policy;
- assistance to the handicapped;
- transportation and public roads;
- culture and protection of cultural monuments;
- physical culture and tourism;
- property management;
- land use and building supervision;
- water management;
- environmental protection;
- agriculture, forestry and inland fishing;
- public order and local public security;
- flood and fire protection, prevention of other extraordinary threats to the life and health of residents and the environment;
- addressing unemployment and stimulating the local labor market;
- protection of consumer rights;
- maintenance of county public utility and administration buildings and facilities;
- national defense;
- promotion of the county;
- cooperation with nongovernmental organizations (NGOs).

The state administration may also entrust tasks to the county under the act, but the county may not infringe upon the scope of activities of municipalities.

A county is a legal person and may promulgate local law. The prime minister exercises supervision over the activities of the county government, while the regional accounting chamber oversees its financial activities; either may overturn decisions that are against the law.

Counties are differentiated as urban (formally “cities with the rights of districts”), encompassing only the area of one city, and those that encompass a large municipality-city—the county seat—and several urban-rural or rural municipalities. Under the Act on County Self-government, an urban county may be: (1) a city of more than one hundred thousand residents or (2) a city that by 31 December 1998 was a voivodship seat and has fewer than one hundred thousand residents with a suitable infrastructure for public service delivery. In the case of the latter, the granting of

the status of a county is reserved for the Council of Ministers. Such a decision is guided by the interest of the communities formerly belonging to the given voivodship and assurance that separation of the city from the previous voivodship does not limit access of residents of neighboring municipalities to public services that are located in the given city. In some cases the Council of Ministers may deny the right of a city with more than one hundred thousand residents to county status if this limits access of residents of neighboring municipalities to public services. To date, this article has not been employed. Of the cities that previously performed voivodship functions, three have waived the privilege to become separate urban counties, while several medium-sized cities with the requisite public services infrastructure have been granted this status.

### 2.3 The Status of the Capital City

Warsaw is a special case, largely due to the 1994 Act on the Local Self-government of Warsaw, which abolished the previous organization of the city, consisting of seven boroughs, and introduced eleven municipalities, one of which, Warsaw center, is divided into seven boroughs (boroughs also exist in other large cities in Poland, but their status is different from those in Warsaw). This arrangement led to much confusion concerning the designation of authority. First, as in the rest of the country, local councils are chosen in direct elections. Second, all the municipalities form a mandatory communal union headed by the council of Warsaw, also chosen in direct elections. Third, Warsaw is an urban county; a second county with its seat in Warsaw encompasses the municipalities lying to the west of the city, the council of which is chosen in direct elections. Furthermore, according to the acts of 1994 and 1998, the residents of the Warsaw center municipality choose the councilors of each individual city borough. Given the complicated structure of the capital, it has been predicted that in the near future the Warsaw council will be abolished and the county council will inherit its powers. The reform of the government framework in summer 1998 caused the scope of competencies of the Warsaw council and of the county council to overlap almost completely.

### 2.4 Legal Basis of the Voivodship

On 1 January 1999 voivodships became the third tier of the local government system. In addition to functions stemming from local government tasks, voivodships have important state administrative responsibilities. In respect to size (number of residents and area) they are the counterparts of regions in the countries of the European Union, and the government and Sejm had precisely this in mind when they demarcated and assigned tasks to voivodships.

According to the Act on Voivodship Self-government of 5 June 1998, the scope of activities of voivodships does not violate the independence of the county and the municipality. Organs of voivodship government are neither supervisory bodies of the county and municipality nor organs of a higher level in administrative proceedings. This distinction was made to dispel the

reservations of opponents to the second phase of local government reform. Provisions concerning elections to the voivodship assembly and referendums are similar to those for municipalities and districts.

The voivodship government drafts the development strategy of the voivodship, particularly concerning the following goals:

- cultivation of Polishness and development of national, civic and cultural consciousness;
- stimulation of economic activity;
- enhancement of competition and innovation in the voivodship economy;
- preservation of the cultural and natural environment;
- structure and preservation of spatial order.

The voivodship government implements the development policy of the voivodship, including: (1) establishment of suitable conditions for economic development, (2) maintenance and expansion of the technical infrastructure, (3) acquisition and use of public and private financial resources, (4) support for the educational aspirations of citizens, (5) regulation of the use of natural resources in accordance with the principles of sustainable development, (6) support for the development of science and (7) promotion of the development possibilities of the voivodship. In order to carry out these tasks, the voivodship government is encouraged to cooperate with the state administration, other voivodships, nongovernmental organizations, scientific-research organizations, higher education institutions, international organizations and regions of other states, especially in neighboring countries.

Tasks delegated to the voivodship include:

- public education, especially higher education;
- health care and promotion;
- culture and protection of cultural monuments;
- social welfare;
- profamily policy;
- modernization of rural areas;
- spatial development;
- environmental protection;
- water management;
- public roads and transportation;
- physical culture and tourism;
- protection of consumer rights;
- national defense;
- public safety;
- addressing unemployment and stimulation of the local labor market.

A voivodship is a legal person and may promulgate local law. The prime minister and voivode supervise the activities of the voivodship government, and the regional accounting chamber oversees its financial activities.

One of the most important responsibilities of the voivodship is international cooperation; acts regulating the functioning of municipalities and districts do not have separate articles devoted to this area. The voivodship assembly is responsible for determining: (1) the main goals of international cooperation, (2) geographic priorities of future cooperation and (3) plans to join international regional associations.

Since the voivodship has both state and local roles in the Polish political system, a separate act was adopted on 5 June 1998 stipulating that state administration is performed in the voivodship by:

- the voivode;
- heads of state administration institutions subordinate to the voivode;
- organs of state administration subordinate to individual departments, such as defense, finance and internal affairs;
- organs of regional government by virtue of agreements with the state administration or by legislation;
- heads of state administrative institutions located at the county level and subordinate to the chair (*starosta*) of the county;
- organs of other local governments by virtue of agreements with the state administration or by legislation.

The most important institution in the voivodship is the voivode, who is appointed by the prime minister upon nomination by the minister of internal affairs and public administration. In December 1998 heated discussion took place whether the voivode ought to be selected from among persons representing a given region (as has been the case from 1990) or from among persons not involved in local voivodship politics.

### 3. Local Politics, Decision Making

#### 3.1 System of Local Elections

From the municipal elections of May 1990 to 1998 a peculiar feature of local government in Poland is the lack of importance of political parties at the local level. In the elections of 1990 and of 1994 the vast majority of candidates and the councilors elected were independent or represented social organizations or local groupings and had little political experience. This situation was favorable on the one hand, because councilors focused on local problems rather than interparty conflicts, but on the other hand, the independence of councilors sometimes paralyzed the activities of local councils. Unfettered by party affiliation, councilors often created ad hoc coalitions in order, for example, to remove the mayor and other members of the municipal administration. As a result, during the 1990–94 and 1994–98 terms, officer positions repeatedly changed in some municipalities.

After the parliamentary elections of autumn 1997 the main political parties in the country addressed local government electoral system reform. As a result of the concerted efforts of the main political parties, a new election law to the municipal councils, county councils and voivodship assemblies was passed. The distribution of seats won on all three levels of local government as a result of the 1998 elections follows:

- Electoral Action Solidarity (*Akcja Wyborcza Solidarność*)—16.6 percent;
- Alliance of the Democratic Left (*Sojusz Lewicy Demokratycznej*)—13.9 percent;
- Social Alliance (*Przymierze Społeczne*)—7.2 percent;
- Union of Freedom (*Unia Wolności*)—1.8 percent;
- Motherland (*Ojczyzna*)—0.4 percent;
- Polish Family (*Rodzina Polska*)—0.2 percent;
- local coalitions and independents—59.9 percent (a majority of the latter were elected in small rural municipalities).

Solidarity trade unions (worker and farmer unions) and small right-oriented parties organized the social movement Electoral Action Solidarity. The Alliance of the Democratic Left is a coalition of postcommunist parties and organizations. The Social Alliance was established just before the local elections by the Polish Peasant Party and small left-oriented parties (though not post-communists, such as the Union of Labor). Motherland is a coalition of small parties and organizations farther right than the parties organized by the Solidarity trade unions, and Polish Family is an organization with very close ties to groups affiliated with Radio Maryja, a station supported by some Roman Catholic priests, but not by the Polish Roman Catholic Church authorities. The Union of Freedom is the renamed Democratic Union, the party of the former prime ministers Tadeusz Mazowiecki and Hanna Suchocka, chaired by Leszek Balcerowicz.

The main point of the 1998 election law is that elections to local councils in municipalities with fewer than twenty thousand residents are won by majority, but in municipalities with more than twenty thousand residents a proportional system is implemented. During the 1990 and 1994 elections the proportional system, using a five percent threshold, was in effect only in municipalities with more than forty thousand residents. Due to the solution adopted, independent candidates in practice could be elected only in municipalities with fewer than twenty thousand residents in October 1998.

Under the new election law, candidates for councilor can be nominated by (1) voters (in municipalities with fewer than twenty thousand residents, twenty-five signatures are needed to nominate a candidate; in municipalities with over twenty thousand residents, one hundred fifty petitioners are required), (2) social organizations and (3) political parties.

The election law states that the basic territorial unit for local council elections is the constituency, which numbers between five hundred and three thousand residents. Constituencies form electoral districts. One electoral district (ward) is represented by between one and five councilors in municipalities with fewer than twenty thousand residents (in practice, usually one councilor per district) and by five to ten councilors in municipalities with more than twenty thousand residents.

The five-percent proportional system was also introduced in elections to county councils and voivodship assemblies. According to the election law, in counties with fewer than forty thousand residents the council is comprised of twenty councilors. In larger counties, for each additional twenty thousand residents five councilors are added, but the total number of members of the council may not exceed sixty persons. The electoral district—usually, a municipality—is represented by three to ten councilors. Very small municipalities may unite into one electoral district; very large municipalities may be divided into more than one. Two hundred persons must support a candidate to the county council nominated by voters.

According to the election law, in voivodships with fewer than two million residents the council is comprised of forty-five councilors. In larger voivodships five councilors are elected for each additional five hundred thousand residents. Each electoral district is represented by five to fifteen councilors. However, the voivodship assembly may not include more than three to five councilors representing the same county. Independent candidates to the voivodship assembly must have the support of at least three hundred voters.

### 3.2 Internal Structure of Local Decision Making

The term of office of the municipal council (*rada gminy*) is four years from the day of election. Its executive body is the board (*zarząd gminy*), the membership of which includes the mayor (*wójt* in rural municipalities and small towns, *burmistrz* in medium-sized towns and *prezydent* in cities), his or her deputies and a maximum of five other individuals elected by the council. Mayors and their deputies do not have to be councilors. The council can recall the board during its term.

The municipal council assigns some of its responsibilities to committees, the members of which are chosen from among the councilors. The council defines their internal structure. Each committee prepares resolutions for the council and supervises the execution of its decisions. Sometimes committees include specialists in particular fields who are invited to join as experts.

The council upon recommendation of the mayor appoints the chief administrative officer (*sekretarz gminy*) and other officers. The mayor and chief administrative officer are appointed for an indefinite period. The mayor performs political and administrative functions and represents the municipality in dealings with other local governments and the state administration. Mayors, their deputies and chief administrative officers are responsible for the execution of resolutions and decisions taken by the council and committees. The chief administrative officer is often responsible particularly for local finances and staffing.

A municipal office is divided into departments. The mayor, his or her deputies and the chief administrative officer determine the organization of the office. These persons supervise the various departments.

Decisions of the local council are usually prepared by departments and are forwarded to committees that negotiate draft versions of the final resolutions. In large municipalities, party constituencies also discuss draft versions of each resolution. Afterwards, the council makes a final decision, which then is executed by the mayor or other officials of the municipal administration.

Organs of the county are the council (*rada powiatu*) and the board (*zarząd powiatu*). The term of office of the council is four years beginning on the day of election. The chair, who may appoint one or two deputies, heads the county council, which chooses these persons by an absolute majority of votes by secret ballot. At least half of the members of the council must be present for these elections.

The county board, comprised of four to six persons including one deputy of the council chair, is the executive organ of the county. A chair (*starosta*) heads this body elected by the council from among its members. Members of the county board may not simultaneously hold seats in government organs of municipalities or voivodships, be members of the Sejm or be employed in the state administration.

The organs of the voivodship are the assembly (*sejmik wojewódzki*) and the board. The term of office of the voivodship assembly is four years beginning on the day of election. A chair, who may appoint no more than three deputies, heads the assembly, which chooses these persons by an absolute majority of votes by secret ballot. During these elections, at least half of the members of the assembly must be present.

The voivodship board (*zarząd województwa*) is the executive organ of the voivodship and is comprised of five persons. A chair or speaker (*marszałek*) heads this body. The voivodship assembly elects the chair from among its members. Members of the voivodship board may not simultaneously hold seats in the government organs of municipalities or counties, be members of the Sejm or be employed in the state administration. They also may not be members of the voivodship assembly.

### 3.3 Public Participation in Decision Making

The Act on Local Self-government of 1990 makes provisions for local referendums on local taxation, the recall of council members or any other issue within the jurisdiction of the municipality. Such referendums may be initiated by the council itself or by a minimum of one-tenth of the voters in the municipality. Voter participation must be no less than thirty percent of the electorate for the result of the referendum to be binding; the same regulations are stipulated at the district and voivodship levels.

The local councils may hold public hearings at which citizens and grass roots movements may express their opinions, ask questions and make proposals on matters of public interest. All

citizens are entitled to challenge a decision taken by councils or administrative officials in the highest administrative court. The cost of all such cases is free of taxation and charges.

### 3.4 Distribution of Power among Different Levels of Government

In some fields the division of responsibilities among the tiers of local government is not entirely clear. The municipality, county and voivodship share many tasks, though they are mentioned in acts in a different order. This should be interpreted to mean that although some public tasks are common for all tiers of local government, the responsibilities of individual tiers differ not only in scope of activity but also in specific functions. Institutions of a clearly regional scope and supervision of them reside at the county and voivodship levels. This can be demonstrated using the example of educational services. According to the Act on Division of Competence of Powers of 27 July 1998, public primary and grammar schools and preschools are subordinate to the municipality. The county supervises public secondary schools, technical schools, special schools, pedagogical libraries and counseling centers. The voivodship tier handles vocational schools and teacher training.

This is also true of the division of responsibilities between local government and the state administration. Although these matters are regulated by legislation, daily administration in recent years has demonstrated that law has not unequivocally settled some issues. This especially applies to road maintenance, which formally is the responsibility of local governments and various tiers of the state administration at the regional office and voivodship levels. Numerous difficulties were experienced during the flood of 1997 due in large measure to unclear division of power in the public administration.

Specific organs of the state administration that operate at the local level are also problematic in Poland. Some institutions—especially the Ministry of Finance, the Ministry of Justice, the police and the Ministry of Health and Social Welfare—have an expanded network of regional offices, the area of activity of which often overlaps the administrative division of the country. Although some governmental institutions have initiated reform of their organizational structure to compensate for the new conditions, this process will probably take several years.

### 3.5 Local Government Associations

Both municipalities and counties may establish special interest organizations (communal unions) and join associations. Communal unions are organized mainly for joint service delivery, such as public transportation (as in the Upper Silesia industrial region) and water supply or waste removal (common in rural areas). Associations act as lobbying organizations. They are active especially in culture and tourism. Some, founded in the early 1990s and joining the efforts of many neighboring municipalities, were recognized as counties or voivodships in the administrative reform of 1998.



In addition to local organizations and associations, a number of national institutions have been established, including the Union of Polish Cities (more than two hundred cities are members of the eight hundred that are eligible), Union of Metropolitan Cities (the ten largest cities), Union of Small Towns (one hundred members), Union of Rural Local Governments (more than two hundred municipalities are members of the one thousand five hundred eligible), the Union of Polish Counties (when it was established in December 1998, over one hundred sixty counties joined of the three hundred seventy eligible, and by mid-1999 more than two hundred counties were members) and the Federation of Unions and Associations of Municipalities and Counties (more than twenty organizations).

## 4. Local Administration, Service Provision<sup>2</sup>

### 4.1 Structure and Operation of Local Administration

Since the constitution states that the law-making bodies of local government units determine internal governmental systems, there is no uniform organizational model for the organs of the municipality, county and voivodship tiers. Acts concerning the individual tiers also do not impose organizational structures on the municipality, county or voivodship.

The Act on Self-government Employees of 22 February 1990 regulates employee relations in local government. Although civil service regulations were passed in 1996, they were suspended in 1998 on account of their political nature; one requirement—extensive work experience in public administration—in practice favored officials who started their careers long before 1989 in competitions for higher public posts.

### 4.2 Local Service Delivery

On the basis of several years of experience, an analysis of the success of municipal local service delivery is possible. However, government at the county and voivodship levels only began operating from 1 January 1999; thus, such analysis is more problematic.

The responsibilities of local governments stem from the acts adopted in 1990 for municipalities and in 1998 for counties and voivodships, which provide that they may own property and engage in entrepreneurial activities. Subsequently, around eight hundred fifty local enterprises became municipal property in 1990–91. Most of them serve only one town or rural municipality, but in some cases they act in several neighboring municipalities. The mayor appoints the chairs of institutions and enterprises controlled by local authorities, and local governments finance the operation and development of these organizations.

In the case of municipalities, the needs of a given local community are satisfied by providing local delivery of a certain service—such as urban transportation or waste removal—or by contracting private businesses for services—most often waste removal and maintenance of public spaces, least often public transportation. The local government, especially in large and medium-sized cities, very often forms companies with private entrepreneurs, usually by making a contribution in kind to the company of land or technical infrastructure built at its own cost. Local authorities also cooperate with private entrepreneurs through public-private partnership, such as loans for the use of land or buildings below market price, loan guarantees, partial exemption from local taxes, tax payment by installment, et cetera.

A survey of enterprises demonstrated that in 1995 the most popular type of enterprise on the municipal level was budgetary institutions (*zakład budżetowy*, “in-house” departments). In that year the share of these enterprises was forty-seven percent of the sample (in 1993 it was forty-three percent). The next popular types were commercial law companies (*spółka prawa handlowego kontrolowana przez gminę*, twenty-eight percent in 1995 and twenty-two percent in 1993) and private companies (*prywatna spółka prawa handlowego*, eleven percent in 1995 and seven percent in 1993). Less popular were civil code companies (*spółka cywilna, osoba fizyczna*, five percent in 1995 and nine percent in 1993) and state enterprises that were not transformed after 1990 (*przedsiębiorstwo państwowe*, nine percent in 1995 and nineteen percent in 1993).

The Act on Communal Economy of 1996 stipulates that local governments—then, municipalities, but now also counties and voivodships—may address their responsibilities by:

- creating budgetary institutions;
- establishing or joining limited liability and joint stock companies (*spółka prawa handlowego kontrolowana przez gminę*);
- conferring responsibilities to other entities on the basis of contracts concluded in keeping with the provisions of the Act on Public Procurement.

Units of local government of all tiers also may conduct economic activities in the sphere of public utility. The county may not conduct activities outside the scope of public utility, but the municipality may do so in the scope provided in the Act on Communal Economy of 1996 in the form of commercial law companies. The voivodship government also may conduct economic activities outside the sphere of public utility through commercial law companies, but only in advertisement, education and publishing for purposes serving the development of the voivodship.

## 5. Local Finance, Economic Development<sup>3</sup>

The constitution proclaims that the revenues of units of local government consist of their own revenues plus general subsidies and special purpose grants from the state budget. Local government authorities also have the right to regulate local taxation and other charges in the scope set forth by legislation. In practice, the central government sets the ceiling for taxation at the local level, and municipal and county councils then establish individual rates.

*Table 5.1*  
**Municipal Expenditures as a Percentage of GDP and of General Government Expenditures in Poland, 1994–97**

Year	GDP [in PLZ millions]	General Government Expenditures [in PLZ millions]	Municipality Expenditures [in PLZ millions]	% of GDP	% of General Government Expenditures
1994	210,407.3 <sup>a</sup>	78,352.2	14,903.9	7.1	19.0
1995	306,318.3	103,840.2	19,828.4	6.5	19.1
1996	385,448.1	128,209.2	31,499.0	8.2	24.6
1997	469,372.1	151,054.3	40,504.3	8.6	26.8

a. Including customs and taxes on imports.

SOURCES: *Statistical Yearbook of the Republic of Poland 1997*, 475, 479, 501; *Statistical Yearbook of the Republic of Poland 1998*, 468, 475, 508.

The Act on Local Self-government of 1990 states that the revenues of the municipality are:

- taxes, charges and other proceeds defined by legislation;
- revenues from the property of the municipality;
- general subsidies from the state budget.

The same act states that revenues also may include (1) budget surpluses from previous years, (2) special purpose grants for carrying out commissioned tasks, (3) proceeds from the local taxation of residents, (4) loans and the issue of bonds and (5) bequests and donations. The Act on Local Government Revenues of 1998—the predecessor of which was the Act on Local Taxes and Fees of 1991—defines the revenues of municipalities more precisely.

*Table 5.2*  
**Municipal Revenue Structure in Poland, 1994–97 [%]**

Revenues	1994	1995	1996	1997
State Grants (general and specific)	36.5	35.8	39.2	38.3
Shared Revenues	23.1	23.1	24.5	24.2
Independent Revenues	40.3	40.1	34.8	35.2
Credit, Bonds <sup>a</sup>	—	—	—	—
Other	0.1	1.0	1.5	2.3
<b>Total</b>	100.0	100.0	100.0	100.0

a. According to Polish legislation credit and bonds are not part of municipality revenues.

SOURCES: *Statistical Yearbook of the Republic of Poland 1997*, 479; *Statistical Yearbook of the Republic of Poland 1998*, 475.

A very important part of municipal income is shared tax revenues. These have fluctuated in past years, but in 1999 shared revenues from personal income tax provided 27.6 percent of budget resources, and corporate income tax, 5 percent. These revenues are transferred to each local budget according to the economic power of the municipality rather than being calculated per capita.

The budget of the municipality must be approved no later than 31 March of the budget year. If this condition is not met, the regional accounting chamber may determine the municipality's budget. The Budget Law, in force since 1991, stipulates that the local council may authorize the municipal administration to amend the budget, with the exception of transfers of expenditures between sections.

The Act on Municipal Finance of 1993 permits municipalities to operate under a deficit. However, the total value of payments of principal and interest on credits and loans, guarantees granted by the municipality and outlays may not exceed fifteen percent of revenues planned for a given year. Before 1993 the municipality could be indebted up to five percent of planned revenues. Nevertheless, municipalities in Poland rarely avail themselves of credit or issue bonds; those that have tend to be urban municipalities with more than one hundred thousand residents.

According to the Act on County Self-government of 5 June 1998, revenues of the county include:

- shares of taxes collected by the state in the amount set by legislation (in 1999, one percent of personal income tax);
- subsidies from the state budget to support local service delivery;
- special purpose grants from the state budget for assignments carried out by county institutions on behalf of the state administration;
- revenues of county budgetary institutions and proceeds of other county units;
- revenues from the county's property;
- interest for untimely remittance by the state administration of shares, grants and subsidies.

The act also indicates additional sources of revenue, such as special purpose grants for tasks delegated by the voivodship, grants from state special purpose funds, interest on county bank accounts, interest on capital contributed by the county, bequests and donations, et cetera.

According to the Act on Voivodship Self-government of 5 June 1998, the revenues of the voivodship include:

- shares of taxes collected by the state in the amount set by legislation (in 1999, 1.5 percent of personal income tax and 1.0 percent of corporate income tax);
- revenues from the voivodship's property;
- bequests and donations;
- revenues earned by budgetary institutions of the voivodship and payments of other voivodship government units;
- interest for untimely remittance by the state administration of shares, grants and subsidies.

The act indicates additional sources of revenue, such as equalization subsidies from the state budget, special purpose grants for tasks assigned by the state administration and special purpose grants from the budgets of municipalities and districts for tasks that by agreement are carried out by the voivodship.

According to the Act on Bonds of 1995, local governments can also issue their own bonds. Very few municipalities thus far have used this option (between 1995 and autumn 1999, about forty), except large cities in need of funding for the expansion of their technical infrastructures. Unions of municipalities also may issue bonds; regulations introduced in 1998 extend this right to the county and voivodship tiers.

There are two types of credit available to municipalities: commercial credit from the banking system (thirty percent) and preferred credit (noncommercial) from funds, NGOs, et cetera (seventy percent). A survey shows that in 1995 the total amount of commercial credit was PLZ 42,262 thousand; in 1996, PLZ 243,970 thousand; and in 1997, PLZ 442,678 thousand. Other surveys show that twenty-seven percent of commercial credit obtained was used to finance public transportation, twelve percent for roads, and eleven percent for schools. So-called preferred credit, mainly from the national fund for environmental protection and the housing fund, is popular among both urban and rural municipalities, especially to finance water supply, waste disposal, gas pipelines, et cetera.

Since the three-tiered system took effect in Poland on 1 January 1999, only information about the financial situation of the municipalities is available. According to such data, in 1997 the private revenues of municipalities comprised 35.3 percent of all budget revenues (for comparison, in 1991 this figure was 45.5 percent); shares of state taxes, 24.2 percent (in 1991, 28.9 percent); grants from the state budget, 38.3 percent (in 1991, 25.5 percent) and additional funding of the tasks of municipalities from other sources (such as NGOs, PHARE, et cetera), 1.5 percent (in 1991 this form of grant did not exist).

Real estate taxes are the most important source of private revenue, constituting 11.2 percent of aggregate revenues of municipalities in 1997 and nearly one-third of private revenues, followed by proceeds from the sale of municipal property (4.0 percent), stamp duties (3.3 percent) and motor vehicles tax (2.7 percent). The role of the motor vehicles tax increased significantly in comparison to several years ago (1.1 percent in 1991), but in 1998 it was included in the price of petrol and thus is no longer a local government revenue.

Conversely, the share of agricultural and forestry tax in private revenues of municipalities fell from 3.9 percent in 1991 to 2.0 percent in 1997. The diminishing importance of this tax is related to the difficulties that farming is experiencing, and as a consequence many local councils levy the lowest permissible agricultural tax or exempt farmers completely, especially owners of farms with low land productivity. Moreover, the shrinking share of agricultural tax in the revenues of municipalities reflects the growing share of other items producing revenue.

*Table 5.3*  
**Distribution of Municipal Expenditures in Poland, 1994–97 [%]**

Type of Expenditure	1994	1995	1996	1997
Current Budget	77.4	76.5	77.6	76.3
Capital Expenditures	22.6	23.5	22.4	23.7
<b>Total</b>	100.0	100.0	100.0	100.0

SOURCES: *Statistical Yearbook of the Republic of Poland 1997*, 479; *Statistical Yearbook of the Republic of Poland 1998*, 475.

On the expense side, 76.5 percent of payments in 1997 were current expenditures, 23.8 percent of which were salaries. Investments constituted 23.5 percent of total payments. Municipalities spent the most on education and public utilities, followed by local government administration, social welfare and health care.

*Table 5.4*  
**Expenditure Assignment by Municipalities in Poland, 1994–97 [%]**

Area	1994	1995	1996	1997
Education	25.5	26.3	37.5	37.6
Health Care	8.7	7.6	6.1	7.2
Social Care	9.9	11.5	9.2	11.0
Sport, Culture	4.6	4.7	3.9	5.0
Administration	10.3	11.3	9.7	11.6
Housing, Municipal Economy	26.7	25.6	22.3	27.3
Other	14.3	13.0	11.3	0.3
<b>Total</b>	100.0	100.0	100.0	100.0

SOURCES: *Statistical Yearbook of the Republic of Poland 1997*, 479; *Statistical Yearbook of the Republic of Poland 1998*, 476.

Primary education is one of the main public service tasks that was transferred to municipal administration under the law of 1 January 1996. Until then this was a state responsibility, although 10.5 percent of the municipalities nationwide took over schools on the state's behalf as early as 1991–92. In subsequent years fewer and fewer municipalities were willing to accept this role due to the failure of the state to provide adequate funds for operation. By the end of 1994 only 24.8 percent of all municipalities in Poland administered primary schools (including 91.1 percent of cities with more than one hundred thousand residents and 42.7 percent of

municipality-cities with fifty to one hundred thousand residents). The fact that the transfer of such administrative responsibilities did not occur simultaneously creates serious methodological problems for the analysis of local budgets before 1996; it is hard to compare the structure of expenditures of a municipality that during this time was responsible for schools with that of a municipality in which schools were financed entirely by the state administration.

All municipalities have large outlays for local government administration, social welfare and health care, but the share of costs for administration in relative terms is much higher in small rural municipalities.

Expenditures for agriculture are largest in rural communities, where water and sewage systems, waste disposal and gas pipes are classified in this sector; housing and transportation are a serious burden for urban municipalities, especially for large agglomerations. Expenses for housing are especially high in cities with developed industrial sectors where until recently nearly all flats belonged to large state enterprises. At the beginning of the 1990s a sizeable portion of industrial enterprise-owned flats were transferred to municipalities as municipal property. Since many of such buildings are in poor condition, their repair and operation result in very high expenditures.

## 6. Next Steps in the Transition Process

The second stage of local government reform in Poland was not launched until 1998–99; thus, it can be expected that the provisions adopted will require amendment in the near future. The fact that local government at the county and voivodship tiers did not commence until 1 January 1999 makes it impossible to state the direction in which such changes will move. However, on the basis of observation of the processes of recent years, several conclusions can be made concerning future initiatives to decentralize public authority in Poland.

First, Poland lacks regulations on regional policy and planning. In summer 1999 the government prepared a draft version of such a document, which has not yet been discussed by the Sejm.

Second, the act on the government of Warsaw should be amended in the immediate future to abolish some existing tiers of local government. Since conflicts have emerged in other large urban areas, discussion on a law on metropolises or urban complexes was initiated in 1992–93. In addition to Warsaw, the law should cover the Katowice area, the urban complex of Gdańsk-Sopot-Gdynia, the Łódź agglomeration, Wrocław, Cracow and Poznań.

Third, civil service regulations ought to be implemented as soon as possible, which would contribute to the professional stabilization of local government staff and the state administration. Furthermore, it would help to depoliticize personnel employed in the public administration, especially at the middle management level.

Fourth, it is foreseen that some municipalities established in summer 1998 will be too weak economically to cope with the tasks with which they have been entrusted. This will compel the Sejm either to change the provisions defining the operations of municipal governments by increasing their share of taxes collected by the state, or some municipalities will cease to exist. In recent years no municipality in Poland has been abolished, despite the fact that many of them are economically inefficient, barely satisfying residents' basic public service needs. A reduction in the number of cities with the rights of counties is probable, as the municipalities surrounding them are too poor to be able to support a county infrastructure. It is doubtful that there will be a change in the number of voivodships, although some regional communities and political groups might attempt to create new ones. Thus, small adjustments of the administrative map of Poland are quite likely, such as changing the status of a municipality to a county or the status of a county to a voivodship.

Finally, it would be desirable if the state administration would transfer more authority and resources to the local government structures. However, this will not be feasible until the social insurance, education and health care systems in Poland are stabilized and heavy industry—mainly coal mining, iron and steel industries—and agriculture are restructured.

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## Notes

- <sup>1</sup> One of the governmental reforms was the fusion of the former Ministry of Internal Affairs with the departments responsible for public administration in the prime minister's office.
- <sup>2</sup> This section was prepared with help of Pawel Swianiewicz.
- <sup>3</sup> This section was prepared with help of Pawel Swianiewicz.

## Annex 5.1

### Major General Indicators

Note: Figures for 1997 are from the *Statistical Yearbook of the Republic of Poland 1998*.

Size of territory	312,685 square kilometers
Population density	124 persons per square kilometer
Population	38,660,000 (1997)
Pensioners	
Over 60 (females) and 65 (males)	14.2 percent
Retired	8.8 percent
Handicapped (unable to work)	7.0 percent
School-age children (under 17 years)	26.3 percent
Major ethnic divisions (there are no official statistics on ethnic issues in Poland)	
Germans	1.3 percent
Ukrainians	0.7 percent
Belarusians	0.5 percent
Others	0.2 percent
Per capita GDP (purchasing power parity per capita)	USD 6,663 (1997)
Share of local government (municipal) budgets in	
General government revenues	27.4 percent (1997)
General government expenditures	26.8 percent (1997)
Revenues to GDP	8.5 percent (1996)
Expenditures to GDP	8.7 percent (1996)
GNP (1997)	PLZ 465,668.1 million
GDP	PLZ 469,372.1 million
State budget (1997)	
Domestic debt	PLZ -95,957.7 million
(95.3 percent of state expenditures debt was covered by revenues in 1997)	
Deficit	PLZ -5,902.8 million
Revenues	PLZ 119,772.1 million
Expenditures	PLZ 125,674.9 million

Social insurance fund	PLZ -136.2 million
Deficit	-0.2 percent
Revenues	PLZ 63,698.8 million
Expenditures	PLZ 63,835.0 million
 Pension fund	 PLZ 13.8 million
Surplus	+0.1 percent
Revenues	PLZ 10,069.3 million
Expenditures	PLZ 10,055.5 million
 Labor fund	 PLZ 425.6 million
Surplus	+6.5 percent
Revenue	PLZ 7,010.5 million
Expenditures	PLZ 6,584.9 million
 Unemployment rate (1997)	 10.2 percent
 Inflation rate (price indices of goods and services) (1997)	 14.8 percent

## Annex 5.2

## Population, Settlements and Administrative Units

*Table 5A.1*  
**Settlements by Population Size Categories in Poland, 1 January 1993**

Population	Number of Settlements
0–999	39,589
1,000–9,999	2,702
10,000–49,999	314
50,000–199,999	72
200,000–999,999	19
1,000,000+	1
<b>Total</b>	<b>42,697</b>

*Table 5A.2*  
**Municipalities by Population Size Categories  
in Poland, 31 December 1996**

Population	Number of Municipalities	%	Number of Inhabitants	%
0–999	—	—	—	—
1,000–1,999	7	0.3	12,234	0.0
2,000–4,999	563	22.7	2,235,165	5.8
5,000–9,999	1,078	43.4	7,656,636	19.8
10,000–49,999	734	29.5	13,722,206	35.5
50,000–99,999	56	2.3	3,750,448	9.6
100,000–999,999	45	1.8	11,262,652	29.1
1,000,000+	—	—	—	—
<b>Total</b>	<b>2,483</b>	<b>100.0</b>	<b>38,639,341</b>	<b>100.0</b>

Average population of municipality (1996)	15,561
Number of local governments at each level	
Before 31 December 1998	
Voivodships (state administration)	49
Municipalities	2,483
Districts of state administration ( <i>rejon</i> )	268
After 1 January 1999	
Voivodships	16
Counties ( <i>powiat</i> )	373
Municipalities	2,483
Number of civil servants (1997)	
Employed by the state, including	157,498
Central administration	113,674 (72.2 percent)
Middle-tier administration, including	43,824 (27.8 percent)
Voivodship administration	15,579 (9.9 percent)
District ( <i>rejon</i> ) administration	9,932 (6.3 percent)
Others	18,313 (11.6 percent)
Employed by local government	112,816
Total number of civil servants	270,314 (41.7 percent employed by municipalities)
Number of public employees (1997)	
Number of employees in national economy	16,294.5 thousand
Number of public employees, including	5,072.8 thousand (31.1 percent of total employment in national economy)
Central state	3,551.1 thousand (70.0 percent of public employees)
Local government	1,283.5 thousand (25.3 percent of public employees)
Number of employees in shadow economy	870 thousand (1997 estimate)

Figure 5A.1  
Administrative Map of Poland



Administrative division of Poland (after 1 January 1999)

Voivodships (*województwa*)

1. *województwo dolnośląskie* (capital: Wrocław)
2. *województwo kujawsko-pomorskie* (capital: Bydgoszcz – *wojewoda* office, Toruń – *marszałek* office)
3. *województwo lubelskie* (capital: Lublin)
4. *województwo lubuskie* (capital: Gorzów Wielkopolski – *wojewoda* office, Zielona Góra – *marszałek* office)
5. *województwo łódzkie* (capital: Łódź)
6. *województwo małopolskie* (capital: Kraków)

7. *województwo mazowieckie* (capital: Warszawa)
8. *województwo opolskie* (capital: Opole)
9. *województwo podkarpackie* (capital: Rzeszów)
10. *województwo podlaskie* (capital: Białystok)
11. *województwo pomorskie* (capital: Gdańsk)
12. *województwo śląskie* (capital: Katowice)
13. *województwo świętokrzyskie* (capital: Kielce)
14. *województwo warmińsko-mazurskie* (capital: Olsztyn)
15. *województwo wielkopolskie* (capital: Poznań)
16. *województwo zachodniopomorskie* (capital: Szczecin)



## Annex 5.3

### Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in Poland (presented in order of adoption; date of adoption is given in brackets):

- Act on Local Self-government (1990)
- Act on Self-government Employees (1990)
- Act on Local Taxes and Fees (1991)
- Act on the Local Self-government of Warsaw (1994)
- Act on Public Procurement (1994)
- Act on Bonds (1995)
- Act on County Self-government (1998)
- Act on Voivodship Self-government (1998)
- Act on Division of Competence of Powers (1998)
- Act on the Communal Economy (1996)
- Civil Service Act (1998)
- Act on Public Finance (1998)
- Act on Local Government Revenues (1998)

## Annex 5.4

## Responsibilities of Administrative Tiers

*Table 5A.3*  
**Specific Functions of Local Government Tiers in Poland after 1 January 1999**

Functions	Municipalities ( <i>gmina</i> )	Counties ( <i>powiat</i> )	Voivodships ( <i>województwo</i> )	Other (e.g., central government)	Remarks
<b>I. EDUCATION</b>					
1. Preschool	X				
2. Primary	X				
3. Secondary	X	X			
4. Technical		X			
5. University			X*	X	*vocational universities
<b>II. SOCIAL WELFARE</b>					
1. Nurseries	X				
2. Kindergartens	X				
3. Welfare Homes		X	X		
4. Personal Services for the Elderly and Handicapped	X	X			
5. Special Services (for the homeless, families in crisis, etc.)	X	X			
6. Social Housing	X				
7. Unemployment		X	X		

Table 5A.3 (continued)  
**Specific Functions of Local Government Tiers in Poland after 1 January 1999**

Functions	Municipalities ( <i>gmina</i> )	Counties ( <i>powiat</i> )	Voivodships ( <i>województwo</i> )	Other (e.g., central government)	Remarks
<b>III. HEALTH SERVICES</b>					
1. Primary Health Care	X				
2. Health Protection	X	X	X		
3. Hospitals		X	X	X*	*special hospitals, university hospitals, medical research centers
4. Public Health	X	X	X		
5. Drug Addicts			X		
<b>IV. CULTURE, LEISURE, SPORTS</b>					
1. Theaters	X	X	X	X*	*e.g., National Theater
2. Museums	X	X	X	X*	*e.g., National Museum
3. Libraries	X	X	X	X*	*e.g., National Library
4. Parks	X				
5. Sports, Leisure	X	X	X		
6. Maintaining Buildings for Cultural Events	X				
7. Heritage Conservation	X	X	X		
<b>V. PUBLIC UTILITIES</b>					
1. Water Supply	X				
2. Sewage	X				
3. Electricity	X				
4. Gas	X				
5. Central Heating	X				
6. Telephone	X				

Table 5A.3 (continued)

## Specific Functions of Local Government Tiers in Poland after 1 January 1999

Functions	Municipalities ( <i>gmina</i> )	Counties ( <i>powiat</i> )	Voivodships ( <i>województwo</i> )	Other (e.g., central government)	Remarks
<b>VI. ENVIRONMENT, PUBLIC SANITATION</b>					
1. Refuse Collection	X				
2. Refuse Disposal	X				
3. Street Cleaning	X				
4. Cemeteries	X				
5. Environmental Protection	X	X	X	X*	*e.g., national parks
6. Natural/ Technological Hazards			X		
<b>VII. TRAFFIC, TRANSPORT</b>					
1. Roads	X	X	X	X*	*e.g., international highways
2. Public Lighting	X				
3. Public Transport	X				
4. Railways				X	
<b>VIII. URBAN DEVELOPMENT</b>					
1. Town Planning	X				
2. Regional/Spatial Planning		X	X		
3. Local Economic Development	X				
4. Tourism	X		X		
5. Surveying		X			

*Table 5A.3 (continued)*  
**Specific Functions of Local Government Tiers in Poland after 1 January 1999**

Functions	Municipalities ( <i>gmina</i> )	Counties ( <i>powiat</i> )	Voivodships ( <i>województwo</i> )	Other (e.g., central government)	Remarks
<b>IX. GENERAL ADMINISTRATION</b>					
1. Authoritative Functions (licenses, etc.)	X	X	X		
2. Other State Administrative Functions (electoral register, etc.)	X	X	X		
3. Local Police	X	X*	X*	X*	*state police
4. Fire Brigades		X	X	X	
5. Civil Defense	X	X	X	X	
6. Consumer Protection		X	X		



Chapter 6



# Local Government in the Czech Republic

*by*  
*Karel Lacina*  
*and*  
*Zdena Vajdova*

**Decentralization: Experiments and Reforms**





# Local Government in the Czech Republic

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# Local Government in the Czech Republic

*Karel Lacina and Zdena Vajdova*

## 1. Overview of Local Government Reform

Local government and territorial public administration in the Czech Republic are based on long historical tradition. The first systems containing self-government elements were created as early as the Middle Ages in some Czech and Moravian royal towns.

More systematic attempts to form a modern concept of local government appeared in 1848, when the Kroměříž Congress of the antifeudal, democratic strata of the population lobbied for municipal self-determination, including proposals to elect representatives freely, to form municipal police and to inform inhabitants on municipal economic activities. However, the Constitution of the Austrian Habsburg Empire enacted only a limited number of these demands. The rules of municipal establishment enumerated by the constitution proclaimed a relatively significant number of rights for municipalities. The principle that the independent municipality represents the basic unit of the free state was implemented step by step, but in the 1850s, most democratic approaches were strictly suppressed until 1964, when these rules were specified in more detail for Bohemia and Moravia.

The 1867 Constitution of the Austro-Hungarian Empire determined other municipal competencies; local government and certain “transferred competencies” from some branches of the state administration to the municipalities were defined. Profit from business operations utilizing municipal real estate, a share of state taxes, communal housing rental and local taxes and fees were specified as revenues of municipalities.

The role of municipalities in the system of public administration was detailed further and strengthened from 1918 to 1938. This period played a very important role in the establishment of democratic principles of public administration in the independent Czechoslovak Republic. Three tiers of local government, each with its own elected bodies, were introduced: municipalities, districts and regions. Their independence from the state administration, competencies and duties were defined by the constitution and by different legislative acts.

The military occupation of Bohemia and Moravia by Nazi troops and the creation of the “Free Slovak State” from 1939 to 1945 interrupted this long-term democratic development.

The principal aspects of the public administration system from 1945 to 1990 were the existence of local, district and regional national committees formed in April 1945 that theoretically united the activities of the state administration and of local government. After 1948, however, the local government system in the Czechoslovak Republic was completely annihilated. The rights of municipalities were restricted in many spheres, particularly with respect to independent decision-making concerning financial resources. A new democratic system of local government emerged after the dissolution of Czechoslovakia in 1990.

## 2. Legal and Constitutional Basis

The European democratic traditions of local government have developed in the Czech Republic since 1990. At that time important legislation creating the legal framework of local government was adopted.

### 2.1 Legal Basis of Local Self-government

The reform of the whole system of local government was initiated by an amendment to the 1960 constitution—then still in force—and on 4 September 1990, the Municipalities Act (Nr. 367/1990) was approved, according to which municipalities were authorized as not only political but also economic entities. The Czech National Council Act Nr. 425/1990 specified the role of territorial state administration represented by district offices (seventy-two at the time, and since 1 January 1996, seventy-three; district offices will be discussed in sections 2.4 and 3.3). Another important act (Nr. 368/1990) called for free communal elections on 23 November 1990. It is stressed in the Municipalities Act (Nr. 367/1990) that the status of municipality was granted to those territorial administrative units that existed as municipalities at the time of the elections as well as those founded after this date. These acts created the basis for and introduced an effective system of democratic local government in the territory of the Czech Republic, which was further developed throughout the 1990s.

The Constitution of the Czech Republic (Act Nr. 1/1993) was adopted on 16 December 1992, stipulating that “the self-administration of territorial self-governing unit shall be guaranteed.” The municipality is defined as the principal local government unit comprised of territorial communities of citizens with the right to self-government. The constitution also guarantees the independent administration of the municipality by its elected assembly and council.

It emphasizes that the municipality, managed by its elected representatives, must fulfill to the best of its ability the duties, rights and wishes of its inhabitants. The citizens’ right to control self-government authority as executed by the mayor and councilors (including the ability to initiate processes leading to their dismissal) is considered to be a firm guarantee of democratic management. At the same time there is an overall understanding that public feedback influences the quality of decision making and executive processes of elected representatives.

From a legislative point of view the municipality is authorized to:

- organize elections for its representative bodies;
- engage in negotiations and agreements with other municipalities and with the state administration to change municipal borders;
- join associations of municipalities;
- approve generally binding public notices valid in the municipal territory.

One of the most important preconditions for the successful implementation of local government's role is legislation. Currently in the Czech Republic, the municipality is considered to be a corporation established in accordance with public law—that is, it is a community of citizens living in one territory and exercising the right of self-government. Additionally, a municipality is recognized as an independent economic subject. The Instrument of Basic Rights and Freedoms (Act Nr. 2/1993) guarantees the right of citizens, and municipalities, to ownership. It is emphasized that the rights of all owners have the same level of protection. The Instrument stresses that “the competence of local councils can be determined by law,” meaning that the local council must act exclusively *secundem legem* and not *contra legem*; the law defines its competence, which may not be restricted by ministry guidelines or government resolutions. Legislation also determines the financial sovereignty of the municipality. Act Nr. 172/1991 is concerned with the transfer of state property to municipality ownership; Act Nr. 576/1990 and its amendments define the rules of municipal financial management. Hence, local communities of citizens have the right to freely control local affairs. In executing their self-government responsibilities, municipalities are bound by law and by the interest of their inhabitants.

The municipalities are, of course, not only independent legal and economic subjects but also the principal elements of the administration system of the Czech Republic. The municipality is authorized to:

- ensure municipal development in accordance with the political, social and economic interests of its inhabitants;
- strive to increase the value of municipality property;
- coordinate activities of the various units supporting the activities of the municipality;
- cooperate with other municipalities, the state administration and the private sector.

The practical implementation of these principles in the economic sphere enables the municipality to:

- draft and approve municipal budgets and financial reports;
- freely allocate funding for services to meet public demands;
- use municipal real estate and other property to further the development of the municipality;
- approve the membership of municipal enterprises and foundations and oversee their financial activities;
- determine local fees.

In order to implement these tasks, the municipality may:

- own real estate;
- acquire financial resources;

- independently administer its budget;
- establish municipal budgetary organizations (so-called “budgetary” and “contributory” organizations—see section 5).

One of the problems remaining is territorial fragmentation, which was a reaction to the forced amalgamation of municipalities during the 1970s and 1980s. Its results are documented by concrete statistical data: there were 4,104 municipalities in the Czech Republic in 1989 (in 1947, there were 11,641); in 1990 approximately 1,500 new municipalities (previously amalgamated by force with other municipalities) were established. On the basis of local referendums, by 1992 another three hundred were created; by 1993, more than one hundred; and by 1994, another thirty-six. Thus, from 1990 to the beginning of 1994 the number of municipalities increased by 50.9 percent. There are nearly fifteen thousand settlements on the territory of the Czech Republic.

The development of public administration in the Czech Republic partly proves that the existence of a large number of very small municipalities does not favor the principles of effective local government. These municipalities (with fifty inhabitants and more) are unable to perform true self-government functions, as they do not have sufficient material resources and the necessary number of qualified elected representatives and civil servants. The solution to this situation is to unite small municipalities with less than three thousand inhabitants into associations that can provide services to citizens in a more effective manner. The experience gained by the municipalities in the 1990s proves that the decision-making process of such associations is more efficient than that of individual municipalities.

## 2.2 The Status of the Capital City

The capital, Prague, has a unique position within the Czech local government system. The rights and duties of Prague’s assembly, council and office as well as the smaller offices of individual parts of the city are defined by the Czech National Council Act Nr. 418/1990 (amended by Act Nr. 439/1991); Act Nr. 90/1993 and Act Nr. 152/1994 concerning municipal elections. Prague currently is divided into fifty-seven parts; many of them are formerly independent municipalities that have united with Prague’s territory. From a legislative point of view Prague as a whole is considered to be one municipality. However, a great number of district and former municipal offices execute public administration. Prague’s municipal office executes both local government and state administrative functions.

## 2.3 The Introduction of Regions

As emphasized above, positive steps taken since 1990 have been codified by the constitution of 1 January 1993. The constitution assumes a two-level system of local government represented

by the municipality and the district. The idea of an intermediate tier that aimed to further decentralize rights and duties of public administration was emphasized in several proposals prepared between 1992 and 1996, such as the Instrument of Basic Rights and Freedoms (Act Nr. 2/1993); more detail is specified on this issue by Constitutional Act Nr. 347/1997), which created fourteen higher territorial self-governing units (thirteen regions and Prague). The new issues and tasks that follow from this were discussed in 1998 and 1999; proposals for the new Municipalities Act, specifying the competencies and the role of district offices from 2000 and for legislation relating to relevant financial issues currently are being drafted for parliamentary approval. All are due to come into force on 1 January 2000.

When assessing the development of public administration reform in the period from 1990 to 1998, it should be emphasized that important steps have been taken to strengthen the democratic principles of public administration in everyday practice. Nevertheless, one of the most significant features of this reform has been its excessive centralization. From 1993, this tendency inspired reformers to assure vertical deconcentration of the state administration to territorial self-government both by establishing the regional tier and by strengthening the competence of municipalities. Another important feature is the horizontal concentration of territorial state administration through a reduction of the excessive number of specialized state administrative authorities on both the district and the regional tiers.

Local government based on the principles of decentralization, deconcentration, delineated competencies, subsidiarity and citizen participation exists in the 6,244 Czech and Moravian municipalities, accompanied by the introduction of regional-level government. The new regions will have their own financial resources, and their dependence on the state budget will be minimal. The regions will be responsible for the preparation of plans for and implementation of economic and social development.

Although some problems have emerged due to the rapid implementation of public administrative reform, the creation of the current democratic local government system in the Czech Republic is generally considered to be the necessary basis for democratization of political and social life. One of the results of such decentralization is increased municipal economic activity. The leading political forces of the country as well as private organizations have generally agreed on the clear specification of the rights, duties and sources of revenues of municipalities, future regional entities and state administrative bodies. It is also accepted that the budgets of these institutions must be independent from the state budget in order to achieve true decentralization.

## 2.4 Relationship between the State Administration and Local Government

Currently there are two types of structures in the Czech government system. The first is representative of the central government (ministries and other central organs) and the various territorial bodies subordinate to it. The second is local self-government. One of the specific

features of Czech state administration is the existence of “deconcentrated” and “detached” organs of the central authorities that act on the district and regional levels on behalf of central government bodies, including the ministries. Some examples of central authorities that are represented at the local government level are described in table 6.1.

*Table 6.1*  
**State Administrative Organs Operating on the District and Regional Levels  
in the Czech Republic**

Ministry	Authorities
Ministry of Finance	8 regional financial directorates 223 financial offices 21 regional customs offices 135 lower customs offices
Ministry of Industry and Trade	7 inspection authorities of the Czech Energy Inspectorate 13 inspection authorities of the Czech Trade Inspectorate Hall-mark Authority License Authority
Ministry of Transport	3 regional offices of the Railways Administration offices of State Railway Inspection offices of State Navigation Administration Board
Ministry of Agriculture	84 offices of the State Veterinary Administration 8 inspection authorities of the Czech Agriculture and Food Inspection Czech Inspectorate for Improvement and Breeding Authorities
Ministry of Environment	16 regional inspection authorities of the Czech Inspectorate of Environment 24 protected landscape regions national parks
Ministry of Health	8 regional Hygiene Office authorities
Ministry of Education, Youth and Physical Training	85 school offices Czech School Inspectorate district authorities
Ministry of Labor and Social Affairs	85 offices of the Czech Administration of Social Welfare 85 Labor Offices with 135 branches

The relationship between the state administration and local governments has some specific features. Field administration is represented by two levels: district and local. On the local level municipal administrations carry out some state functions on the basis of “transferred competence” under the supervision of the state district administration. Currently, 383 municipalities have been extended transferred competence by the state administration. Large towns with more than 100,000 inhabitants (Prague, Ostrava, Brno, Plzeň) also execute state administrative tasks that generally fall under the competence of district offices.

The execution of such transferred competence is implemented in accordance with specific legislation. When executing transferred competence, municipalities are bound both by law and by central government decisions and guidelines. The Municipalities Act and the Act on District Offices regulate the relationship between local governments and territorial public administration.

District offices also serve as appellate bodies for citizens who disagree with decisions made by municipal authorities. The municipality is required to forward all decisions made by its elected bodies to the district office, which is responsible for ensuring adherence to existing legislation of all legal decisions made in the territory of the district. The district office suspends inappropriate or illegal municipal legislation. Decisions of municipal authorities may be subjected to revision on the basis of an appeal by the court, which may be contested by complaint to the Constitutional Court of the Czech Republic.

The head of the district office is also responsible for initiating proposals to parliament to disband a municipal council that does not meet within a period of six months. Such proposals must always originate from the district office.

A special role in local government of the Czech Republic is played by “statutory towns,” of which there are thirteen, according to the Municipality Act (Brno, Ostrava, Plzeň, Olomouc, Opava, České Budějovice, Karlovy Vary, Ustí nad Labem, Liberec, Hradec Králové, Pardubice, Zlín and Havírov). Statutory towns are granted extended execution of transferred competence by the state administration due to their size and their economic, social and cultural importance to their regions. Statutory towns are further divided into two groups: the first (Brno, Plzeň and Ostrava) simultaneously fulfill the rights and duties of municipalities and district offices. As a result, citizens must lodge complaints against decisions of these authorities directly with the central organs of the state administration; citizens of the second group of statutory towns express their objections to district offices that serve as appellate authorities.

The status of statutory town does not convey any specific functions to the local authorities. Some statutory towns are further divided into subunits in accordance with the municipal statutes. For this reason relevant legislation currently being drafted will replace the term “statutory towns” with the term “towns of special status.”



The Supreme Audit Office, an independent supervisory organ invested authority by the constitution, plays a specific role in the Czech legal system. It monitors expenditures and revenues of the state budget and the use of financial and material resources and enforces laws dealing with economic and financial issues and public administration. The Supreme Audit Office reviews the annual report of the state budget and draft acts and regulations pertaining to financial issues and procedures. It is authorized to impose penalties on authorities and individuals that are subject to its supervision—central authorities, state enterprises and organizations and legal persons that receive funding from the state budget.

### 3. Local Politics, Decision Making

#### 3.1 System of Local Elections

The members of municipal councils are selected by direct, equal elections by secret ballot using a proportional electoral system. Every citizen of the Czech Republic over eighteen years of age has the right to vote and to run for municipal office. The term of a municipal council is four years.

The number of councilors in each municipality is proportionate to its population, as determined by law:

- up to 500 inhabitants—five to nine councilors;
- from 501 to 3,000 inhabitants—seven to fifteen councilors;
- from 3,001 to 10,000 inhabitants—eleven to twenty-five councilors;
- from 10,001 to 50,000 inhabitants—fifteen to thirty-five councilors;
- from 50,001 to 150,000 inhabitants—twenty-five to forty-five councilors;
- over 150,000 inhabitants—thirty-five to fifty-five councilors.

Each municipal council determines the exact number of its councilors.

Electoral parties, which register candidate lists for local elections, are defined by law as:

- political parties and political movements;
- coalitions of political parties and political movements;
- independent candidates;
- unions of independent candidates;
- unions of political parties and political movements and independent candidates.

Voters may choose to vote for a list of candidates or for individual candidates from any list that has been submitted.

The first municipal elections were held in November 1990. The most recent were held in November 1998, during which 173 electoral parties submitted lists totaling 179,609 candidates. Voter participation was forty-five percent. In total, 62,412 councilors were elected.

*Table 6.2*  
**Results of the 1998 Municipal Elections in the Czech Republic**

Electoral Party	Votes [%]	Mandates [%]
Unions of Independent Candidates	11.0	41.1
Independent Candidates	2.6	13.7
Christian Democrats	10.6	11.4
Communist Party	13.6	9.2
Civic Democratic Party	24.3	9.1
Social Democracy	17.5	6.8
Union of Freedom	5.5	1.1

Results of local elections vary according to the size and region of the municipality.

- In small municipalities, independent candidates are the most successful, even if they are on the candidate list of a political party, movement or coalition.
- In a few small municipalities only one candidate list was submitted, and all candidates were elected to the council.
- In small municipalities the political party that most frequently registered a candidate list for municipal elections was the Communist Party.
- The greater the size of the municipality, the larger the role of political parties in municipal elections. Despite this, political parties often place nonmembers on their candidate lists. The figures show how many mandates were received by the members of political parties or political movements: Communists, 7.1 percent; Christian Democrats, 4.9 percent; Civil Democratic Party, 4.7 percent; Social Democrats, 3.1 percent; and mandates for candidates without party membership, 76.9 percent.
- Christian Democrats continuously receive strong support in Southern Moravia, and Communists in Northern Bohemia.

Thus, local politics in the Czech Republic is best described as community-based; the influence of political parties is rather weak at the local level. The results of a recent survey show that the mayor's political affiliation is not important; strong morals, knowledge of local affairs and needs and the ability to resolve conflicts were indicated as the most important characteristics for mayoral candidates. Pragmatic and technocratic issues are more apparent than political ones in local politics.

### 3.2 Forms of Direct Democracy

Local referendum is the only device of direct democracy on the municipal level, as indicated by Act No. 298/1992, which may be enacted to decide issues in the sole competence of the

municipality. Affairs that cannot be decided by referendum also are stated by the act—municipal budget, fees, election to and dismissal of the mayor and the division of a municipality that results in a unit smaller than three hundred inhabitants. The right to vote in referendums is granted to Czech citizens over eighteen years of age. A referendum may be held in a municipality as a whole or in one of its divisions.

A citizen may propose a referendum with the support of a petition signed by a predetermined number of individuals. Such proposals are submitted to the municipal board, which decides upon the proclamation of referendum. The referendum decision is valid if at least one-fourth of the electorate participates.

### 3.3 Distribution of Power among Different Levels of Government

The Act on Municipalities distinguishes two types of municipal competence.

1. Independent competence is the sphere in which the municipality is bound to fulfill specified public duties by acts and by legal regulations; decisions taken in this sphere cannot be overturned by any organ of the state administration (district offices may only suspend such decisions) with the exception of the Constitutional Court and Parliament.
2. Transferred competence includes functions delegated by the state administration to the municipality, the performance of which is supervised by the district office.

State administration is performed by the district office, which is supervised and controlled by the central government. The responsibilities of various central government agencies are addressed through the district office, which is headed by a chief appointed and relieved by the central government.

Some affairs of the state administration on the territorial level are administered by special district agencies that are not subordinate to the district office, particularly those dealing with education, financial affairs and employment. Several territorial branches of some ministries exist to address problems concerning areas larger than districts, such as environmental protection.

The district assembly is the representative body of municipal councils in the district. Municipal councils elect their representatives—usually the mayor or a deputy mayor—to the district assembly. The duty and right of this body is to approve the district office budget. The chief of the district office consults the assembly concerning the distribution of state grants.

According to the results of a public survey of citizens and local political elites, the bodies with the greatest influence in local affairs are local representative authorities—the municipal council, municipal board and mayor—followed by the municipal office, district office and central government. Political parties, businesses and civic organizations are viewed to have the least influence.

### 3.4 Internal Structure of Local Government Decision Making

The municipal council is the highest authority of the first tier of local government. It is a representative body elected directly by citizens of the municipality. Each municipal council is comprised of five to fifty-five councilors proportionate to the number of inhabitants of the municipality. Its decision-making authority is limited to issues that are within its independent competence. The council exercises its authority through council meetings, which must be held at least once every three months; such sessions are open to the public. The municipal council establishes its own rules of procedure.

The municipal board is the executive body responsible to the council. Its membership—five to eleven persons—includes the mayor, deputy mayor(s) and other members who are elected by the council from among its members. The mayor calls municipal board meetings when necessary and is responsible for preparing documents for board discussion. Board meetings are closed to the public, but the minutes of its meetings are public documents. The council has the right to dismiss the board.

The mayor is elected by and responsible to the council, chairs the municipal board, heads the municipal office and is chief of the municipal police. In small municipalities where a board is not elected, the mayor performs the duties of the board; where the position of chief administrative officer is not established, the mayor performs these functions as well.

The municipal board established committees. Membership is approved by the board and is not limited to council members but may include any citizen of the municipality. Financial and control committees are obligatory for every municipality and are responsible to the board. Upon approval of the district office, the mayor may invest duties of transferred competence to committees, which are then subordinate to the district office.

The municipal office is the executive administrative body of the municipality, headed by the mayor and including the deputy mayor(s), chief administrative officer and other officers. It implements independent competencies assigned by the municipal board and council as well as delegated functions of the state administration, for which it is subordinate to the district office. The position of chief administrative officer (CAO) exists in municipalities in which the board establishes at least two departments within the municipal office. The municipal board appoints the CAO upon approval of the district office chief; he or she cannot be a councilor. The CAO is responsible to the municipal board and the mayor concerning the execution of duties of independent competence and to the mayor concerning duties of transferred competence. The CAO has the right to attend council and board meetings as an advisor. There are 381 municipal offices with special status—“commissioned municipal offices”—that have enlarged transferred competence. The district office determines the territory upon which the commissioned municipal office performs such delegated functions.

### 3.5 Public Participation in Decision Making

Municipal elections are the regular device of public participation; local referendums are an exceptional device. Continuous participation in decision making is enacted by three methods:

- active participation through committee membership, attendance at regular council meetings and consultations with the mayor or councilors;
- personal initiatives such as petitions, use of the local media, filing complaints or objections to the municipal office;
- involvement in nongovernmental organizations.

### 3.6 Ethnic Issues, Multicultural Government

Since the population of the Czech Republic is quite homogeneous, no special local government measures exist to address ethnic issues. All ethnic minorities are treated according to the principles of civic equality in maintaining their cultural and historical identity.

For a long time, ethnic conflict existed between the majority population and the Roma. The government and the civic sector have taken steps to address this problem through various projects targeting research, education and social issues both nationally and on the local level that aim to promote mutual understanding and improve interethnic relations.

### 3.7 Local Government Associations and International Contacts

Simultaneous to the proliferation of new municipalities that began in 1990, partnership of autonomous municipalities spontaneously developed. Associations and unions of municipalities are unique in aim, organization and financial resources.

The Union of Towns and Municipalities of the Czech Republic was founded in 1990 as a mediator between central authorities and municipal governments. In 1997 its membership included 1,168 towns and municipalities. Membership fees finance the union. Committees fulfill its functions according to the same model as municipal board committees. The congress of the union is held every two years. The union has an important role in negotiations with parliament and the central government.

Most regional associations address problems that exceed the abilities of one municipality; such issues often include recreation, energy resources, environment and transportation. Other associations join municipalities with special interests with the intention of standardizing operations on a nationwide level, such as the Association of Historical Settlements and the Association of Spa Towns. Approximately twenty-five such organizations currently exist in the Czech Republic. The Regional Development Council represents regional associations on prevalent economic

issues. Additionally, regional professional associations exist for mayors, district office chiefs and chief administrative officers.

Transnational associations also exist that cooperate with bordering countries of the Czech Republic, such as Egrensis, Nisa and Labe.

## 4. Local Administration, Service Provision

### 4.1 Structure and Operation of Local Administration

The effective everyday execution of local government in municipalities is based upon the widely accepted principles of political pluralism and democracy. In the Czech Republic, as in the vast majority of European countries, the municipality has not only the right but also the duty to administer and manage its affairs in order to address public needs and the competencies conferred upon it by law. The municipality creates its own elected bodies comprised of its citizens.

The tasks and duties of local government are executed by the municipal board, council, mayor and deputy mayor(s). The committees of the council and the municipal office also play an important role. Members of the board and the council are elected for four-year terms. The staff of the municipal office fulfills the tasks and duties of the local government.

Citizens are authorized to take an active part in the management of municipal affairs, especially through meetings called regularly by the council that are open to every inhabitant of the municipality. They may express their opinions concerning proposed changes to the territorial plan of the municipality and are allowed to raise questions and objections concerning the preparation of municipal budgets. Another important instrument of democratic local government is the referendum, which is used to help decide the most important questions of municipal development.

The mayor is both political and administrative head of the local authority who represents the municipality in all contacts with other institutions. The mayor and deputy mayor(s) are elected by and responsible to the council. The mayor signs all legal acts and decisions of the municipality and is the chair of the council and board.

The mayor manages the office, decides on all principal matters and makes recommendations on the internal organization of the office. In municipalities that do not appoint secretaries, the mayor appoints staff members and exercises employer's rights in relation to the staff.

The chief administrative officer (CAO) of the municipal office is responsible to the council and the mayor. In the execution of tasks of transferred competence he or she is responsible only to the mayor. The CAO exercises employer's rights in relation to the staff.

The municipal office is formed by the mayor, deputy mayor(s), CAO (in municipalities where the council forms at least two departments) and the staff. The council is authorized to form departments of the municipal office. The office is responsible for the execution of resolutions and decisions made by the municipal board and the council. Simultaneously it is responsible for performing state administrative functions delegated to the municipality.

The number of departments of the municipal office depends on the size of the municipality and on the decisions of the council. The most frequent departments in Czech and Moravian municipal offices address budgets, local territorial planning and municipal development, organization and management, entrepreneurial activities, human resources and public relations.

The municipal budget department is responsible for proposing the annual budget to the board for approval and controls the implementation of all decisions related to the budget. Another duty of this department is to prepare the final municipal account report providing information on the implementation of duties and tasks that were adopted with the budget.

The department of local territorial planning is responsible for the balanced development of the municipality as a whole and its individual territorial parts in accordance with priorities determined by the long-term municipal plan. The department plans the building and reconstruction of municipal infrastructure and the development of educational, social and cultural activities and services. It aims to achieve the most effective and efficient economic activities of the municipality.

The activities of the organization and management department are predominantly oriented to the improvement of the knowledge and skills of elected representatives and the municipal office staff. Other tasks include maximizing the efficiency and cost effectiveness of municipal office activities.

The department of business activities assists the economic and social development of the municipality through cooperation with the private sector. Both internally and through cooperation with private consultants, it prepares and assesses the effectiveness of services based on detailed analyses of their financial and other affairs. In larger towns, this department is also responsible for attracting foreign capital investment.

The main duty of the human resources department is the recruitment and assessment of staff, the organization of professional development courses and seminars and the organization of seminars in which specialists from the public and the private sectors participate. This department is also authorized to collaborate with citizen groups and associations and to investigate and evaluate public needs and opinion.

The public relations department publicizes council decisions and municipal office and department activities. It cooperates with the human resources department in surveying citizens' interests,

needs and opinions. As it enables regular contact with different groups of the municipality's inhabitants, this department plays an important role in improving citizen participation.

There are no special statutes on local government employees in the Czech Republic. The municipality hires officials and other laborers, and their everyday problems are addressed by the CAO of the municipal council, the mayor and other members of the municipal board.

Concerning the decision-making process of the municipality, staff members of the municipal office draft decisions and recommendations for proposal to the council. Such proposals are prepared with the assistance of committee members who negotiate draft versions of resolutions. The elected bodies—municipal board, council and mayor—are almost without exception the most influential with regard to municipal decision making. After discussing issues in committees, decisions are adopted during the sessions of the municipal board or the council.

Great attention is also paid to cooperation with other municipalities, especially through the activities of the Union of Towns and Municipalities. Such cooperation is governed by the Civil Code. According to the Municipality Act, local governments are authorized to form voluntary unions. Their creation, functions and activities are regulated by the act.

Cooperation among local governments is considered to be important both in resolving concrete legal and administrative problems and in providing public services. The significance of such cooperation is reflected by the necessity to solve problems of an unprecedented nature, such as privatization, and to identify funding for service provision. There is a lack of qualified specialists to address many tasks, especially in small municipalities; cooperation of local governments therefore is one way to find effective solutions to common problems.

## 4.2 Local Service Delivery

Czech and Moravian municipalities are responsible for the delivery of a number of services, some of which are mandatory and others of which are voluntary. As specified in the Municipalities Act local government in the Czech Republic generally is responsible for satisfying the needs of inhabitants through public services. The cost of such services has increased throughout the 1990s, which particularly affects small municipalities. Some are finding the necessary financial resources for service provision through the privatization of municipal property, bank credits and state grants. This is however only a temporary solution, and small municipalities must investigate more effective methods to allocate financial resources now and in the near future.

Services provided by municipalities can be “mandatory” or “optional.” Mandatory services are prescribed to the municipality by the Municipalities Act. They are distinguished as “public services,” financed mainly on the principle of public need, and “technical services,” financed through user fees. The most common mandatory services include the maintenance of local



streets and roads; administration of municipal institutions providing educational services; social services, including care for the elderly and the disabled; health services, through both municipal hospitals and private doctors; public safety through municipal police in large towns and cooperation with the state police in other municipalities; and fire brigades.

In addition to these public services, several technical services are prescribed to municipalities, including waste management, water supply, waste water disposal, public transport and maintenance of public parks.

All services are provided by communal enterprises (budgetary institutions), in cooperation with the private sector and through municipal associations. Cooperation with private entrepreneurs is implemented on the basis of contractual agreements.

Technical services that are required by the majority of citizens are supported by the municipal budget. An important precondition for such service delivery is the number of qualified specialists available. The most common optional services are cultural, including the maintenance of municipal libraries, local cultural institutions, and recreational facilities. Considering these facts, it is understandable that more optional services are delivered in large towns with greater financial resources.

There are several regulations for mandatory service delivery in the Czech Republic. All must be provided consistently; in emergencies, the municipality is obliged to mobilize reserves and/or to implement alternative solutions to address the problem. Additionally, the provision of services must respond to changing public needs; thus, for example, services must be provided to all inhabitants, including new housing estates areas.

As mentioned, public services must satisfy the basic needs of all citizens living in the particular community. Technical service delivery is based on a “client system,” which is applied for services that can be measured quantitatively. If the clientele fails to provide remuneration for the service, it may be discontinued. The basic criteria for determining the prices of technical services are the effectiveness of the service in relation to the extent and quality of delivery and the real need to satisfy the interests of the majority of the population (for example, local street and road maintenance, public transport).

The extent of service delivery is influenced predominantly by several key factors, including:

- demographic situation of the municipality—birth and death rate, number of permanent inhabitants and number of owners of vacation homes, number of school-age children, number of pensioners, et cetera;
- number of people requiring social welfare;
- economic situation (the cost of particular services; capacity of local public transport, number of telephones and other means of communication, et cetera; extent of public use; and quality of the service delivered),
- level of public satisfaction with the service.

These criteria are not utilized fully in all municipalities, but in general they play an ever-increasing role, especially in large towns. In small municipalities, they tend to indicate the need to create associations of municipalities aimed to address the more effective and efficient provision of services.

The state provides grants to municipalities for the execution of some state administrative tasks of transferred competence, such as birth and death registration, issuing licenses for the construction and reconstruction of houses, et cetera.

One of the most characteristic features of service delivery in and by municipalities in the Czech Republic in the 1990s is the ever-growing participation of the private sector in the sphere of municipal economic and social life. Many municipalities have accumulated experience from cooperation with the small and medium-sized enterprises that are their principal partners in service delivery. Such relationships are contractual and are based on the results of public competition organized in accordance with the Procurement Act approved in December 1994.

Municipal enterprises—or budgetary institutions—are financed from the municipal budget. As these enterprises were not considered to be very effective in providing service delivery in the past (this was often proven in the 1970s and the 1980s) great attention is focused on increasing the self-sufficiency of such enterprises, reducing the number of employees to a more efficient level and implementing other steps aimed to improve the effectiveness of their activities. These enterprises are active mainly in public transport and in the maintenance of streets and public parks.

Municipal enterprises continue to operate in many municipalities (in a more efficient manner in comparison to the previous period). They play a stabilizing role in the economy by creating jobs, which is appreciated especially in regions with high levels of unemployment; enterprises have been found to create jobs more rapidly and effectively than other entities in the public sector. Most are relatively flexible and are able to adapt to rapidly changing economic conditions. Municipalities provide incentives for them, such as guarantees on bank credits, low rent for municipal real estate and local fee reductions. The owners and managers of such enterprises are active in local political and cultural life. Among other contributions, they sponsor cultural and sporting activities. Several large towns cooperate with private entrepreneurs to foster business activities.

The main sphere of public-private partnership on the municipal level is the delivery of services such as waste management, water supply, waste disposal (municipalities usually hold shares in such companies), street cleaning, municipal lighting systems, utilization of natural resources, communal housing and maintenance of the municipal infrastructure.

## 5. Local Finance, Economic Development

The public budget of the Czech Republic is composed of:

- local budgets (municipalities and district offices);
- budgets of state funds approved by parliament.

The revenues and expenditures of public budgets in the Czech Republic from 1993 to 1997 are shown in tables 6.3 and 6.4.

*Table 6.3*

### Revenue of District Offices and Municipalities in the Czech Republic [CZK millions]

Indicator	1996	1997	1998	1999
Tax Revenue, including:	72,670	76,421	83,320	90,200
Income Tax from Natural Persons	50,818	54,503	58,581	65,700
Income Tax from Legal Entities	14,138	13,361	16,232	15,600
Administrative Fees	2,134	2,190	1,625	4,200
Fees for Environmental Pollution and for Exploitation of Natural Resources	—	1,047	728	700
Other Taxes and Fees from Selected Criteria and Services	1,331	1,360	2,031	—
Real Estate Taxes	4,018	3,943	4,108	4,000
Other Tax Revenue	—	15	—	—
Nontax Revenue, including:	21,333	23,218	24,708	25,600
Revenue from Activities and Levies of Subsidized Organizations	14,624	8,428	9,620	—
Revenue from Leased Real Estate	—	7,285	7,477	—
Revenue from Interest	1,317	1,885	315	—
Capital Revenue	7,234	9,872	13,342	9,500
Subsidies Received, including:	60,290	37,559	40,430	35,484
Noncapital Grants from State Budget	53,348	23,274	24,999	—
Capital Subsidies from State Budget	4,877	9,948	10,806	—
Subsidies from National Funds	2,065	1,772	916	—
Other Revenue	154	0	—	—
<b>Total Revenue</b>	<b>161,681</b>	<b>147,070</b>	<b>161,800</b>	<b>160,784</b>

SOURCES: *Statistická ročenka České republiky '98* (Statistical yearbook of the Czech Republic '98), (Prague: 1998), 173; *Statistická ročenka České republiky '99*, 166. 1999 estimate from R. Prokop, "Prediction of Local Government Budget in 1999," *State Administration and Local Government* 13: i-iv.

Table 6.4  
**Expenditures of District Offices and Municipalities  
 in the Czech Republic [CZK millions]**

Indicator	1996	1997	1998
Current Expenses, including:	117,702	100,231	106,937
Wages, Salaries of Employees and Other Payments	12,178	13,014	13,778
Obligatory Insurance Paid by Employer, Purchase of Material, Water, Fuel, Energy, etc.	41,000	39,784	47,173
Interest and Other Financial Expenditures	1,725	2,682	2,335
Noncapital Subsidies to Enterprises	7,163	8,860	9,046
Noncapital Transfers to Subsidized Organizations	17,171	17,695	17,487
Noncapital Transfers to Households	31,324	5,877	7,151
Capital Expenses, including:	53,423	51,606	53,409
Investment Expenses	45,035	43,463	42,723
Investment Transfers to Enterprises	3,595	3,265	4,643
Investment Transfers to Subsidized Organizations	4,091	3,872	4,175
<b>Total Expenditure</b>	171,125	151,837	160,346
<b>Revenue/Expenditure Balance</b>	-9,444	-4,767	1,455

SOURCE: *Statistická ročenka České republiky '98* (Statistical yearbook of the Czech Republic '98) (Prague: 1998), 174; *Statistická ročenka České republiky '99*, 167.

The estimated expenditure of local governments as a total for 1999 is CZK 165,709 million; thus, the revenue-expenditure balance is estimated to be CZK -2,425 million.

*Table 6.5*  
**Share of Municipal Budgets in Local Government Budgets  
 in the Czech Republic, 1991–97 [%]**

Year	1991	1992	1993	1994	1995	1996	1997
Revenues	41.8	56.4	83.6	84.7	84.3	84.5	82.4
Expenditures	39.7	53.7	84.1	85.3	79.2	85.1	83.3

SOURCE: *Moderní obec 5* (1996); and author's calculations.

As previously stressed, councilors are accountable for the maximum effective utilization of municipal mandatory service delivery and additionally must ensure revenues for the provision of optional services.

Today, 6,244 municipalities in the Czech Republic operate on the basis of independent budgets, each supporting between fifty and 1.2 million inhabitants. Due to such drastic differences in size, it is difficult to determine the best revenue base for each, as income from taxes and grants is so diverse; as a result, the quality and quantity of service provision also greatly varies. The Municipalities Act and its amendments grant municipalities great flexibility in the creation of their budgets and in the organization of economic activities within their territories.

As a rule, all municipalities must prepare current budgets annually. Additionally, approximately one-third of Czech municipalities (generally the largest), has the capability to draft capital budgets for an extended period of time. Such budgets foresee and plan for large investments, especially to support tasks such as the construction of local roads and streets, water pipelines, waste water purification systems, school buildings and communal housing.

*Table 6.6*  
**Proportion of Municipal Revenues and Noninvestment Expenditures to Total Municipal  
 Expenditures in the Czech Republic, 1993–95 [%]**

	1993	1994	1995
Average	67.66	71.31	70.70

SOURCE: Jitka Peková, *Místní rozpočty* (Prague: The School of Economics in Prague, 1997), 60.

The preparation of the annual budget (1 January to 31 December) in Czech and Moravian municipalities plays a decisive role in municipal life and results from broad discussion between elected representatives and active citizens. It fulfills especially the following principal tasks.

1. The budget is the principal financial plan that ensures the long-term development of the community. Revenues and expenditures are assessed based upon expected income, including existing financial reserves (if any) as well as bank credits.
2. The municipal budget is the instrument through which priorities for the quality and quantity of service provision are determined. Thus, an especially important role is the allocation of funding in order to address public needs. Budget revenues are predominantly used for providing mandatory services.
3. After determining and satisfying the basic needs of the populace, the municipal budget also ensures the allocation of financial resources necessary for infrastructural development, such as the construction of Prague's underground; construction and repair of cultural, athletic and educational facilities; maintenance of public parks; reconstruction of communication systems; et cetera.
4. The rate of real estate tax and local fees are determined.
5. Finally, the preparation of the municipal budget provides objective and complete analysis of the financial situation of the municipality, which is crucial for the mayor and other elected representatives who manage everyday municipal activities. Thus, it serves as an instrument for increasing the effectiveness and efficiency of municipal financial operations.

The preparation of the municipal budget is a long process that usually is divided into several stages. The first is the preparation of the basic framework of the budget, reflecting real economic growth or decline of the municipality. This stage is followed by an assessment of expected revenues and expenditures, including those of municipal companies financed from its budget (so-called "budgetary" and "contributory" organizations, which will be discussed below). The preparation of the first draft of the municipal budget is accomplished by the finance department in large towns and by the whole office in smaller villages. Discussion on this draft by the municipal office is the third stage of the process. The budget proposal is completed in cooperation with other departments of the municipal office and then is discussed by the council and by the public. Afterwards, the municipal council adopts the budget.

The municipal board is responsible not only for budget preparation and adoption but also for evaluation of the utilization of budgetary resources from the previous fiscal year. Audits are conducted either by private auditing companies at the expense of the municipality or by the district office, in which case the audit is free of charge.

The preparation of the municipal budget also involves the allocation of resources to support the activities of enterprises established by or working on behalf of the municipality. Small and medium-sized enterprises particularly provide technical services and are financed either fully ("budgetary organizations") or partly ("contributory organizations") from the municipal budget. The revenues and expenditures of such organizations are component parts of the municipal budget and thus must be specified in detail during the budgeting process. In part, resources to support such enterprises are created by their own business activities. The municipal board and

council during the budgetary process must approve decisions concerning the financing of budgetary and contributory organization activities.

The percentage of municipal revenues and noninvestment expenditures to total expenditures is reflected in table 6.6. Many financial resources are acquired through taxation. Taxes in the Czech Republic are imposed only by the central government; their revenues compose a major portion of the state and local budgets. The rights of municipalities to affect the rate of real estate tax are limited. Recently, however, they have been granted authority to determine several local taxes and other fees, such as central heating use and rent for communal housing, which were previously fixed by the state.

First, the collection of personal income tax paid from “dependent activities” (wages and salaries) represents the main source of revenue of municipal budgets. According to the new rules the municipal share of personal income tax is thirty percent, and the state share, forty percent. The remaining thirty percent is allocated to district offices to finance the activities specified by Act Nr. 425/1990 and its amendments. Specific rules determine the share of statutory towns that execute both local government and substantial transferred competence of the state administration. Their share is seventy percent, and that of the state budget, thirty percent. Other important revenues of municipal budgets are (1) tax paid by entrepreneurs, which is collected by the state and allocated in full (100 percent) to the municipality; (2) tax on real estate, which is determined and collected in special territories and then transferred to municipalities in full (100 percent); and (3) corporate income tax, twenty percent of which remains with the municipality and eighty percent with the state.

Communal bonds guaranteed by municipal assets represent another source of municipal budgets. Several large towns issue municipal bonds to raise funds for investment and to support service provision. The capital, for example, has issued bonds for the improvement of public transport.

Municipal levies have not played an important role. The value of total revenue in the whole Czech Republic per capita was CZK 150 (approximately USD 5) in 1993, CZK 138 in 1994, and CZK 116 in 1995. Income from administrative fees paid by citizens to municipalities per capita was CZK 145 in 1993, CZK 179 in 1994, and CZK 203 in 1995.

Block grants from the state budget transferred to local budgets represent a very important part of municipal budgets. They are provided particularly for financing and maintaining homes for the elderly, child care centers and specialized social and health service institutions. Other grants from the state budget support fire brigades, local public transport and kindergartens and elementary schools. The total amount of state subsidies to municipalities was CZK 28.005 million in 1993 (27.64 percent of total municipal revenue), CZK 28.424 million in 1994 (25.61 percent of total municipal revenue), and CZK 32.293 million in 1995 (25.01 percent of total municipal revenue). Subsidies for local public transport in the Czech Republic as a whole, for example, totaled CZK 460 million (USD 15.35 million) in 1996 and about CZK 800 million (USD 26.66 million) in 1997.

The structure of the local budget revenues is shown in table 6.7.

*Table 6.7*  
**Local Budget Revenues in the Czech Republic, 1993–97**

Revenues	1993		1994		1995		1996		1997	
	CZK billion	%	CZK billion	%	CZK billion	%	CZK billion	%	CZK billion	%
Taxes	39.0	38.5	56.5	50.9	70.8	54.7	72.7	45.0	75.3	51.3
Nontax Revenues	17.3	17.0	18.2	16.4	18.5	14.3	28.5	17.6	34.2	23.2
Transfers	24.3	24.0	30.1	27.1	34.9	27.0	60.3	37.4	37.6	25.6
Other Revenues	20.7	20.5	6.2	5.6	5.1	4.0	0.2	—	—	—
<b>Total</b>	101.3	100.0	111.0	100.0	129.3	100.0	161.7	100.0	147.1	100.1

SOURCE: *Státní správa a samospráva* (State administration and local government) 51–52 (1997).

Expenditures are used predominantly for:

- maintenance and repairs of municipal kindergarten and school buildings;
- local public transport;
- repair of local roads and streets;
- construction of sewage systems and wastewater purification plants (very often in cooperation with several municipalities);
- construction of social care facilities;
- construction, repair and maintenance of some health services facilities;
- contributions to cultural establishments;
- fire brigades and local police;
- payment of interest on long-term credits and loans;
- salaries of officials and other municipal laborers including payment of social and health insurance.

The structure of expenditures of Czech and Moravian municipalities is shown in tables 6.8, 6.9 and 6.10.

*Table 6.8*  
**Local Budget Expenditures in the Czech Republic, 1993–97 [in CZK billions]**

	1994	1995	1996	1997	Index 95/94	Index 96/95	Index 97/96
Current Expenditures	69.7	81.4	91.1	100.2	116.8	111.1	110.0
Capital Expenditures	42.4	50.9	54.0	51.6	120.0	106.1	96.6
<b>Total</b>	112.1	132.3	145.1	151.8	118.0	109.6	104.5



SOURCES: *Moderní obec* (Modern municipality) 5 (1996); *Obec a finance* (Municipality and finance) 2 (1998); and author's calculations.

*Table 6.9*  
**Structure of Municipal Expenditures in the Czech Republic, 1995 [%]**

Expenditures	Municipalities by Size (number of inhabitants)								
	0–200	200–500	500–1000	1000–5000	5000–10,000	10,000–50,000	50,000–100,000	100,000–500,000	500,000+
Internal Administration	35.3	25.5	20.6	16.5	13.8	12.2	11.0	12.9	11.1
Water Economy	22.7	24.2	21.5	18.9	11.6	—	—	9.4	6.1
Local Economy	11.5	11.3	12.1	15.2	19.8	27.8	23.0	10.1	—
Local Public Transport	10.1	—	—	—	—	—	15.8	23.7	41.6
Construction	6.2	10.4	11.8	11.5	—	—	—	—	—
Education	—	8.9	17.3	16.6	13.4	14.4	14.3	9.1	7.4
Social Care	—	—	—	—	18.3	10.6	—	—	—

SOURCE: *Moderní obec* (Modern municipality) 5 (1996).

*Table 6.10*  
**Municipal Expenditures per Capita in the Czech Republic, 1993–95 [CZK thousands]**

Municipalities by Size (number of inhabitants)	Total Expenditures per Capita			Index of Expenditures	
	1993	1994	1995	1994–93	1995–94
0–200	3.30	4.86	5.59	1.47	1.15
200–500	3.28	4.82	5.95	1.46	1.23
500–1,000	4.06	5.98	7.12	1.47	1.19
1,000–5,000	5.75	7.68	9.05	1.33	1.17
5,000–10,000	7.16	9.14	10.76	1.27	1.17
10,000–50,000	7.00	8.86	10.14	1.26	1.14
50,000–100,000	7.07	8.61	9.57	1.21	1.11
100,000–500,000	9.83	11.94	15.21	1.39	1.27
500+	13.94	17.64	19.53	1.26	1.10

SOURCE: *Moderní obec* (Modern municipality) 5 (1996).

One of the key principles of municipal budget preparation in the Czech and Moravian municipalities is balanced revenues and expenditures, but this presupposes the accumulation of relatively large financial reserves. In the current situation, however, a growing number of municipalities are becoming indebted, especially small and medium-sized villages. This is one of the most topical problems in local government not only in the Czech Republic but also in other European countries. Tables 6.11 and 6.12 reflect the current situation.

Table 6.11

**Development of Municipal Debt in the Czech Republic, 1993–96 [in CZK millions]**

Indicator	1993	1994	1995	1996
Credits	2,485.3	4,914.1	8,656.2	11,598.9
Communal Bond Issuance	26.2	7,643.2	8,540.1	11,906.9
Other Small Municipalities Debt	324.4	494.7	918.9	1,381.7
Financial Assistance from District Offices and State Budget	—	—	1,804.3	2,896.5
Loans from State Fund for the Environment	109.0	1,094.5	2,774.3	4,399.6
<b>Total</b>	<b>2,944.9</b>	<b>14,146.5</b>	<b>22,693.8</b>	<b>32,183.6</b>

SOURCE: *Moderní obec* (Modern municipality) 5 (1997).

Table 6.12

**Indebted Municipalities According to Size Categories in the Czech Republic, 1996**

Size Category (number of inhabitants)	Number of Municipalities in Size Category	Percentage of Total Number of Municipalities	Number of Indebted Municipalities in Size Category	Percentage of Total Indebted Municipalities	Percentage of Indebted Municipalities to Number of Municipalities in Size Category
0–100	571	9.2	125	4.9	21.9
101–200	1,160	18.6	251	9.9	21.6
201–500	2,025	32.5	648	25.5	32.0
501–1,000	1,217	19.5	572	22.3	47.0
1,001–2,000	645	10.3	390	15.3	60.5

*Table 6.12 (continued)*  
**Indebted Municipalities According to Size Categories  
 in the Czech Republic, 1996**

Size Category (number of inhabitants)	Number of Municipalities in Size Category	Percentage of Total Number of Municipalities	Number of Indebted Municipalities in Size Category	Percentage of Total Indebted Municipalities	Percentage of Indebted Municipalities to Number of Municipalities in Size Category
2,001–5,000	348	5.6	300	11.8	86.2
5,001–10,000	135	2.2	126	5.0	93.3
10,001–20,000	65	1.0	64	2.5	98.5
20,001–50,000	44	0.7	44	1.7	100.0
50,001–100,000	16	0.3	16	0.6	100.0
100,000+	7	0.1	7	0.3	100.0

SOURCE: *Ekonom* (Economist) 11 (1997).

Czech and Moravian municipal debt is caused predominantly by relatively high interest rates on credits, communal bonds and bank guarantees. The growing debt of small municipalities in the Czech Republic especially reflects the fact that they generally do not have sufficient resources for investment. Thus, these municipalities have resorted to selling municipal real estate. This approach of course has a long-term negative impact on the balanced development of these entities. The effective acquisition of necessary resources for development is a great challenge for this category of municipalities in the Czech Republic. Although some positive steps have been taken in large municipalities, the lack of investment funds will continue to be a problem in the future.

Taking these facts into account, the experiences of municipalities in other European countries are studied intensively by a growing number of municipal councils, senior officials of large towns and consultative and advisory companies. There is consensus in striving towards achievement of the most effective financial activities. The determination of “global expenditure ceilings,” separate assessments of income and expenditure and their balance and determination of the limits of municipal expenditures are important principles that have been acknowledged by councilors and officials who are responsible for the long-term development of municipal economic activities. The real implementation of this approach is complicated, however, especially in small municipalities that have limited financial resources and often lack knowledge and experience.

## 6. Next Steps in the Transition Process

The contemporary period may be characterized as the stage of accelerated implementation of public administration reform in the Czech Republic. The most important tasks currently are the creation of the regional system of local government, increasing efficiency of the state administration at the regional level and approval of the Civil Service Act and the Act on Service in Local Governments.

The implementation of reform is impossible without amending existing acts to reformulate the execution of local government and territorial state administration. For this reason a number of new proposals are being drafted for parliamentary approval, the most important of which follow:

- an act on the establishment of regions;
- an act creating and executing state administrative tasks on the regional level;
- a new municipalities act;
- amendment of the act determining rules of municipal council elections;
- a new act on district offices, the role of which will need to be more clearly defined after the creation of regions;
- an act specifying the forms of regional development support.

Of urgent necessity is the preparation and approval of legislation defining the property and financial resources of regions and municipalities. In particular, such need includes budgetary rules, defining municipal and regional shares of taxes collected by the state; the transfer of property to regional local governments; and a clarification of municipal taxes. Last but not least, an act on elections to regional local government bodies will need to be developed.

## Annex 6.1

### Major General Indicators

SOURCES: *Statistical Yearbook 1998; Statistical Yearbook 1997; Yearbook of Economic Newspapers 1997.*

Size of territory	78,866 square kilometers
Population density	131 inhabitants per square kilometer
Population	10,299 thousand
Age of population	
0–14	1,795 thousand
15–59	6,647 thousand
60+	1,857 thousand
Major ethnic divisions (3 March 1991)	
Czechs, Moravians and Silesians	94.7 percent
Slovaks	3.1 percent
Poles	0.6 percent
Germans	0.5 percent
Roma	0.3 percent
Per capita GDP	USD 5,045
Proportion of national budget to GDP	33.8 percent
Proportion of local budgets to GDP	6.8 percent
General government budget (public budget)	
National budget	83.4 percent
Municipal budgets	16.6 percent
National budget	
Transfers to inhabitants	32.3 percent
Public consumption of the state	38.7 percent
Subsidies to local budgets	5.3 percent

Table 6A.1

## Czech Republic Public Budget Revenues and Expenditures, 1997 [in CZK billions]

	1993	1994	1995	1996	1997 budget	Index [%] 1996-93
Revenue-State Budgets	358.0	390.5	440.0	491.0	549.1	137.2
Revenue-Local Budgets	64.1	81.7	95.8	100.3	111.6	156.5
Revenue-Public Budgets	422.1	472.2	535.8	591.3	660.7	140.1
Expenditures-State Budgets	329.9	350.8	399.5	465.8	520.1	141.2
Expenditures-Local Budgets	90.2	112.1	132.3	125.5	138.3	139.1
Expenditures-Public Budgets	420.1	462.9	531.8	591.3	658.4	140.8
Grants to District Offices and Municipalities	27.0	29.3	33.3	25.2	29.0	93.3
Balance	+2.0	+9.3	+4.0	0.0	+2.3	—
State Budget Balance	+1.1	+10.4	+7.2	0.0	0.0	—
Local Budgets Balance	+0.9	-1.1	-3.2	0.0	+2.3	—

SOURCE: Jitka Peková, *Místní rozpočty* (Prague: The School of Economics in Prague, 1997), 64.

Table 6A.2

## Czech Republic Budget Balance, 1997 [in CZK billions]

	1996 Estimate			1997 Budget			Index 97/96 [%]		
	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities
<b>TOTAL TAX REVENUES</b>	360.2	286.4	73.8	403.1	318.6	84.5	111.9	111.2	114.5
– VAT	111.2	111.2	—	127.8	127.8	—	114.9	114.9	—
– consumption tax	61.5	61.5	—	65.4	65.4	—	106.3	106.3	—
– legal subjects income tax	63.0	47.9	15.1	71.7	55.0	16.7	113.8	114.8	110.6
– phys. subjects income tax	82.3	30.9	51.4	96.3	35.9	60.4	117.0	116.2	117.5
– customs	20.3	20.3	—	19.6	19.6	—	96.6	96.6	—
– road tax	4.3	4.3	—	4.2	4.2	—	97.7	97.7	—

Table 6A.2 (continued)  
Czech Republic Budget Balance, 1997 [in CZK billions]

	1996 Estimate			1997 Budget			Index 97/96 [%]		
	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities
– real estate tax	3.8	—	3.8	3.8	—	3.8	100.0	—	100.0
– property taxes	4.3	4.3	—	4.5	4.5	—	104.7	104.7	—
– highway and roads fees	0.9	0.9	—	0.9	0.9	—	100.0	100.0	—
– other taxes and fees	5.1	5.1	—	5.3	5.3	—	103.9	103.9	—
– local administrative fees	3.5	—	3.5	3.6	—	3.6	102.9	—	102.9
<b>SOCIAL INSURANCE AND GOVERNMENTAL POLICY OF EMPLOYMENT CONTRIBUTION</b>	179.9	179.9	—	205.5	205.5	—	114.3	114.3	—
– share of old-age pension insurance	137.5	137.5	—	157.2	157.2	—	114.3	114.3	—
<b>TOTAL NONTAX REVENUES</b>	48.2	24.7	23.5	48.7	25.0	23.7	100.9	101.0	100.9
– income of chapters	18.8	5.8	13.0	17.5	4.3	13.2	93.1	74.4	101.5
– interest received	3.4	3.4	—	3.0	3.0	—	88.3	88.3	—
– revenues from governmental credits	7.7	7.7	—	8.9	8.9	—	115.8	115.8	—
– supplementary revenues	5.3	—	5.3	5.3	—	5.3	100.0	—	100.0
– incomes from property sales	5.2	—	5.2	5.2	—	5.2	100.0	—	100.0
– other incomes	7.8	7.8	—	8.8	8.8	—	111.9	111.9	—
– subsidies from State Funds	3.0	—	3.0	3.4	—	3.4	113.3	—	113.3
<b>Total Revenue</b>	<b>591.3</b>	<b>491.0</b>	<b>100.3</b>	<b>660.7</b>	<b>549.1</b>	<b>111.6</b>	<b>111.7</b>	<b>111.8</b>	<b>111.3</b>

Table 6A.2 (continued)  
Czech Republic Budget Balance, 1997 [in CZK billions]

	1996 Estimate			1997 Budget			Index 97/96 [%]		
	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities
<b>CURRENT EXPENDITURES</b>	496.9	410.4	86.5	557.0	460.4	96.6	112.1	112.1	111.6
Subsidies to entrepreneurial subjects	34.1	28.0	6.1	35.2	29.0	6.2	103.3	103.7	101.6
Transfers to inhabitants	189.8	184.8	5.0	217.8	212.5	5.3	114.7	115.0	106.0
– employment	2.7	2.7	—	3.1	3.1	—	117.0	117.0	—
– state balance contribution	0.6	0.6	—	0.0	0.0	—	0.0	0.0	—
– sickness benefits	21.9	21.9	—	24.2	24.4	—	111.5	111.5	—
– other subsidies	7.7	2.7	5.0	7.8	2.5	5.3	106.0	90.8	106.0
– rents	130.6	130.6	—	150.5	150.5	—	115.2	115.2	—
– state social support subsidies	26.3	26.3	—	32.0	32.0	—	121.9	121.9	—
Public State Consumption	257.8	182.4	75.4	288.1	203.0	85.1	111.7	111.2	112.8
– education	61.7	51.2	10.5	67.1	56.2	10.9	108.8	109.9	103.8
– medical care	7.9	3.7	4.2	8.6	4.2	4.4	107.7	111.0	104.8
– culture	7.6	2.8	4.8	8.1	3.1	5.0	106.2	109.6	104.2
– defense	20.6	20.6	—	22.1	22.1	—	107.3	107.3	—
– police and security	20.2	20.2	—	22.9	22.9	—	113.1	113.1	—
– other chapters	139.8	83.9	55.9	159.3	94.5	64.8	113.9	112.7	115.9
Debt Service	14.2	14.2	—	14.4	14.4	—	101.9	101.9	—
Transfers Abroad	1.0	1.0	—	1.5	1.5	—	150.0	150.0	—



Table 6A.2 (continued)  
Czech Republic Budget Balance, 1997 [in CZK billions]

	1996 Estimate			1997 Budget			Index 97/96 [%]		
	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities
<b>II. CAPITAL EXPENDITURES</b>	90.3	51.3	39.0	97.7	56.0	41.7	108.3	109.3	106.9
Subsidies to entrepreneurial subjects	8.5	5.3	3.2	9.2	5.8	3.4	108.2	109.4	106.3
Public Sector Costs	81.8	46.0	35.8	88.5	50.2	38.3	108.3	109.3	106.9
<b>III. GOVERNMENT CREDITS</b>	4.1	4.1	—	3.7	3.7	—	90.9	90.9	—
<b>Total Expenditure</b>	<b>591.3</b>	<b>465.8</b>	<b>125.5</b>	<b>658.4</b>	<b>520.1</b>	<b>138.3</b>	<b>111.3</b>	<b>111.7</b>	<b>110.2</b>
Funds of budget chapter for district offices and municipalities	0.0	-8.4	8.4	0.0	-10.5	10.5	0.0	124.7	124.7
Revenues-Expenditures difference	0.0	16.8	-16.8	2.3	18.5	-16.2	—	—	—
State Budgets Grants for district offices and municipalities	0.0	-16.8	16.8	0.0	-18.5	18.5	0.0	109.9	109.9
<b>Total Revenue-Expenditure Difference</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.3</b>	<b>0.0</b>	<b>2.3</b>	<b>—</b>	<b>—</b>	<b>—</b>

SOURCE: Jitka Peková, *Místní rozpočty* (Prague: The School of Economics in Prague, 1997), 63.

Unemployment rate 5.23 percent

Inflation rate 8.5 percent

## Annex 6.2

## Population, Settlements and Administrative Units

Average population of municipal government 1,659 inhabitants

Average number of municipalities in a district 81 municipalities

*Table 6A.3*  
Municipalities in the Czech Republic by Size Category, 1994

Size of Population	Number of Municipalities	%	Cumulative %	Total Number of Inhabitants	%	Cumulative %
0–199	1,699	27.2	27.2	209,043	2.0	2.0
200–499	2,061	33.1	60.3	667,366	6.5	8.5
500–999	1,215	19.5	79.8	850,216	8.2	16.7
1,000–1,999	646	10.4	90.2	892,741	8.6	25.3
2,000–4,999	345	5.5	95.7	1,049,579	10.2	35.5
5,000–9,999	135	2.2	97.9	934,377	9.0	44.5
10,000–19,999	66	1.1	99.0	931,461	9.0	53.5
20,000–49,999	42	0.7	99.7	1,216,863	11.8	65.3
50,000–99,999	17	0.3	100.0	1,168,930	11.3	76.6
100,000+	7	0.1	100.0	2,413,437	23.4	100.0
<b>Total</b>	6,230	100.0	100.0	10,334,013	100.0	100.0

SOURCE: *Malý lexikon* (Obce České republiky, 1994).

## Employees in the public sector

Total	1,167,799
Government	748,495
Central	501,786
Local	239,378
Social security funds	7,331

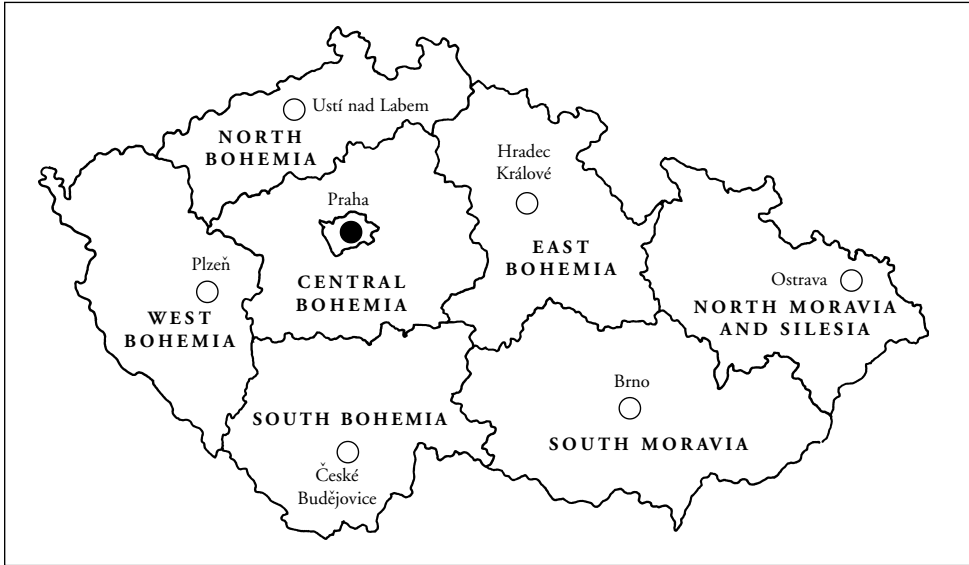
## Subnational government expenditure

as percentage of GDP (1998) 11.4 percent

Subnational government expenditure as percentage of general government expenditure	
1997	23.6 percent
1998	23.2 percent

SOURCE: *Statistical Yearbook of the Czech Republic '99.*

*Figure 6A.1*  
**Administrative Map of the Czech Republic**



## Annex 6.3

### Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in the Czech Republic:

- Constitutional Act Nr. 294/1990 Col.
- Governmental Decree Nr. 163/1990/VI 6/Col. on Terminating National Committees of All Degrees Existing to Date of Local Elections
- Act of the Czech National Council Nr. 367/1990 Col. on Municipalities, amended as 410/1992
- Act of the Czech National Council Nr. 425/1990 Col. on District Offices, the Regulation of the Sphere of Their Activities; amendments to Acts of the Czech National Council Nr. 266/1991, Nr. 542/1991, Act Nr. 21/1992, Act Nr. 403/1992 and Act Nr. 254/1994
- Act of the Czech National Council Nr. 418/1990 Col. on the Capital Prague
- Act of the Czech National Council Nr. 368/1990 Col. on Municipal Elections, in wording of Act Nr. 298/1990 on Municipal Elections and Local Referendums in Municipalities
- Act of the Czech National Council Nr. 565/1990 Col. on Local Fees, amended by Act Nr. 48/1994
- Act of the Czech National Council Nr. 576/1990 Col. and its amendments, defining rules of municipal finances management
- Act of the Czech National Council Nr. 55/1991 Col. on Municipal Police
- Act Nr. 152/1994 Col. on Municipal Elections and on the amendment of other acts
- Act of the Czech National Council Nr. 455/1991 Col. on Entrepreneurial Business Activities
- Act of the Czech National Council Nr. 368/1992 Col. on Administrative Fees Collected by the Administrative Offices of the Czech Republic
- Government Decree Nr. 397/1992 on the Relationship of Police of the Czech Republic to the Municipal Authorities
- Act of the Czech National Council Nr. 124/1993 Col. on Offenses
- Act of Parliament of the Czech Republic Nr. 72/1994 Col. regulating co-ownership of flats, supplementing other acts
- Act of the Czech National Council Nr. 172/1991 Col. on Property Transfer from the Czech Republic to Municipalities

## Annex 6.4

## Responsibilities of Administrative Tiers

Municipalities address self-government issues and represent the state administration; districts solely represent the state administration.

*Table 6A.4*  
**Specific Functions of Local Government Tiers in the Czech Republic**

Functions	Municipalities	District Office	Regional Offices of Central Administration
<b>I. EDUCATION</b>			
1. Preschool			
2. Primary	X	X	X
3. Secondary		X	X
4. Technical		X	X
5. Other (special care)		X	X
<b>II. SOCIAL WELFARE</b>			
1. Nurseries	X	X	X
2. Kindergartens	X	X	X
3. Welfare Homes	X	X	
4. Personal Services for Elderly and Handicapped	X		
5. Special Services (for homeless, families in crisis, etc.)	X		
6. Social Housing	X		
<b>III. HEALTH SERVICES</b>			
1. Primary Health Care			
2. Health Protection			X
3. Hospitals	X	X	
4. Public Health		X	X

*Table 6A.4 (continued)*  
**Specific Functions of Local Government Tiers in the Czech Republic**

Functions	Municipalities	District Office	Regional Offices of Central Administration
<b>IV. CULTURE, LEISURE, SPORTS</b>			
1. Theaters	X	X	
2. Museums	X	X	
3. Libraries	X	X	
4. Parks	X		
5. Sports, Leisure	X		
6. Maintaining Buildings for Cultural Events	X	X	
<b>V. PUBLIC UTILITIES</b>			
1. Water Supply	X		
2. Sewage	X		
3. Electricity	X		
4. Gas	X		
5. Central Heating			
<b>VI. ENVIRONMENT, PUBLIC SANITATION</b>			
1. Refuse Collection	X		
2. Refuse Disposal	X		
3. Street Cleaning	X		
4. Cemeteries	X		
5. Environmental Protection	X	X	X
<b>VII. TRAFFIC, TRANSPORT</b>			
1. Roads	X	X	
2. Public Lightning	X		
3. Public Transport	X	X	

*Table 6A.4 (continued)*  
**Specific Functions of Local Government Tiers in the Czech Republic**

Functions	Municipalities	District Office	Regional Offices of Central Administration
<b>VIII. URBAN DEVELOPMENT</b>			
1. Town Planning	X	X	
2. Regional/Spatial Planning		X	
3. Local Economic Development	X		
4. Tourism	X		
<b>IX. GENERAL ADMINISTRATION</b>			
1. Authoritative Functions (licenses, etc.)	X	X	
2. Other State Administrative Matters (electoral register, customs inspection, environment, special facilities, etc.)	X		X
3. Local Police	X		X
4. Fire Brigades	X	X	
5. Civil Defense		X	
6. Consumer Protection			X





Chapter 7



# Local Government in Slovakia

*by*  
*Juraj Nemec*  
*Peter Bercik*  
*and*  
*Peter Kuklis*

**Decentralization: Experiments and Reforms**



# Local Government in Slovakia

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# Local Government in Slovakia

*Juraj Nemec, Peter Bercik and Peter Kuklis*

## 1. Overview of Local Government Reform

The Slovak Republic was established in 1993 as a result of the split of the former Czechoslovakia. To analyze the current state of its public administration system, a brief description of the historical processes that preceded its formation is necessary.

From the early medieval period, after the defeat of the Moravian state by Hungarian troops, Slovakia was incorporated into the Hungarian Empire. Slovak public administration was integrated into the Hungarian system, characterized by the relatively strong position of municipalities. When the first independent Czechoslovak state was established on 28 October 1918, the basic features of Austro-Hungarian public service became the foundation of the Slovak administrative system.

The period from 1918 to 1939 was characterized by the development of democratic civil service within a market economy environment. Despite relatively centralized management of public administration from Prague (the capital), the system exhibited many modern features, such as developed civil service law and the strong status of municipalities.

In 1945, after World War II, Czechoslovakia was reestablished as a unitary state. The Communist Party of Czechoslovakia won the democratic elections of 1947 and in February 1948 consolidated its power.

The period between 1948 and 1989 may be characterized as one of “socialist democracy” and planned economy. The public administration system was reorganized to serve the Communist Party and became fully dependent on its political organs. In 1968 the unitary state was replaced by a federal system with a central and two state governments and with a federal and two national parliaments. The institutional framework of public service (legislative and executive) was characterized by the following structure of institutions:

### 1. *Central level*

- legislative power—the Federal Assembly, the Czech National Council and the Slovak National Council;
- executive power—the Federal President, the Federal Cabinet, the Czech Cabinet, the Slovak Cabinet;

### 2. *Local level*

- national committees on the regional, district and municipal levels.

As the only local government structure, national committees represented both the state administration and self-government; in practice, the Communist Party of Czechoslovakia directly controlled them. The systems of nomenklatura and party cells guaranteed that every institution and public servant was obliged to follow all directions and resolutions of the Communist Party.

After the “Velvet Revolution” in 1989, the process of gradual transition to a pluralist democratic public administration system was initiated in Czechoslovakia. As a result of historical developments, Czechoslovakia democratically split into two independent countries—the Czech Republic and the Slovak Republic—on 1 January 1993. Many important changes were made during the early stages of the transition period. In accordance with the new Constitution of the Slovak Republic, the reestablishment of self-governing municipalities with a high level of independence was accomplished. The system of national committees was abolished before the country split, and in the Slovak part of Czechoslovakia thirty-eight district offices and one hundred twenty-one subdistrict offices of state administration were created. At the same time, many institutions of specialized state administration were established to address education, environmental protection, fire prevention and health care. This process divided local public administration into many separate, relatively independent structures, the negative features of which were atomization and fragmentation. The constitution also stipulated the creation of a level of regional self-government, but this structure has yet to be established even today, which has had important ramifications on public administration reform.

Due to the relatively unstable political situation in Slovakia public administration reform was never comprehensive in character, and important changes in a new “wave” of reform initiated in 1996 addressed only the state administration, though the following major structural changes were proposed:

- reinstating general local state administration;
- territorial revision;
- initiation of the process to establish regional self-government.

This stage of reform resulted in the current structure of local government in Slovakia by the end of 1998.

## 2. Legal and Constitutional Basis

The second stage of public administration reform, initiated in 1996, was characterized by the parallel development of radical territorial and administrative restructuring of the state and the establishment of a uniform two-tier system of general state administrative offices in which a broad range of tasks and responsibilities was concentrated. Two important laws regulated these changes.

Law No. 221/1996 on the territorial and administrative subdivision of the Slovak Republic provided the legal framework for the execution of local self-government. In the hierarchy of

territorial units, the law defines the municipality as the basis of independent and representative local government. The territories of individual municipalities, in addition to military counties, form the administrative framework of the country. The law also specifies the creation of counties and regions, the second and third levels of public administration. Eight regions and seventy-nine districts are defined that serve to limit the authority of state bodies. The regional and district offices form the basis of state administration in this structure and are assigned a broad range of tasks; municipalities and military counties may also perform state administrative responsibilities in accordance with particular laws.

Law No. 222/1996 on the organization of local state administration in principle limits the structure and authority of such bodies. This includes the two-tier hierarchical structure of regional and district offices, which are controlled by the government as the supreme body of executive power of the state. The law anticipates that administration of regions and districts also will be performed by other entities. However, regional and district offices are given the status of “first among equals,” expressed by the definition of the tasks to be accomplished in cooperation with other state bodies, with bodies of territorial self-governments and with other entities concerning the following:

- fulfillment of common tasks;
- compliance with the law;
- protection of the rights and freedoms of the populace;
- provision of social services to support the needs of inhabitants;
- prevention and emergency relief in the event of extraordinary events.

Due to the fact that the seventy-nine district offices cannot address the needs of the whole population, regional offices, in the interest of the public and especially in order to bring state administration closer to the citizen, established permanent or temporary units of the district office outside its official seat (there were twenty-three such units created by mid-1998).

The scope of authority of regional and district offices was extended substantially. By the end of 1998 they carried out state administrative tasks in thirty-two areas of activity. Regional and district offices managed budgetary and semi-budgetary organizations and facilities in education (about 7,500), social care (about 370), health care (95) and culture (39). More than 135,000 employees worked in these institutions, and the apparatus of regional and district offices included about 20,000 employees. Expenditures were about SLK 38 billion (USD 1.1 billion) in 1997.

Based on Law No. 222/1996, most of the deconcentrated offices of central bodies were abolished on 24 July 1996. Local state administration is carried out mostly by local bodies, which are organizationally independent from central bodies, but a small number of state tasks are realized through some deconcentrated organs of the central government that were not abolished, including:

- inspectorates of the Slovak Inspection of Environment subordinate to the Ministry of Environment, which oversee water quality and other environmental issues;

- inspectorates of the Slovak Office for Labor Safety, which ensure safety measures and health protection in the workplace;
- regional units of the Slovak Statistical Office.

## 2.1 Local Self-government in Slovakia

By virtue of Slovak National Council Act 369/1990, a system combining local state administration and self-government replaced that of administrative authorities. Under current legislation, local government is constituted in municipalities that are territorial and legal entities. Within limits set by law, local governments manage their own budgets and assets. The state administration may delegate authority to local governments for particular tasks that are financed by state funds. They may issue ordinances that are binding for all individuals and corporate bodies within their jurisdiction. Such ordinances may be superceded or invalidated only by parliamentary acts. Decisions concerning administrative matters of municipal offices may be appealed in district offices. With some statutory exceptions, local authorities are independent from state supervision.

Local government authorities are elected directly by the local population. Elected mayors head municipal offices. As the highest executive officer, the mayor summons and conducts the sessions of local representative bodies, represents the office and the municipality and decides on all matters of local administration with the exception of those that, according to law, are decided by the municipal council.

Municipal offices are managed by local officials responsible for administrative and organizational matters. In large municipalities, the municipal office may be run by a head appointed by the municipal council on recommendation of the mayor who is responsible to the mayor.

Each municipality has a chief auditor who is elected by the municipal council on recommendation of the mayor. The chief auditor oversees local finances, accounts, the management of local property and assets and reports on the budget and final accounts.

Local government authorities may freely associate with other local government authorities and thus may form regional or other interest organizations. Such associations, however, may manage only those matters specifically referred to them by local governments.

Local state administrative bodies and local self-government bodies, when administering public matters, have strictly separated competencies by virtue of law, which also determines principles of coordination on particular matters, such as territorial planning and emergency situations. Local state administrative offices are appellate bodies in municipal administrative proceedings.



As of 31 December 1997, Slovakia's 5,387,650 inhabitants resided in 2,871 municipalities—of which 136 had city status—and four military districts (governed by the Slovak Army and not by local self-government; according to the Slovak system of territorial division, these areas are recognized as specific municipalities). Over two-thirds of the total number of municipalities have fewer than one thousand inhabitants. Thus, the system of local government represents a highly nonintegrated structure (practically each settlement has municipality status), which has both positive and negative impact on the functioning of municipalities. This structure is the result of historical developments, especially after 1989, when the political situation did not allow administrative measures to encourage the merging of small municipalities and the creation of a more integrated structure. Rather, the opposite is true: the total number of municipalities slowly increased throughout the 1990s, especially due to the splitting of some municipalities and conferring municipal status on former parts of large cities as a result of local referendum.

This nonintegrated structure is one of the most important factors limiting the possibility for the massive transfer of responsibilities from the state administration to local self-government. In the near future it is doubtful that the political situation will allow more than voluntary initiatives of intermunicipal integration, especially concerning economic cooperation in fulfilling their tasks and responsibilities.

Municipal budgets are autonomous parts of the public budget. Shares of state taxes represent 22.7 percent of the total revenues of municipalities, and block and specific grants from the state and current and capital transfers, 17.5 percent. Other revenues are derived from the independent activities of municipalities, including real estate tax (10.9 percent) and loans (9.5 percent).

Local governments independently decide and act on all matters pertinent to the administration of municipalities and their property unless legislation specifically assigns such activities to the state or to other legal bodies. Pursuant to the law, municipalities exercise self-government functions concerning:

- management of movable property and real estate owned by the municipality and of property owned by the state and temporarily transferred to the municipality by law;
- creation and approval of municipal budgets and final accounts and the organization of public discussions on such issues;
- administration of local taxes and fees;
- supervision of economic activities in the municipality and, in particular, issuing binding resolutions on investment activities, the use of local resources, the initiation of business activities of legal entities and individuals and the approval of business plans in the interest of the population of the municipality;
- creation and protection of healthy living and working conditions of the municipal population, protection of the environment and provision of education, culture, personal interest programs, physical culture and sports;

- conceptualization and approval of the territorial planning of settlements and zones and of the development of the social sphere of the municipality;
- establishment, incorporation, cancellation and supervision of budgetary organizations and subsidized organizations as well as other legal entities, in compliance with special regulations;
- maintenance of public order.

The economic and managerial responsibilities of municipalities are:

- comprehensive construction of housing and related infrastructure;
- maintenance and administration of public property;
- local public transportation in large cities (Bratislava, Košice, Žilina, Prešov, Banská Bystrica);
- construction, maintenance and management of local roads, public spaces, natural reserves, public lighting, marketplaces, cemeteries, local water resources and wells, water supply networks, sewage and water purification establishments;
- construction, maintenance and management of establishments addressing local culture, sport, leisure, tourism, child care, ambulatory health services and basic social services;
- support for education, natural and heritage preservation, culture and sport;
- support for humanitarian activities;
- administration of municipal police and fire services.

The scope of addressing these responsibilities depends on the size and financial basis of the municipality.

## 2.2 The Status of Cities and the Capital City

City municipalities are recognized as such by the National Council of the Slovak Republic. Law does not specify the criteria for such status. At present, there are 136 cities in Slovakia.

Special laws regulate the legal status of the city Košice and of the capital Bratislava. Law 377/1990 on the Capital of the Slovak Republic recognizes Bratislava as the capital city of the government and parliament. According to this law Bratislava is legally a municipality, and designated sections of the city are also municipalities. These sections have their own self-governing bodies and manage their own budgets. Bratislava has five districts (seats of district offices) and seventeen city sections with their own municipal councils.

The legal status of Košice, as the second largest city in Slovakia, is defined by Law 401/1990 on the City of Košice. The system of local government is organized similarly to that of Bratislava. Košice's area is divided into four districts (seats of district offices) and twenty-two city sections with their own self-government bodies.

## 2.3 Responsibilities of Local State Administration

Regional and district offices exercise state administrative functions in the areas of:

- state defense;
- general internal administration;
- trade licenses and consumer protection;
- fire protection;
- civil protection;
- environmental management;
- finances, prices and management of state property;
- agriculture, forestry and hunting;
- regional development;
- state veterinary care;
- public transportation and road management;
- public and concession procurement;
- social affairs;
- health care;
- education;
- culture;
- regulation;
- international cooperation.

Within the scope of their terms of reference and under specific legislation, regional and district offices may issue generally binding regulations for their territories.

The district office exercises state administration in individual areas unless the regional office, another body of state administration, a municipality or a corporate body is entrusted with such tasks by law. The district office has competence on issues decided by state administrative authorities unless otherwise provided for by law. Thus, the district office:

- represents the state in approving development concepts for particular areas and in discussing municipal development (zoning) plans with the exception of those for the capital city and the city of Košice;
- develops programs for social and economic development of the district and coordinates initiatives of corporate bodies and individuals concerning such development, especially in matters of tourism, culture and state care of youth and physical education;
- is an appellate body for municipal matters;
- provides assistance on the application of legal regulations under which the municipality carries out state administrative tasks;
- provides municipalities with data from registers it administers;
- regulates deficiencies in municipal activities;
- manages and supervises mobilization and complex rescue systems.

In the event of an emergency situation, the district office coordinates the activities of the state authorities and municipalities in the district if the effect and consequences of such emergencies cannot be offset through the individual means and powers of such state authorities, municipalities and other corporate bodies or organizations. In such cases, the district office head is entitled to impose tasks on and give orders to state authority heads, municipal mayors, corporate statutory bodies and individual citizens in order to address the ramifications of the emergency.

In addition to the performance of state administration, the regional office:

- exercises second-instance state administrative supervision in administrative proceedings that have been addressed by the district office in the first instance, unless otherwise provided by law;
- directs and controls the performance of state administration by district offices;
- represents the state in discussing development plans of the capital city, Bratislava, and of the city of Košice;
- coordinates the activities of the district offices with other state authorities in fulfilling joint tasks of the state in the region;
- administers and supervises mobilization of the state and complex rescue systems, providing assistance and protection for inhabitants in the case of natural disasters and emergency situations.

The regional office coordinates joint tasks of other state administrative authorities and local self-government bodies regarding economic and social development of the territory, especially concerning social services, such as health care, education, culture, tourism and state care of youth and physical education. To this end, it can request information from these authorities to undertake the necessary analysis and assessments.

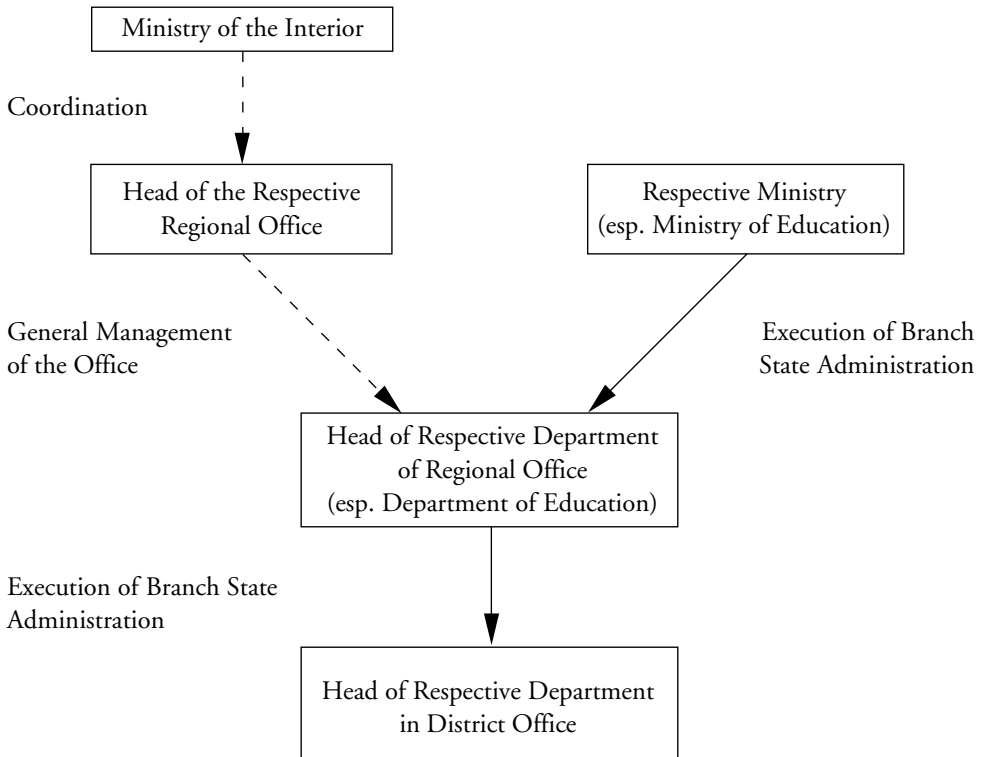
The regional office coordinates the activities of district offices, other state authorities and municipalities in the region during and after emergency situations, the effect and consequences of which cannot be offset through the means and powers of the district office or other state authorities. In such cases the regional office head is entitled to impose tasks on and give orders to district office heads, other state authority heads and municipal mayors in the region.

## 2.4 Relationship between the State Administration and Local Government

### *2.4.1 Central and Local State Administration*

Regional and district offices represent a complex of individual branch divisions of state administration “under one roof” rather than a homogeneous organ of general state administration. This is due to the transfer of administration and decision-making authority from the head of the office of each individual section of state administration to the heads of individual divisions (departments) in regional and district offices. This system is illustrated in figure 7.1.

*Figure 7.1*  
**Sectoral Responsibility for the Performance of State Administration  
 at the Level of Regional Office in Slovakia**



The head of an individual department within a regional office is responsible to the respective ministry in most, if not all, branch state administrative matters. The same system exists between respective heads of regional office departments and their subordinate heads of district office departments. Thirteen ministries and three other central bodies have sections in regional and district offices.

The Ministry of the Interior of the Slovak Republic coordinates the activities of ministries at the regional and district levels through regulation and supervision. The ministry manages an automated information system on local state administration, training of staff, control and inspection of records and the employment of representatives of the Ministry of Finance. The Ministry of the Interior also establishes binding organizational structures for regional and district offices that allow no flexibility for adaptation to local conditions (including a predefined number of employees within departments). For these reasons, it may be more appropriate to characterize

the establishment and functioning of regional and district offices as deconcentration rather than decentralization of state administration.

#### *2.4.2 Local State Administration and Local Self-government*

To explain the specific features of relationships between local state administration and local self-government the principles, organization and responsibilities of local self-government in Slovakia are described below, as well as the responsibilities of respective institutions of local public administration (regional and district offices). The relations among public administrative bodies are demonstrated in figure 7.2, which describes the basic links within this system.

There are three types of municipalities in Slovakia: the standard municipality with a municipal council (board of representatives) and mayor; the city municipality with a municipal council and lord mayor; and two specific municipalities—the cities of Bratislava and Košice—which are city municipalities (with municipal councils and lord mayors) and the subdivisions of which are also municipalities (with councils and mayors).

It is also necessary to describe the system of appeals among the levels of local public administration decision making.

- If a decision is made in the first instance by the mayor or council of a municipality, the appeal is decided by a section of the district office applying the “cassatio” principle.
- If a decision is made in the first instance by a section of the district office, the appeal is decided by a section of the regional office applying the “reformatio” principle.
- If a decision is made in the first instance by a section of the regional office, the relevant ministry applying the “reformatio” principle handles the appeal.

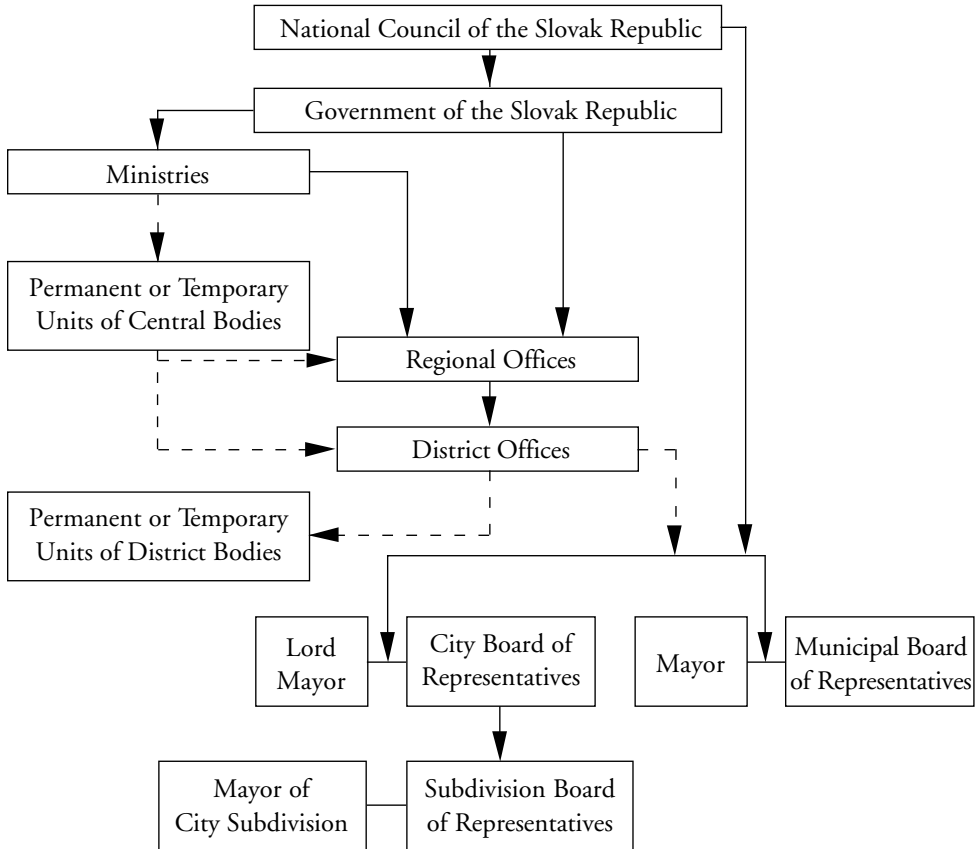
All valid decisions of municipalities and state authorities may be reviewed in court on the basis of the “cassatio” principle, if two stages of the appeals process have been completed. Remedy must be requested through the appeals procedure before the issue is brought to court.

Currently the division of responsibilities between the state administration and self-government does not represent the typical pattern characteristic of most western systems. Several tasks, like education, health care and other social services, are still the responsibility of the state. Several limitations exist that prevent this situation from changing in the short-term. The most important are listed below.

1. The system of local self-government is nonintegrated. As mentioned, there are many very small municipalities in Slovakia, the economic capacities of which are limited.
2. As a result of previous developments, the system of public services is very unstable. Due to allocative and technical inefficiency, large internal debt for services and supplies provided by public sector industries has been incurred. For example, internal debt within the health care sector is estimated to be between SLK 10 and 15 billion (USD 0.3 billion)—about one-fourth of total annual expenditures. The system must be stabilized before the further transfer of responsibilities to self-government can occur.

3. Regional self-government has not been established yet. It would be very problematic to transfer several “large scope” responsibilities, like secondary education, to municipalities.

*Figure 7.2*  
**Relations among Public Administrative Bodies in Slovakia**



It is also doubtful that the transfer of responsibilities to self-government structures will be one of the priorities of the next stage of reform. There is strong evidence that many western patterns and examples do not function effectively in transitional countries, and structural changes are not always the best tools for increasing efficiency, effectiveness and economy.

Several forms of cooperation exist between state administration and self-government. State bodies provide municipalities with assistance on professional issues, data required from records maintained by state bodies and professional training for municipal employees and members of municipal councils (especially the Institute for Public Administration).

The main municipal partners of the state are district and regional offices, which according to their respective laws cooperate with other state bodies, bodies of self-government and other legal entities on the following issues:

- fulfillment of common tasks;
- compliance with the law and maintenance of public order;
- protection of the rights and freedoms of the population;
- protection of healthy conditions;
- instances of extraordinary events.

The regional office is responsible for economic and social development of the respective territory, especially through the implementation of development concepts of individual areas within its region concerning education, culture, tourism and state care for youth and physical culture. For these purposes it cooperates with all municipalities in the region.

The district office has immediate, daily contact with municipalities, especially concerning the following issues:

- representation of the state in development concepts of individual areas of municipal life and in discussions on territorial planning;
- preparation of programs of socioeconomic development of the district and coordination of all initiatives in this respect;
- consideration of appeals in matters decided at the first level by the municipality, unless otherwise stipulated by law;
- provision of professional assistance in the application of legal regulations, especially in areas where the municipality performs tasks of state administration;
- provision of data, if requested;
- notification of deficiencies in municipal activities.

Regular meetings of representatives of district offices and of municipalities are common.

### 3. Local Politics, Decision Making

#### 3.1 System of Local Elections

The elections of municipal self-government bodies are regulated by Slovak National Council Act No. 346/1990 on Local Government Elections and later regulations. For the purpose of elections municipalities are divided into wards with up to twelve mandates each. Elections are held on a simple majority basis, which is uncommon in Central and Eastern Europe. In accordance with the above-mentioned law, a citizen with the right to vote may be elected to the municipal council. Every citizen of the Slovak Republic eighteen years of age by the day of the elections with permanent residence in the given municipality has the right to vote for municipal self-government organs. A citizen twenty-five years of age by the day of the elections with the right to vote may run for the position of mayor or lord mayor.



Political parties or their coalitions registered by the Ministry of the Interior may submit a list of candidates for election to municipal self-government bodies. Independent candidates may stand for election on their own nomination, supported by a petition signed by voters. Each candidate must sign a declaration of consent to stand for election, affirming that he or she did not agree to be included on another candidate list and that there is no obstacle to his or her knowledge that would make him or her ineligible for election.

A member of municipal council may not be:

- a judge;
- a prosecutor or an investigator in the prosecutor's office;
- a member of the armed security corps or prison and justice guard;
- a staff member of the apparatus of the municipal council for which the candidate is running or the chief auditor;
- a mayor (or lord mayor).

The mayor (or lord mayor) also may not hold any of the above posts.

The state budget covers all technical expenditures in connection with municipal elections for council and mayor. Political parties and independent candidates must cover the costs incurred by their electoral campaigns. According to conditions defined by law, political subjects have equal access to the public mass media during the electoral campaign, and all candidates have equal access to the local media. Municipalities are required to allocate space for campaign posters. Public authorities may not provide economic support for candidates standing for election.

According to Slovak National Council Act No. 369/1990 on Municipalities and later regulations, the term of office of municipal self-government organs elected by inhabitants in direct elections—namely, the council and mayor (lord mayor)—is four years.

Local elections were organized on 18 and 19 December 1998 in 2,913 municipalities in Slovakia, and 2,889 municipalities elected mayors or lord mayors. The electorate totaled 4,024,941 citizens, 2,171,344 of whom participated in the elections.

Legal conditions concerning access to elected positions are equal for both sexes, but the percentage of female mayors and representatives is remarkably lower in large municipalities and towns. Women are represented in greater proportions in small municipalities.

The following number of mandates were won in elections to all municipal councils by political parties, coalitions and independents:

- Movement for Democratic Slovakia—8,140;
- Party of the Democratic Left—5,793;
- Christian Democratic Movement—4,276;
- SMK—3,773;
- Slovak National Party—2,136;

- Party of Citizen's Understanding—1,041;
- Union of Workers of Slovakia—603;
- Democratic Union—586;
- Democratic Party—534;
- Communist Party of Slovakia (KSS)—458;
- Slovak Green Party—128;
- Slovak Democratic Coalition—125;
- Social Democratic Party—107;
- coalition of the Democratic Party and Christian Democratic Movement—338;
- coalition of the Democratic Union and Christian Democratic Movement—243;
- coalition of the Party of the Democratic Left and Party of Citizen's Understanding—203;
- coalition of the Movement for Democratic Slovakia and Slovak National Party—181;
- independent candidates—3,177.

### 3.2 Forms of Direct Democracy, Public Participation in Decision Making

Local referendums may be held at the municipal level. The law calls for referendums on issues related to amalgamation, division or abolition of a municipality; establishment or abolition of local charges, taxes or public allowances; or upon petition of at least twenty percent of the eligible voters of a municipality. The results of such referendums are legally binding. The municipal council can also call referendums on important issues, the results of which are advisory in character. More than one-half of the eligible voters in a municipality must participate in order for a referendum to be valid, and the decision is accepted if it obtains a simple majority of votes.

Other forms of direct participation are listed below.

1. Participation in public meetings organized by a municipal organ for the discussion of any issue of public interest. Every citizen has the right to take part in such discussions, the results of which are not binding. This method is instrumental in determining public opinion on an issue before its adoption.
2. Attendance at meetings of the municipal council (if such meetings are public). Any citizen may take part in discussion and voice his or her opinion on the issues discussed.
3. Submission of a petition, complaint or proposal to a municipal organ, district office, regional office or any state body, including the president, parliament and government.

While forms of direct participation in local decision making exist, citizen participation tends to be low, especially in large municipalities. The socialist system of councils created for election districts was not replaced by any other functional and regular system of cooperation between elected members of the municipal council and citizens. Regular meetings of elected representatives and their voters are not obligatory, but rather are organized on an ad hoc basis, especially during the period preceding local elections or when important problems arise.

Many local voluntary initiatives have been established, some of which are recognized and supported by local governments, such as “Healthy City, Healthy Community” antidrug use initiatives, cultural initiatives, sport clubs, charities and social work organizations. Most are registered with the Ministry of the Interior as citizen’s associations.

Access to top representatives of the public administration (such as the mayor, vice-mayor, head of regional or district offices and heads of departments of these offices) is limited in principle and based more on personal contacts than a regularized system. Most offices are not “user friendly,” and public officials and administrators have not yet internalized their functions as public servants.

### 3.3 Internal Structure of Local Government Decision Making

The decision-making bodies of the municipality are the municipal council (board of representatives) and the mayor. The members of the municipal council are elected on the basis of general, equal and direct voting by secret ballot. A high percentage of councilors represent political parties, especially in large cities. This situation introduces an important dilemma: is the municipal council member more responsible to voters or to his or her respective political party or coalition? The real extent and quality of local democracy differs among municipalities. Political party “games” are typical in large cities, and accountability to inhabitants is better developed in small municipalities, as demonstrated by the results of the December 1998 elections; the proportion of independent mayors and councilors elected in small municipalities was significantly higher than in large municipalities (all newly elected lord mayors in cities that are the seats of the respective regional office were proposed by coalitions). Political parties form coalitions on the local level, but their composition is different from those existing (and institutionalized) on the national level. Parties represented by parliamentary coalitions are often in opposition to those in municipal councils, and in fact, some parliamentary opposition parties form local coalitions.

The mayor is elected by the citizens of a municipality on the basis of general, equal and direct voting by secret ballot. The mayor represents the municipality in all matters. He or she has decision-making authority in matters of municipal property and in organization of the municipal administration. Some tasks may be transferred to the chair of the municipal office or to other persons in the municipal administration. The mayor is the supervisor of the municipal office and exercises employer’s rights concerning all municipal employees.

According to Slovak National Council Act No. 369/1990 on Municipalities, the municipal office is the executive organ of the mayor and of the municipal council that manages administrative and organizational matters. The work of the municipal office is supervised by the mayor and, in municipalities with large populations, by the chair of the municipal office. The municipal council determines the organization of the municipal office, remuneration of its staff and the technical facilities necessary for its activities.

The municipal council appoints:

- the head of the municipal office on proposal of the mayor;
- the chief inspector of the municipality;
- the chief of municipal police on proposal of the mayor.

A municipal council may decide to establish advisory bodies—the executive board and executive committees or commissions—though there is no legal obligation to do so. The executive board is an advisory body to the mayor; executive committees are advisory bodies to the council.

The members of the executive board cannot exceed one-third of the total number of representatives to the council and are elected by the council from among its members. Representation of political parties on the board is proportionate to that of the council. The mayor calls meetings of the board when necessary and at least once a month. If the municipal council elects a vice-mayor, he or she is *ex officio* a member of the board.

A commission may be either permanent or temporary and serves as an advisory, administrative or regulatory organ of the municipal council. The municipal council independently decides to establish or abolish commissions according to its needs and determines their composition and tasks. Members of commissions may be councilors and inhabitants of the municipality.

The council elects members of the executive board and commissions by simple majority of the councilors present. Detailed rules of election are stipulated in the electoral code of each municipality, which is adopted by the council.

### 3.4 Ethnic Issues, Multicultural Government

Slovakia's population includes several ethnic minorities, the largest of which is Hungarian (ten percent of the total population). The Hungarian minority inhabits southwestern, southern and southeastern Slovakia in districts close to the Hungarian border. In some parts of the country large numbers of Roma reside; the populations of some small villages in eastern Slovakia are wholly Roma. The highest proportion of Roma are settled in southern and eastern Slovakia. There are no other locally homogeneous minorities in Slovakia.

The constitution guarantees comprehensive rights to all minorities and ethnic groups, including the right to develop national or ethnic culture, to propagate information in native languages and to create associations and educational and cultural establishments. The constitution defines these as individual, not collective, rights. Because of this principle, the right of representation and participation in political life and public administration is governed by general legal documents with equal validity for each citizen of Slovakia. Thus, there are no special preferences related to participation in public administration for representatives of minority and ethnic groups. One attempt was made to establish such preference through a local election law approved by parliament

in 1998, but this law was amended immediately after the general elections of September 1998 and never came into force.

A sensitive issue related to public administration is the question of minority languages. According to the constitution, representatives of minorities have the right to use their native languages in administrative matters and to receive education in their native languages. There is strong need to finalize the law on minority languages to provide details for such rights, as some conflicts exist concerning these issues.

### 3.5 Local Government Associations and International Contacts

The law also regulates cooperation among municipalities for the performance of common tasks. It stipulates that municipalities may form associations to address common interests (consortia), including the possibility to combine financial means and establish common funds. Such cooperation neither is formalized by law, nor necessitates cooperation of the state, with the exception of relations with international agents and associations (cross-border cooperation).

The establishment of associations is voluntarily and often is based on territorial cooperation (regional associations), such as the Union of Towns and the Union of Spa Towns. A decisive majority of towns and municipalities belong to the Association of Towns and Municipalities of the Slovak Republic (ZMOS). ZMOS is the most important interest group in the public administration reform process in Slovakia and was founded in March 1990, before Slovakia even initiated such reform. This association prepared the first concepts for the revitalization of self-government in Slovakia and is the most important independent partner to the central government.

The most common reason for establishing associations is to protect the interests of self-government in a certain territory and to counterbalance the state administration. Other reasons include common historical background and common culture.

Associations of municipalities are recognized as legal subjects of civil law that have their own elected bodies (council, chair, commissions) and whose members voluntarily may join or cancel their membership. Associations approve their own statutes, which formulate the basis for their activities, and are registered with state bodies. Activities are financed by their own contributions without state subsidization.

No special provisions exist for associations of local authorities or for their relationship with government authorities; under the constitution they are given the right of association under the same conditions as other subjects of civil law. Their rules of association and procedures of registration are regulated by the Civil Code.

Individual municipalities may establish “friendship” or “twinning” relationships with municipalities in other countries. These relationships are initiated on a voluntary basis and by

bilateral agreement. In the past, such relationships received governmental support and were mediated by the Ministry of Foreign Affairs.

Other relations, especially participation in international associations of municipalities, cross-border cooperation and similar activities, are not yet highly developed due to insufficient legal basis.

## 4. Local Administration, Service Provision

### 4.1 Structure and Operation of District and Regional Offices

According to National Council Act No. 222/1996 on the organization of local state administration, heads appointed and removed by the government manage regional and district office activities. The heads of regional and district offices are political representatives of their respective national political parties. Departments for individual areas of administration are established within regional and district offices. The head of the regional office appoints regional department heads with the approval of the relevant minister. The head of the district office appoints district department heads with the approval of the relevant regional office head. The heads of regional and district offices are responsible in their activities to the government, except for administrative tasks supervised by department heads. On these issues, regional and district office departments independently act and decide on administrative-legal matters, with certain exceptions that are specified by law. The office head is the supervisor of department heads and all employees.

Regional and district offices are financed by the state budget of the Slovak Republic. Their heads exercise decision-making authority in legal-labor matters related to the activities of the office and assigned property of the Slovak Republic; they have the right to use state property within their territory to fulfill their tasks. As mentioned previously, most managerial responsibilities for public service departments realized by district or regional offices are executed on the principle of line responsibility (ministry—head of department of regional office—head of department of district office). Responsibility for financing public services is divided between the head of the sectoral department and the head of the financial department according to the organizational structure of the office.

Regional and district office departments are responsible for state administration within their respective areas and can be characterized as deconcentrated bodies of the state administration. Within their area they in principle have the same authoritative power over the territory as the respective minister. They may issue binding directives or instructions for all bodies under their authority.

Regional and district offices establish and directly manage a number of organizations providing local public services, especially in education, health care, culture and social care. Concerning education, district offices manage primary schools and decide on the establishment and subsidiza-

tion of nonstate primary schools (private, church and other types). Even so-called “self-managing” primary schools are dependent on the decisions of the respective educational department of a district office; they cannot determine independently the number of teachers hired, their salaries and other issues. In health care regional offices create and indirectly manage hospitals and other state-owned establishments; district offices in cooperation with regional offices administer this network and regulate private primary health care establishments (only establishments approved by the official network may obtain contracts with health insurance companies).

Regional and district offices cooperate with nongovernmental institutions that provide public services but may not interfere in the internal management of such organizations. They also cooperate with other establishments, institutions and bodies providing local public services that are within the competence of local self-governments. The most important types of service delivery are described later.

## 4.2 Status of Personnel of Municipal, District and Regional Offices

Local elected representatives possess the same rights as every other citizen, especially concerning labor conditions, benefits and taxation, and similarly can be penalized for crimes and offenses. While exercising full-time public functions, the professional positions of elected representatives are maintained for the entirety of their terms of office; afterwards, representatives may return to their original occupations and employers or are free to pursue any other activity of their choice. They also may resign from their public posts at any time. If a representative takes a leave from his or her regular occupation to execute the duties of his or her elected office, the employer is obliged to allow such leave, and any salary loss, as well as any costs incurred while performing such duties, are refunded by the municipality. Elected representatives have the right to participate in short-term general or specialized training programs organized by the state or private training institutions, but such training is not compulsory. Local elected representatives may simultaneously hold seats in parliament.

Currently there are no special laws defining the system of public service (though a draft bill on state service was considered by parliament in November 1997). Labor relations for state administrative staff are governed by the Labor Code (Act No. 65/1965). Salaries of civil servants are regulated by Act No. 143/1992 Col. on salary and compensation for work in budgetary organizations and certain other organizations and bodies. Act No. 253/1994 Col. determines the status and compensation of mayors and lord mayors. The ranking and salary scale of local state administrative personnel, based on service and qualifications such as level of education obtained, are regulated by Government Ordinance No. 249/1992.

Human resource management and personnel policy development for state administration are not presently managed or centrally regulated. A draft bill on state services envisages the establishment of an office as the central authority for state administration. The minister or head of a central authority decides on staff appointments with the assistance of the personnel department

director. Thus far, career promotion principles also are not uniformly established. Research was undertaken by the government on this issue, the result of which was the document "Personnel Management in State Administration" approved by the Cabinet in June 1995, which proposes the framework for personnel management in individual central authorities of state administration.

### 4.3 Control, Audit and Supervision of Local Government

The public prosecutor is responsible for administrative supervision over the government and all state administrative bodies, including municipalities. The prosecutor is appointed and removed by the president of the Slovak Republic on proposal of parliament and is responsible for ensuring the legality of all acts and decision making of state administrative and self-government bodies. In cases of violation of the law, the prosecutor has the power to request that parliament abolish the decision or that the Constitutional Court declare the act unconstitutional. In the meantime, such decisions are suspended until the matter is resolved. In repeated cases of violation of the law, the prosecutor may issue a warning to the administrative body in question, which is obliged to reconsider its actions and remedy them. Determination of the appropriateness of a legal act is considered only through regular procedures on the basis of an appeal submitted by the party in question. Such procedures include two stages of appeals before judicial review of the issue.

An individual may appeal against a decision made by a municipality or state administrative body in the first instance. If the first instance body does not comply with the appeal, it is decided by an appellate body (the district office if the decision was made by a municipality, the regional office if the decision was made by a district office, the ministry if the decision was made by a regional office, the minister if the decision was made by the ministry). An individual may bring the matter to court for review in the second instance.

Under Act No. 369/1990 Col. on Municipal Organization, the mayor may suspend the enforcement of a resolution of the municipal council if he or she believes that it contradicts the law or is obviously disadvantageous for the municipality. If a municipal executive board exists, the mayor debates the resolution before the board. If the enforcement of a municipal council resolution is suspended, the council may revoke it by a three-fifths majority vote of all representatives within fourteen days of the date on which the challenged resolution was published.

The position of chief inspector is established in every municipality. This officer regulates the expenditure of the municipal budget as well as the management of municipal property. Elected by the municipal council for an indefinite period, the chief inspector prepares opinions on the draft budget and financial accounts before they are approved. The inspector is accountable to the municipal council.

Every municipality is subject to independent audit by a member of the Slovak Board of Auditors. The audit is approved by the municipal council, and its results are publicized. The state does



not have the right to intercede in local budgetary and financial decision making. Financial data provided by municipalities is used in statistical analysis for strategic development of the state and for determining the allocation of subsidies to municipalities by parliament. Other forms of control over decision-making, administrative and financial activities of municipalities do not exist.

#### 4.4 Local Service Delivery

As discussed earlier, the system of service provision in Slovakia is a relatively specific one. Because regional self-government has not been created yet, and because regional and district offices are deconcentrated state administration bodies, we can distinguish only state, local self-government and shared responsibilities.

##### *4.4.1 Regional and District Offices*

The system of local service delivery was described previously to a certain extent. Its specific features in the Slovak Republic are the dominance of traditional forms of service provision and a relatively low proportion of services provided by private sector organizations (with the exception of health care). Following are descriptions of the most important sectors of local service delivery: education and health care.

State-owned primary and secondary schools support more than ninety percent of all educational services. A small number of semi-private schools and a network of church schools, both subsidized by the state, also have been established. Regional and district offices allocate state subsidies to nonstate schools and are responsible for school inspection, including regulation of the contents of curricula and quality of education and staff. Universities are also state-owned budgetary organizations, financed and managed by the Ministry of Education, and thus are subjected to the same restrictions as lower-level educational institutions.

All state-owned primary and most secondary schools are budgetary organizations and may be divided into two groups: directly managed and self-managed. Directly managed schools in principle do not have any economic independence; district offices administer their budgets. Self-managed schools administer their own budgets, but their financial responsibilities are very limited in reality, as they are obligated to comply with very detailed financial regulations. Financial rules and management within this system are very rigid, providing little incentive to increase efficiency and cost-effectiveness. Any independent earnings of these budgetary organizations are considered to be revenues of the state and (with some exceptions) cannot be reinvested in these organizations, but rather are reallocated to the state budget. No particular regulations exist on the distribution of funding to schools from the regional or district offices, which is decided subjectively by the relevant officials.

More than ninety percent of all general health care is supplied by private practitioners, and the same will soon be true for specialized ambulatory care. In principle many large health care

facilities (clinics and hospitals) are state-owned semi-budgetary organizations. The running expenditures of these establishments are financed via a system of compulsory health insurance based on reimbursement for services by insurance companies. Investments in state-owned facilities are financed from the state budget. Decision making and financial management of state-owned health care facilities are much more independent from state administration, but many limitations remain. For instance, salaries are fixed by binding regulations, and the directors of such facilities are appointed by the state administration.

#### *4.4.2 Local Self-governments*

Contrary to the state system of local service delivery, the system provided by local self-governments is much more flexible. In principle all forms of both traditional and alternative service delivery exist on this level; the most frequent types of provider include:

- municipal offices;
- municipal limited companies, joint-stock companies and cooperatives;
- organizations subsidized by the municipality;
- communal foundations;
- communal noninvestment funds;
- communal nonprofit organizations;
- municipal budgetary organizations;
- natural or juridical persons engaging in business activities under a trade license.

The system of local service delivery was developed in a disorganized and voluntary manner with disregard for the theoretical and practical experiences of the developed countries of Western Europe and transitional countries of Central Europe. Research has not been conducted and, hence, data does not exist on the proportions of delivery by the various types of providers. Thus, only problems and selected examples can be used to describe the current situation.

Each municipal government and mayor is fully responsible for decisions on the method of service delivery; there is little tradition of evaluation of the effectiveness and efficiency of their decisions. Methods such as compulsory competitive tendering, “best value” approaches, et cetera are not developed or implemented. In such a situation, some modifications on traditional service delivery have resulted in increased efficiency, some have failed, and some simply have provided “channeling” of public money to support private interests.

Privatization in particular has been understood and executed poorly by local decision-making bodies as simply the organizational change of ownership, rather than a complex procedure resulting in different formulations. Privatization has been accomplished at different rates in various branches of the local economy. One example is the housing sector. In 1991, when the last census was conducted, its ownership structure was composed of:

- family houses—50.2 percent;
- cooperative houses—22.1 percent;

- communal rental housing—21.2 percent;
- state-owned rental housing—6.5 percent.

During the period from 1991 to 1994, only 2.25 percent of communal flats were sold to tenants, and the ownership of 0.25 percent was transferred as a result of restitution. Ten percent of cooperative housing was sold. The speed of this process diminished from 1995 to 1998; many families that applied to buy their flats are still waiting, due mostly to unclear ownership of the land on which real estate lies and general bureaucracy.

The numerous types and forms of local service delivery in existence in Slovakia can be demonstrated using the system of waste collection in selected cities in 1996 as an example.

1. In Banská Bystrica, three private firms conducted waste collection: PUFEKO (private housing), ICEKO (communal housing) and GAJDOS (cooperative housing). Service delivery was based on contracts between these firms and organizations representing the producers of waste.
2. In Poprad, a municipal firm (a semi-budgetary organization subsidized by the municipal budget) was responsible for this service in 1996. Later, the town created a shareholders company in cooperation with other cities in region and with the assistance of foreign capital investment to provide this service.
3. In Žilina, a private firm provided the service on a contractual basis with the municipality.
4. In Piestany, a municipal and private joint-venture administered waste collection.
5. In Prievidza, a contract was negotiated between the producers of waste and a private limited company.

The solutions presented here are not unique for large cities; the same diversity and methods are apparent in small municipalities as well.

#### *4.4.3 Nongovernmental Organizations*

Many nongovernmental organizations are involved in the delivery of local public services in Slovakia, particularly in the fields of social care, culture and sports. They represent a number of types of organizations, especially citizens associations, charities and foundations.

One very important citizen's initiative addresses housing issues. During the transformation of housing management and the progressive transfer of municipal flats to private ownership, a new institution, "communities of owners of flats and nonresidential spaces in a house" was established. These communities administer a residence if the owners of flats and nonresidential spaces fail to conclude an agreement with other juridical persons concerning housing management and maintenance. The community is a legal entity registered with the appropriate district office. Flat owners may also associate within the terms of the Civil Code.

The previous government did not provide much support for the nongovernmental sector, and as a result, there was a drastic decrease in the number of foundations in Slovakia. The system of

financial support from the state to the nongovernmental sector is unclear and, in many respects, ineffective. Furthermore, legislation on sponsorship does not provide enough incentives for donors to support nongovernmental organizations (the donation is deducted from the tax base and not from the final tax obligation, and its scope is limited to two percent for corporations).

## 5. Local Finance, Economic Development

In this section, not only municipal but also district and regional finance will be described. The general figures on expenditures by type of administrative unit (regional offices and municipalities) are demonstrated in table 7.1.

*Table 7.1*

### **Expenditures by Type of Administrative Unit in Slovakia, 1997–98 [SLK billions]<sup>a</sup>**

	1997	1998
GDP	653.9	717.4
State Budget Expenditures <sup>b</sup>	217.8	197.0
Municipal Expenditures	26.6	27.4
Regional and District Office Expenditures <sup>c</sup>	41.8	43.8

- a. In 1997, SLK 35=USD 1; in 1998, SLK 40=USD 1.
- b. Social insurance fund expenditures not included.
- c. Predicted expenditures for 1999 are SLK 47.6 billion, and for 2000, SLK 46.4 billion.

### 5.1 Municipal Finance

Slovakia ranks among countries with a relatively low proportion of municipal expenditures to total public expenditures (twelve percent of state budget expenditures and less than ten percent of total public expenditures in 1997). One of the most important reasons for this is its specific system of division of responsibilities, as previously described (for example, direct expenditures of the state for primary education amount to more than SLK 5 billion, or USD 0.15 billion, annually).

The system of municipal finance is a subject of continuous discussion in the development of the local self-government system. Its current characteristics follow.

1. Due to their low proportion of revenues, the financial system of municipalities is unsteady.
2. The economic conditions under which self-governments function are unstable and unpredictable.
3. Independent budgetary revenues are limited to shared taxes, but this element also has not been stabilized; the structure, base, areas and percentage of the municipal share of taxes change frequently.

4. The revenue base of municipalities had been tied to municipal property. The yields of property comprise on average twelve percent of municipal revenue. The role of revenues from property taxation has been overstated. Unsettled ownership relations and the diversity of property structure have undermined opportunities for increased revenue. The sale of municipal property as a source of income has not been envisaged yet.
5. The system of financial equalization is not developed effectively to react to the deepening disparities in the socioeconomic situations of municipalities.
6. The system of capital budgeting is not implemented on the municipal and state administrative levels.

This situation is well characterized in tables 7.2 and 7.3. Table 7.2 presents the relationship of municipal budgets to basic macroeconomics indicators. These figures (and those in all subsequent tables) have been influenced by the following changes.

1. January 1993—introduction of a new tax code.
2. 1994—reform of health care financing (in 1998, more than SLK 40 billion, or USD 1 billion). Social security and unemployment benefits were transferred from the state budget to social insurance funds. A system of twelve state funds was introduced; the aggregate volume of these funds was about SLK 17 billion (USD 0.5 billion) in 1997.
3. January 1996—introduction of a new public accounts system approximating the standards of the European Union (EU).

*Table 7.2*

**Municipal Budgets and Macroeconomics Indicators in Slovakia [current prices]**

Indicator	1991 [SLK 30 =USD 1]	1992 [SLK 30 =USD 1]	1993 [SLK 30 =USD 1]	1994 [SLK 33 =USD 1]	1995 [SLK 33 =USD 1]	1996 [SLK 35 =USD 1]	1997 [SLK 35 =USD 1]	1998 [SLK 40 =USD 1]
Municipal Revenues [SLK billions]	16.2	20.6	21.0	20.1	22.2	25.4	28.8	28.9
Municipal Expenditures [SLK billions]	14.3	19.7	19.3	19.1	18.9	23.1	26.6	27.4
GDP [SLK billions]	319.7	332.3	369.9	441.3	515.1	581.3	653.9	717.4
State Budget Expenditures [SLK billions]	127.1	123.8	173.4	162.0	171.4	191.9	217.8	197.0
Municipal Revenues/ GDP [%]	5.1	6.2	5.7	4.6	4.3	4.4	4.4	4.0
Municipal Expenditures/ GDP [%]	4.5	5.9	5.2	4.3	3.7	4.0	4.1	3.8
Municipal Expenditures/ State Budget Expenditures [%]	11.2	15.9	11.1	11.8	11.0	12.0	12.2	13.9

Although municipal expenditures have risen, the overall volume of municipal budgets has stagnated or, most likely, has decreased over the course of the examined period. They do not respond to inflation, the negative result of which is decreasing sustainability of financing municipal responsibilities (growth of revenues 1997/93 was thirty-seven percent, and cumulative inflation, between seventy and eighty percent).

Table 7.3 exemplifies the unstable structure of municipal tax revenue and the pressure to increase nontax revenues (sale of property and bond issuance).

*Table 7.3*  
**Structure of Municipal Revenues in Slovakia**  
**[in SLK millions, current prices]<sup>a</sup>**

Parameter	1993	1994	1995	1996	1997	1998
Total Revenues	20,996	20,073	22,236	25,424	28,786	28,872
Tax Revenues, including:	10,945	9,576	8,545	10,163	10,569	11,402
Shared Taxes	5,647	5,972	5,502	6,280	6,529	7,265
Inclusively Local Taxes	5,298	3,604	3,043	3,883	4,040	4,137

a. For exchange rates, see table 7.2.

It might be argued that in Slovakia the horizontal equalization system among municipalities is ineffective in reacting to different revenue bases and expenditure patterns. The total amount of general transfers and grants to municipalities in 1996 was SLK 1,373 million (USD 39 million); the state budget accounted for SLK 1,222 million of this figure. Most of these transfers and grants were unrelated to equalization issues. Direct instruments of equalization are transfers for self-governmental municipal functions to support basic management and administrative tasks in small municipalities (in 1996, SLK 253.3 million or USD 7 million). Until 1995, municipalities with populations of up to five thousand inhabitants received this subsidy; since 1996 only municipalities with up to three thousand inhabitants are eligible for such funding. The basis for allocations is decided annually (in 1996, the quality of soil was the basis).

Other indirect tools for equalization are apparent in the system of municipal tax revenues, including coefficients that vary proportionate to the size of the municipality, which change annually. Based on the system of redistribution of shared taxes, revenue from income taxes per capita in 1996 according to the size of municipalities is demonstrated in Table 7.4.

*Table 7.4*  
**Municipal Revenue from Income Taxes per Capita in Slovakia, 1996 [SLK]<sup>a</sup>**

Type of Tax	Size Categories of Municipalities							Total
	0–500	501–1,000	1,001–2,000	2,001–3,000	3,001–4,000	4,001–5,000	5,001+	
Income Tax: Individuals	874	869	878	869	865	838	869	870
Income Tax: , Legal Persons	150	156	157	161	176	192	275	224
<b>Total</b>	1,024	1,025	1,035	1,030	1,041	1,030	1,144	1,094

a. Exchange rate: SLK 35=1 USD.

A sustained scarcity of funds and the acute need to address municipal investment plans were resolved in some cities by issuing municipal bonds. This source of revenue amounted to SLK 40.4 million in 1994, SLK 2,057.7 million in 1995 (of which, SLK 1,800 million was earned in Bratislava), and SLK 842.4 million in 1996.

The strain of maintaining balanced budgets increasingly is addressed by loans. In 1995 municipalities took loans in the amount of SLK 1,447 million and spent SLK 1,136.4 million servicing debts. In 1996, these figures climbed to SLK 2,565.7 million and SLK 1,795.1 million respectively. In 1996, SLK 5.8 million of credit was foreign. Table 7.5 demonstrates the credit burden of Slovak municipalities per capita according to the size of municipalities.

*Table 7.5*  
**Credit Burden of Slovak Municipalities per Capita [SLK]**

Year	Size Categories of Municipalities							Total
	0–500	501–1,000	1,001–2,000	2,001–3,000	3,001–4,000	4,001–5,000	5,001+	
1995	63	139	178	243	134	55	368	271
1996	106	174	203	335	308	130	695	479

One of the most important problems of rising debt of Slovak municipalities is the use of loans to cover running expenditures, which was one of the stimuli that brought about the development of communal banking. Since 1993, the First Communal Bank (PKB)—with thirty offices nationwide and 526 shareholders, 407 of which are municipalities, in 1997—operates in the Slovak financial market addressing municipal needs. In addition to the basic activities it is obliged to carry out by general legislation, this bank is also involved in the following:

- mobilization of resources of municipalities;
- issue of municipal bonds;
- financing activities targeting revitalization of cities and communities;

- municipal funds;
- depository activity for “urbar” (municipal book on land) companies;
- provision of leasing and counseling activities.

Since 1996, the bank provides long-term credits with eight-year maturity for its clients, setting the credit rating of the applicant. The ultimate rate of interest depends upon credit rating, amount requested and length of credit period. Credits over four years mature at only 0.1 percent more each additional year.

The following state funds are of significance to municipalities:

- State Fund of Environment—financial resources for efforts to protect the environment (SLK 538.7 million, or USD 15 million, available to municipalities in 1996);
- Pro Slovakia Fund—funding to support cultural activities, including restoration and maintenance of historical monuments (SLK 78.5 million, or USD 2 million, available to municipalities in 1996);
- State Water Management Fund—resources to support the construction of water supply systems;
- Housing Development State Fund—incentive to promote housing construction;
- State Fund of Physical Culture—resources to develop and support physical culture.

## 5.2 Regional and District Finance

As discussed, deconcentrated state administration still is largely responsible for financing local public services, especially education (60.8 percent of total expenditures), social care (24.0 percent), culture (2.4 percent), local public transport (2.2 percent) and financing capital expenditures in health care (0.6 percent). The breakdown of revenues and expenditures of deconcentrated state administration (regional and district offices) is shown in tables 7.6-7.8.

*Table 7.6*  
**Revenues and Expenditures of Regional and District Offices  
in Slovakia, 1997 [in SLK thousands]<sup>a</sup>**

Indicators	Approved Budget	Amended Budget	Actual
Revenues	1,208,125	1,151,754	1,412,120
Expenditures	37,886,412	41,787,291	41,804,232
Running Expenditures	35,836,956	38,534,033	38,542,489
Salaries	14,145,748	14,927,683	15,009,234
Administration	3,639,491	3,945,108	3,932,187
Transfers	11,439,630	12,214,110	12,164,974
Subsidies to State Enterprises	800,000	800,000	800,000
Capital Expenditures	2,049,456	3,253,258	3,261,743

a. SLK 35=USD 1.



*Table 7.7*  
**Revenues and Expenditures of Regional and District Offices  
 in Slovakia, 1998 [in SLK thousands]<sup>a</sup>**

Indicators	Approved Budget	Actual
Revenues	1,020,767	1,578,497
Expenditures	39,930,561	43,827,418
Running Expenditures	38,042,263	41,896,555
Salaries	15,387,053	16,271,581
Transfers	11,800,352	14,394,424
Capital Expenditures	1,888,298	1,930,863

a. SLK 40=USD 1.

*Table 7.8*  
**Revenues and Expenditures of Regional and District Offices in Slovakia,  
 1999 and 2000 Budgets [in SLK thousands]<sup>a</sup>**

Indicators	1999 Budget	2000 Budget
Revenues	1,060,050	925,603
Expenditures	47,621,695	46,482,600
Running Expenditures	46,078,367	44,698,600
Salaries	17,316,953	16,667,092
Transfers	16,887,363	16,553,041
Capital Expenditures	1,543,328	1,784,000

a. SLK 42=USD 1 in 1999.

The current system of financial management of regional and district offices is not based on the principle of cost centers (demonstrating full expenditures according to sections). Thus, it is impossible to obtain exact figures on expenditures allocated to each branch of service (education, social care, et cetera). This situation is one of the obstacles to transferring responsibilities from the state administration to local self-government.

From December 1998, the regional office in Banská Bystrica began experimenting with cost centers structure in which each individual sector department represented one cost center. If successfully developed, this experiment will demonstrate the real amount of expenditure for each branch of local public service.

### 5.3 Participation in National Economic and Spatial Planning

Exercising its self-government functions, the municipality participates in social and economic development planning and spatial and technical development of its territory through:

- the municipal budget;
- real estate and movable property management;
- investment and business activities to meet the needs of its inhabitants and the development of the municipality;
- encouragement of economic activities, especially by issuing binding regulations on investment, use of local resources and entrepreneurial activities;
- territorial land planning;
- conceptualization of the development of individual sectors of municipal life.

The competencies of state administrative bodies concerning economic and spatial planning are regulated mainly by National Council Act No. 222/1996 on the Organization of Local State Administration and by Act No. 50/1976 on Land Planning and Construction Codes. A special act on regional development is in preparation at this time.

On the basis of these acts, the regional office coordinates the fulfillment of common tasks with other state administrative bodies and bodies of territorial self-government concerning:

- economic and social development of the territory;
- implementation of development concepts;
- creation and protection of a healthy way of life
- development of education, culture, tourism, care of youth and physical education;
- land planning for large complexes.

On the basis of these acts, the district office represents the state in performing the following functions:

- approval of development concepts in individual areas of municipal life;
- discussion on municipal area plans (with the exception of the capital city of Bratislava and the city of Košice);
- preparation of district social and economic development programs and coordination of individual and organizational initiatives related to such development;
- performance of necessary state administrative functions concerning land planning and construction.

## 6. Next Steps in the Transition Process

As a result of the general elections in September 1998, the political situation changed in Slovakia, replacing the previous government of prime minister Vladimír Mečiar with a new coalition of a number of political parties from both right and left wings of the political spectrum.

In this new political situation, the previous plans of public administration reform will be significantly altered, as evidenced by the parliamentary adoption of the Slovak Government Policy Program in December 1998. The most important parts of it are quoted here to summarize the trends that can be expected of future reform.

“Based on the political and economic situation, the Government will seek an optimal arrangement of public administration that ensures the basic needs of citizens. This will require a continuation of decentralization of responsibilities of the State to lower levels of public administration while respecting the subsidiarity principle. The Government will direct this process with a view to the overall performance of the economy so that decentralized tasks are allocated appropriate financial resources.

The Government will ensure the ratification of the European Charter of Local Self-government and compliance to the necessary extent with its obligations, and will also ascertain the possibility of implementing other provisions of the Charter in national legislation. Based on analysis and in accordance with the principles of the above Charter, the Government will realize further decentralization of the competencies of local state administrative bodies to territorial administrative bodies and prepared regional administration authorities.

Following the transfer of competencies to territorial authorities, the problem of their financial independence will be solved in order to determine and increase stable financial resources and flows in such a way that state intervention through the system of appropriations is limited in favor of the financial independence of municipalities.

The Government will assess the need to amend the Act on Territorial and Administrative Structure of the Slovak Republic.

The Government will propose to neighboring states that international arrangements be concluded, regulating the forms of and extent to which local and state authorities can develop cross-border cooperation.

The Government will enforce the consistent observance of laws in dealings between authorities and citizens.

The Government will bring state administration closer to the citizens.

The Government will create conditions for the improvement of professional skills of public administration staff and their systematic training and education.”

## Recent Publications on Local Government in Slovakia (in English)

Bercik, P. *Municipal Finance*. Ministry of the Interior: Bratislava, 1998.

Coombes, D. and T. Verheijen. *Public Management Reform: Comparative Experiences from East and West*. European Union, 1997.

Kuklis, P. "Municipality in a Society: the Case of Slovakia." *European Review of Public Law* 8:2 (1996).

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## Annex 7.1

## Major General Indicators

Size of territory	49,034 square kilometers						
Population density	109.9 inhabitants per square kilometer						
Population (31 December 1997)	5,387,650						
Age group	1994	1995	1996				
0–14	1,225,988	1,195,288	1,164,906				
15–49 females	1,399,053	1,414,853	1,428,093				
15–54 females	1,539,912	1,556,086	1,571,559				
15–59 males	1,654,683	1,674,682	1,694,278				
55+ females	608,082	613,557	619,872				
60+ males	327,542	328,177	328,317				
Aging index	76.3	78.8	81.4				
Major ethnic divisions	1994	1995	1996				
Slovak	4,590,100	4,599,597	4,608,245				
Hungarian	568,714	568,368	568,444				
Roma	83,988	85,073	86,383				
Czech, Moravian, Silesian	57,654	58,248	58,652				
Ruthenian, Ukrainian	31,618	31,962	32,165				
German	5,380	5,382	5,373				
Polish	3,039	3,090	3,147				
Russian	1,711	1,771	1,863				
Other	14,003	14,299	14,660				
GDP per capita (1997)	SLK 121,475						
Unemployment rate							
1990	1991	1992	1993	1994	1995	1996	1997
1.6	6.6	11.4	12.2	13.7	13.1	11.1	11.6
Inflation rate							
1990	1991	1992	1993	1994	1995	1996	1997
10.6	61.2	10.0	23.2	13.4	9.9	5.8	6.1

*Table 7A.1***Annual General Government Budget in Slovakia [current prices, in SLK billions]**

	1991	1992	1993	1994	1995	1996	1997
GDP	319.7	332.3	369.9	441.3	515.1	581.3	653.9
State Budget Expenditures	127.1	123.8	173.4	162.0	171.4	191.9	217.8
Social Insurance Funds Expenditures <sup>a</sup>	—	—	—	—	93.3	110.2	121.2
Municipal Revenues	16.2	20.6	21.0	20.1	22.2	25.4	28.8
Municipal Expenditures	14.3	19.7	19.3	19.1	18.9	23.1	26.6
Regional and District Offices Expenditures	—	—	—	—	—	—	41.8
Public Debt	—	—	—	130.4	134.9	142.9	135.0

- a. Not included in state budget expenditures (pension, sickness, unemployment and health care benefits)

## Annex 7.2

## Population, Settlements and Administrative Units

*Table 7A.2*  
**Settlements/Municipalities by Population Size Categories**  
**in Slovakia, 31 December 1997**

Population Size Categories	Number of Settlements	%	Number of Inhabitants	%
0–1,000	1,966	68.39	871,275	16.17
1,000–2,000	544	18.29	766,057	14.22
2,000–5,000	241	8.38	709,016	13.16
5,000–10,000	52	6.76	364,389	6.76
10,000–50,000	61	2.12	1,330,498	24.70
50,000–100,000	9	0.31	652,850	12.12
100,000–1,000,000	2	0.07	693,565	12.87
1,000,000+	—	—	—	—
<b>Total</b>	2,875	100	5,387,650	100

*Table 7A.3*  
**Population of Administrative Units**  
**in Slovakia, 1997**

Unit	Largest	Smallest	Average
Municipality (excluding cities)	7,063	7	847
City	451,395	1,406	22,554
District	163,018	12,848	68,198
Region	777,301	549,621	673,654



*Table 7A.4*  
**Civil Servants and Public Employees in Slovakia<sup>a</sup>**

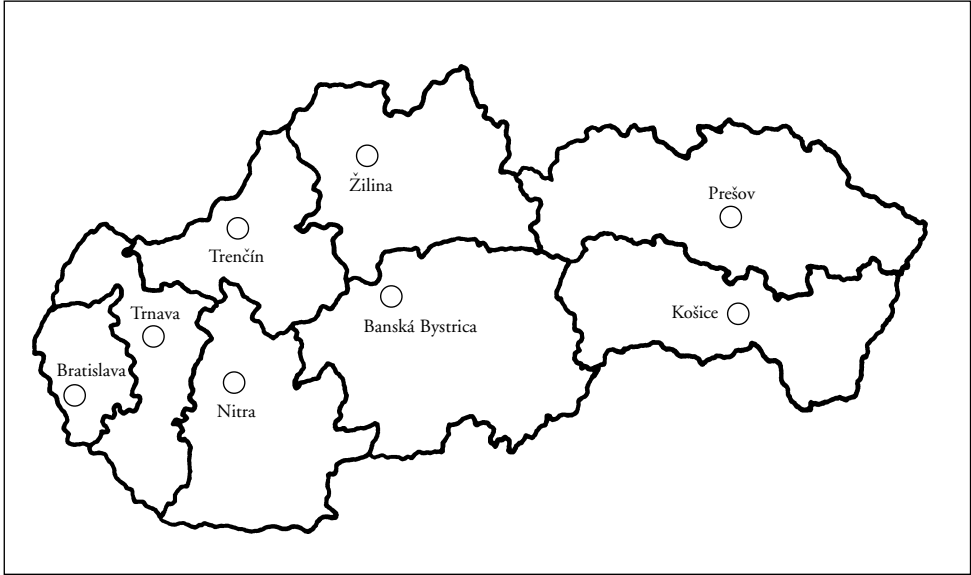
Indicator	1994	1995	1996
Employed in Economy	2,096,282	2,146,791	2,195,228
Employed in Public Sector	990,007	867,808	785,408
Employed in Public Administration, Defense, Compulsory Social Security	72,775	81,539	89,323
Employed in Education	180,807	183,038	183,234
Employed in Health and Social Work	129,400	128,166	126,364
Employed in Other Public Services	67,597	78,179	90,375

- a. There is no civil service code in Slovakia and no formal difference among types of public sector employees.

*Table 7A.5*  
**Employees in State Administration and Local Self-government in Slovakia**

	1995	1996	1997
Employees of Municipalities, including:	51,227	53,981	52,329
Employees of Municipal Offices	19,993	18,698	17,601
Employees of State Administration, including:	—	64,170	60,288
General Administration	—	50,643	56,474

*Figure 7A.1*  
**Administrative Map of Slovakia**



## Annex 7.3

### Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in Slovakia:

- a) The Constitution of the Slovak Republic (Act No. 460/1992)
- b) Concerning the status of municipalities
  - Slovak National Council Act No. 369/1990 on Municipalities
  - Slovak National Council Act No. 377/1990 on the Capital of the Slovak Republic
  - Slovak National Council Act No.401 /1990 on the City of Košice
  - Slovak National Council Act No. 346/1990 on Local Government Elections
  - Slovak National Council Act No. 138/1991 on the Property of Municipalities
  - National Council of the Slovak Republic Act No. 191/1994 on Designation of the Municipalities in Languages of National Minorities
  - National Council of the Slovak Republic Act No. 253/1994 on Legal Status and Salaries of Mayors and Lord Mayors
- c) Concerning the status of local state administration (regional and district offices)
  - National Council of the Slovak Republic Act No.221/1996 on the Slovak Republic Territorial and Administrative Organization
  - National Council of the Slovak Republic Act No.222/1996 on the Organization of Local State Administration

## Annex 7.4

## Responsibilities of Administrative Tiers

*Table 7A.6*  
**Specific Functions of Local Government Units in Slovakia**

Function	Municipalities	Regional and District Offices	Central State	Competence	Remarks
<b>I. EDUCATION</b>					
1. Preschool		X		exclusive, direct	
2. Primary		X		exclusive, direct	
3. Secondary		X		exclusive, direct	
4. Technical		X		exclusive, direct	
5. Other, esp. universities			X	exclusive, direct	
<b>II. SOCIAL WELFARE</b>					
1. Nurseries	X			elective, direct	
2. Kindergartens		X		exclusive, direct	
3. Welfare Homes		X		exclusive, direct	
4. Personal Services for Elderly and Handicapped	X	X		shared, indirect	
5. Special Services (homeless, families in crisis, etc.)	X	X		shared, indirect	
6. Social Housing	X				
7. Other, esp. social benefits		X		direct	

*Table 7A.6 (continued)*  
**Specific Functions of Local Government Units in Slovakia**

Function	Municipalities	Regional and District Offices	Central State	Competence	Remarks
<b>III. HEALTH SERVICES</b>					
1. Primary Health Care		X		indirect	licensing, network
2. Health Protection		X		direct	
3. Hospitals		X	X	indirect	management, capital expenditures
4. Public Health			X		state public health bodies
5. Other, esp. financing of providers					health insurance
<b>IV. CULTURE, LEISURE, SPORTS</b>					
1. Theaters		X	X	elective, indirect	
2. Museums		X		compulsory	
3. Libraries		X		compulsory	
4. Parks	X			elective	
5. Sports, Leisure	X			elective	
6. Cultural Centers	X	X		elective	
<b>V. PUBLIC UTILITIES</b>					
1. Water Supply	X		X	compulsory	
2. Sewage	X		X	compulsory	
3. Electricity			X	compulsory	
4. Gas			X	compulsory	
5. Central Heating	X			elective, indirect	

*Table 7A.6 (continued)*  
**Specific Functions of Local Government Units in Slovakia**

Function	Municipalities	Regional and District Offices	Central State	Competence	Remarks
<b>VI. ENVIRONMENT, PUBLIC SANITATION</b>					
1. Refuse Collection	X			compulsory	
2. Refuse Disposal	X			compulsory	
3. Street Cleaning	X			compulsory	
4. Cemeteries	X			compulsory	
5. Environmental Prot.			X	compulsory	
<b>VII. TRAFFIC, TRANSPORT</b>					
1. Roads			X	compulsory	excluding local roads
2. Public Lighting	X			compulsory	
3. Public Transport	X	X		elective	
4. Other, esp. local roads	X			compulsory	
<b>VIII. URBAN DEVELOPMENT</b>					
1. Town Planning	X			elective	
2. Regional/Spatial Planning	X	X		compulsory, direct	
3. Local Economic Development	X	X		elective	
4. Tourism	X	X		elective	
<b>IX. GENERAL ADMINISTRATION</b>					
1. Authoritative Functions (licenses, etc.)		X		exclusive	
2. Other State Administrative Matters (electoral register, etc.)	X			compulsory	
3. Local Police	X			elective	
4. Fire Brigades	X	X		compulsory	
5. Civil Defense	X	X		compulsory	
6. Consumer Protection	X	X		compulsory, direct	

Chapter 8



# Local Government in Hungary

*by*  
*István Temesi*

**Decentralization: Experiments and Reforms**





# Local Government in Hungary

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# Local Government in Hungary

*István Temesi*

## 1. Legal and Constitutional Basis

The reform process of the Hungarian system of local government has been continuous throughout the 1990s and has occurred in two main stages. The first was initiated by parliamentary Act No. LXV of 1990 on Local Governments, which established the legal foundation for the process of democratization and reform of the political system. The former system of local public administration followed the soviet scheme of councils that were undemocratic due to their centralized character and the absolute domination of the Communist Party. A new system of local democracy was established based upon the principles of Hungarian tradition and the European Charter of Local Self-governments of the Council of Europe. After the adoption of Act No. LXIV of 1990 on Local Elections and its implementation, the new system of local government began to operate.

The Constitution and the Act on Local Governments recognized the rights of local communities, including the smallest of settlements, to self-government in managing local affairs, and the number of local units increased to 3,149, all of which elected their own representatives and executive organs.

The principles of local government are stipulated by the constitution. Eligible voters of communities, cities, the capital and its districts and counties have the right to local self-government—the autonomous and democratic management of and decision making on local public affairs in the interest of the resident population. Eligible voters exercise their right to self-government by means of an elected body of representatives and by local referendum. The rights and duties of local authorities are determined by parliamentary acts and are afforded legal protection by the court system.

The general territorial division of Hungary is fixed by the constitution. It is partitioned into counties, cities, communities (villages) and the capital, which is subsequently divided into districts; administratively, local governments are constituted in each of these units. Local state administrative units as well as other organs of the state, such as the court system, are organized on the basis of such territorial division depending on the characteristics of their particular tasks.

The second major stage of the reform process was realized when the Act on Local Governments was broadly modified by Act No. LXIII of 1994, which addressed problems that emerged in

practice. Modifications were based on four main factors: (1) four years of practical experience with the operations of the local government system, (2) decisions of the Constitutional Court and adjudication of other courts, (3) professional and scientific theoretical analysis and (4) foreign experiences. Generally speaking, the outcome of political and economic transformation also was taken into consideration. The principles of the modifications were as follows.

1. The system of local governments created in 1990 had functioned well, and the fundamental institutions and principles of public administration were well established.
2. The constitutional guarantees to local governments needed to be broadened.
3. Inconsistencies and inadequacies in legislation needed to be reconciled.
4. Modification of the system was necessary before local elections were held so that new officials and representatives could commence their work under the force of and with knowledge of the new regulations.
5. Not only correction but also development of the system in compliance with political, economic and constitutional conditions was desired.

The main changes that were introduced by the modifications follow and will be discussed in greater depth below.

1. Direct elections for mayor were introduced in all settlements.
2. Guarantees of publicity and forms of citizen participation were regulated or modified.
3. Obligations of local representatives were established more clearly.
4. Rules of joint local government were elaborated.
5. The county became an institution of territorial local government, and its role increased. New functions were established, its legal status was changed, and direct elections for county representatives were introduced.
6. The act on the capital and its districts was repealed and its governance brought under legislation regulating all local governments.
7. The institution of the Commissioners of the Republic was abolished and replaced by county and capital public administration offices.

The creation of new local governments in 1990 required the transformation of the whole system of public administration. Before 1990 the state administered local affairs in accordance with the principles of centralization and hierarchy through a system of councils on the local level. Since 1990, Hungarian public administration consists of two main frameworks. The first includes central government bodies and their organs at the local and territorial levels that are subordinate to the state administration. The second type of structure is the system of local self-government, based on the principles of decentralization and autonomy.

The functions of public administration are shared by these two frameworks, creating competition for the fulfillment of functions at the local level by their respective organs. This is the essence of the conflict of interest between local self-governments and territorial organs of the state administration.

## 1.1 Local Self-government: Municipalities and Counties

Local government in Hungary exists at two levels: the municipality and the county. Municipalities are the basic units of the system and are organized by settlements, which in Hungary include villages, cities and cities with county rights. The middle tier of local government, also referred to as “regional” government, consists of nineteen counties. The capital city, Budapest, has special legal status.

There are no hierarchical relations between the two levels of local government. As declared by the constitution, the fundamental rights of all local governments are equal. County local governments neither are superior organs to municipalities, and nor do they have supervisory authority over them. The difference between these two lies in the administrative tasks delegated to each. Municipalities provide local public services to their settlements; counties have a subsidiary role in that they provide public services that settlements are not capable of performing, as well as those that have a regional character.

Municipal governments have broad responsibilities in service provision. They can undertake any local public issue not prohibited by law that does not endanger the fulfillment of obligatory functions and powers. Thus, local government tasks are differentiated as mandatory and optional. Obligatory functions and powers of local governments are determined by parliament, which simultaneously must ensure the financial means necessary for the fulfillment of such tasks.

The functions of municipalities—village and city settlements—are enumerated by the Act on Local Governments. Mandatory tasks prescribed by the act include the provision of healthy drinking water, kindergarten education, primary school instruction and education, basic health and welfare services, public lighting, local public roads and public cemeteries and the protection of the rights of ethnic and national minorities. A local government freely may undertake optional tasks determined on the basis of the requirements of the population and financial means available.

Cities may be obliged to provide additional public services. The Act on Local Governments states that municipal governments may be authorized by parliamentary act to provide specific public services and to attend to other local tasks. Such obligations may be determined on the basis of the size, population or financial capabilities of the settlement. For example, cities must maintain fire brigades, technical rescue services and a wider range of social welfare services than villages.

Some major cities are conferred special legal status by the Act on Local Governments; those that are county seats also exercise county rights. Other cities with populations of more than fifty thousand inhabitants may obtain this status by application of its representative body to parliament under procedures regulated by the act. The government of a city with the rights of a county is a municipal government that also discharges the functions and powers of a county government. Its local government may form districts and may establish district offices.

The autonomy of Hungarian counties is based on the tradition of several centuries, which is one reason why public administration reform could not avoid incorporating counties into the new system of local government. In 1990 the Act on Local Governments defined the county as local government with a mainly subsidiary role in local services provision. Modifications of the act later changed the legal status of the county; since 1994, it is considered a regional level of local government, but its role remains secondary in the provision of local services. The county performs tasks that municipal governments are not obliged to provide, but its obligations are not enumerated specifically by the act; rather, types of situations are given in which responsibility is transferred to the county from the municipality. Additional public services of a regional character may be conferred upon the county by parliamentary act.

Under certain conditions that are regulated by law, municipalities may manage local government functions allocated to counties. In particular, the municipal government of the seat of the county can provide public services on a regional level in agreement with the county government or may supervise the operation, development and control of a county institution. If the majority of the users of a particular service over the course of four years are inhabitants of the municipality, the county government must transfer the management of the public service to the municipal government of the seat of the county on its request.

The county also may undertake optional tasks. The act stipulates that in addition to the performance of obligations prescribed by law, the county government may undertake public tasks that are not exclusively assigned by law to another organ or the performance of which does not violate the interest of the municipalities of the county. In practice the main function of counties is maintenance of institutions providing public services, such as hospitals, secondary schools, museums, libraries, theaters, et cetera.

## 1.2 The Status of the Capital City

The capital of the country has unique legal status. The Act on the Capital Self-government (Act No. XXIV) was adopted in 1991, then modified in 1994 and incorporated into the Act on Local Governments as Chapter VII.

The capital has a two-tiered system consisting of the self-government of the capital and those of its twenty-three districts. The municipal governments of the capital and its districts have independent functions and powers. The district governments independently fulfill the functions and powers of municipal governments. The government of the capital fulfills mandatory and voluntarily assumed municipal government functions and powers that affect the whole city or more than one district, as well as the those related to the special role of the capital within the country. Any legislation on the functions and powers of local governments must clearly specify whether it affects the capital or its districts.

In practice the tasks and services provided by the two levels are not differentiated. On the basis of agreement, district governments may undertake—or the capital may delegate the organization of—certain public services that fall under the scope of functions and powers of the capital's government, as long as the financial resources necessary for the fulfillment of such services simultaneously are identified.

The functions and powers of the capital are similar to those of the county in that they are not specified by legislation.

### 1.3 Relationship between the State Administration and Local Government

The relationship between local governments and central organs of public administration and other organs of the state are regulated by the Act on Local Governments.

Parliament regulates the legal status, exclusive functions and powers, mandatory functions, mandatory organs, financial resources, basic rules for assets management, legal status of the local government representatives, procedures of elections and the rights and obligations of local governments. Based on proposal by the government and the opinion of the Constitutional Court, parliament may dissolve local representative bodies for unconstitutional activities. In such deliberations, the mayor of the local government must be invited to participate in this item of the parliamentary agenda and has the right to provide the representative body's position on the proposal of dissolution. If parliament resolves to dissolve the representative body of a local government, it simultaneously must set the date of elections within sixty days of the decision.

Parliament determines the territorial division of the country after soliciting the opinions of the local governments involved regarding the union, separation, changing of boundaries, name and seat of counties; recognition of a city with county rights; and on the designation of the districts of the capital.

The president of the republic, upon the initiative of a local government, decides upon the granting of city status, as well as on the formation, union and termination of such a union and on the name of a city or community. If parliament dissolves a local representative body, the president appoints a commissioner of the republic to direct self-government responsibilities and state administrative functions during the interim period until the new representative body is elected.

The Constitutional Court protects the rights of self-government, oversees the legality of local authority activities and exercises constitutional control over local government decrees. The Constitutional Court has the right to abolish decrees that do not comply with the constitution. The State Audit Office oversees the management of local government assets. As the financial-economic control of parliament, the State Audit Office supervises the allocation and use of public finances. Concerning local governments, the State Audit Office's responsibilities are defined by Act No. XXXVIII of 1992 on Public Finances, which stipulates that the office regulates

the utilization and accounting of normative budgetary contributions, aid allocated for specific objectives, consigned funding and other allocations deriving from public finances.

The government designates legal supervision over local governments to the Ministry of the Interior, which is exercised through the heads of the public administrative offices of the capital and counties. These bodies propose the dissolution of local representative bodies due to unconstitutional activities, determine the qualifications for local public service, recommend the transfer of state administrative functions and provide for their implementation, and reconcile disputes between state administrative organs and local governments that do not fall under the scope of authority of other procedures regulated by legislation.

The Ministry of the Interior prepares decisions on territorial arrangement that are within the competence of parliament and the president and initiates procedures to dissolve local representative bodies that have acted unconstitutionally upon the request of the government. It participates in the preparation of legislation concerning the functions and powers of local governments and the responsibilities of mayors, chief mayors and offices of public administration in the capital and counties. The Ministry of the Interior coordinates governmental tasks of municipal development and of county development, planning and utilization of assets. It commissions the heads of offices of public administration of the capital and of counties and supervises their activities.

Territorial state administrative offices were created in 1994, reforming the previous system of Commissioners of the Republic, which functioned in eight regions, each encompassing two or three counties and Budapest. The president appointed the commissioners. Today, state offices of public administration function in each county and in the capital. The prime minister on recommendation of the minister of the interior appoints the head of office. These offices are budgetary organs that perform state administrative functions in four main areas: (1) legal regulation, (2) assignment of state administrative tasks in the first instance, (3) appellate functions of public administration in the second instance and (4) coordination of the activities of local governments and of administrative organs subordinate to the central government.

The head of office regulates the legality of activities of local governments, minority governments and settlement governments of minorities. The office head is responsible for examining the organization, activities, decision-making procedures, decisions and resolutions of self-government by committees, sectional governments, the mayor, chief mayor, county general assembly and president and ensuring accordance with the law. In cases of violation of the law, the head of office formally requests that the relevant party make amends and establishes a deadline for doing so. The relevant party examines the request and informs the head of office of the measures taken or appeals the request. If no measure is taken by the determined deadline, the head of office may initiate review by the Constitutional Court of the unlawful act, judicial review by court or the convocation of the body of representatives by the mayor to terminate the violation. The head of office also calls meetings of the local body of representatives if the mayor does not



comply with a proposal for such convocations by one-quarter of the representatives or by a committee of the body of representatives within fifteen days. The head of office also may initiate investigation with the State Audit Office concerning the management of local government assets.

Concerning state administrative tasks of the first instance, the head of office discharges functions assigned to the office's competence by legislation or by the government. In practice this means that the head of office performs particular administrative tasks that are the responsibility of the state, such as expropriation, prevention of natural and other disasters, et cetera.

The head of office acts as an appellate body in administrative cases if the first stage of appeals has been completed through the mayor, chief mayor, president of the county assembly, head of office of the district of a city with county rights, chief executive or general chief executive if the case does not require the authority of another particular state administrative organ. The head of office coordinates the activities of local government and state administrative organs.

The Act on Local Governments stipulates that local governments have the right to appeal decisions of other organs of the state. Regarding any issue concerning the rights, functions and power of authority of local government, the body of representatives may apply for remedy directly or through representative associations to the head of the state organ having competence in the issue. It may request information, data, professional opinions and interpretations of the law or may make proposals on and initiate measures to be taken. Local representative bodies may also express their opinion on, object to or initiate modification or withdrawal of decisions and activities of state organs. The state organ in question must respond to such inquiries within thirty days.

### 1.3 Aspirations and Legal Basis for Regionalization

In 1990, when local public administrative reform was initiated, one of the major professional debates revolved around the county. As previously mentioned, counties have existed for almost a thousand years in Hungary. Proposals for more appropriate territorial systems of public administration have been made several times in Hungarian history, and many plans have been elaborated in theory as well as in practice. The most realistic solutions always were born in crisis situations, when significant political or social changes occurred or were expected. The last such instance was in 1990, but counties remained, though their functions and powers were restricted substantially. In 1994, the Act on Local Governments was modified and the legal and political status of counties was strengthened, as they were declared regional governments and their representative bodies—the assemblies—were elected directly by voters. Previously the county had local government status and electors delegated by municipalities elected its representatives.

These changes and the trend towards regionalization were initiated due to Hungary's intention to integrate with the European Union (EU). In 1992, the government resolution on the modernization of Hungarian public administration did not mention regions or the renewal of the system. Four

years later, the government announced a detailed program that addressed the issue of regionalization through county governments. This program recommended neither smaller counties nor the establishment of a new level of public administration between the county and the central level that would function as an administrative authority with a general scope of powers. Consequently, regionalization was discussed only within the current county framework based on free and voluntary association of counties that later would be the basis for the formation of new regions.

The European integration process recommends regionalization due to the NUTS system (*Nomenclature des Unités Territoriales Statistiques*, Nomenclature of Statistical Territorial Units), which is implemented throughout the European Union. The units of the NUTS system are first of all statistical regions; they do not have to be administrative divisions, though the boundaries of such units in the member countries of the EU follow their administrative division. EU directives do not require such administrative division, but the instruments, organizations and financing of the European Union's regional policy recommend the renewal of Hungarian regionalism and the system of territorial division.

Act No. XXI of 1996 on Regional Development established two regional institutions: the planning-statistical region and the development region. The development region is a possible solution to the initiation of regionalization; it incorporates the territory of one or more counties or the capital and must be established through free association. The counties involved in the association create a common organ—the regional development council.

In March 1998 parliament issued a resolution on the National Conception of Regional Development establishing seven planning-statistical regions in compliance with the NUTS system. This framework also clearly established the political intention to shift the system of counties towards regionalization.

Planning-statistical regions and development regions do not necessarily have the same territory. The most recent measure executing regionalization is a government resolution that determines the functions and powers of the prime minister's office with regard to public administration and regional development. The minister exercises such authority through a state secretary charged with this task.

## 2. Local Politics, Decision Making

### 2.1 System of Local Elections

The most important organs of local government are the body of representatives and the mayor, both of which are elected by voters of the community. Procedures for local elections are regulated by Act No. LXIV of 1994 on the Election of Local Representatives and Mayors, modifying the Act on Local Elections, which was adopted as part of the initial reform process.

Suffrage is universal and equal, and voting is direct by secret ballot. All Hungarian citizens of age who are permanent residents of a particular municipality have the right to vote and to stand in local elections. Those who are not Hungarian citizens but have permanently settled in Hungary also have the right to vote.

The system of elections of the body of representatives differs in small and large settlements; both the “short ticket” and the “mixed” system are utilized. Municipalities of ten thousand or fewer inhabitants form a single constituency that may elect between three and thirteen representatives depending on the size of the population. Each citizen may vote for as many candidates as there are members of the body of representatives. Candidates are elected by simple majority.

The mixed system of election is applied in municipalities with more than ten thousand inhabitants, which includes the districts of the capital. In this system, a proportion of the representatives are elected by individual constituencies, and the rest receive their mandate by party lists. The number of mandates of each is fixed by legislation.

As a result of the 1994 modifications, sixty-six members of the council of the capital are chosen directly by voters via party lists. Before 1994, they were elected by electors delegated by the districts, and the county assembly was elected by electors delegated by settlements. Now the members of the county assembly also are elected directly. There are two constituencies in each county: one for settlements with less than ten thousand inhabitants and the other for those with more than ten thousand inhabitants. Voters who are residents of cities with county rights do not have the right to vote for county assembly representatives. The number of members of each assembly is fixed by legislation.

Mayors of all municipalities and the general mayor of Budapest are elected directly by voters. Before 1994, in municipalities with more than ten thousand inhabitants, the mayor was elected by the body of representatives, while in settlements of ten thousand or less inhabitants, the mayor was elected directly by voters.

*Table 8.1*

**Results of the 1998 Elections in Hungary**

Parliamentary Parties	Election Results of Counties and the Capital [%]
Government Coalition: – FIDESZ-Hungarian Civic Party – Independent Smallholders and Civic Party – Hungarian Democratic Forum	39.64
Coalition of: – Hungarian Socialist Party – Alliance of Free Democrats	35.12
Other (not parliamentary)	20.15
Party of Hungarian Life and Justice	5.09
<b>Total</b>	<b>100.00</b>

- a. At the national level, the parties with representation in the Hungarian Parliament from 1998 to 2002 include: (1) FIDESZ-Hungarian Civic Party, (2) Independent Smallholders and Civic Party, (3) Hungarian Democratic Forum, (4) Hungarian Socialist Party, (5) Alliance of Free Democrats (4 and 5 comprised the government coalition from 1994 to 1998), (6) Party of Hungarian Life and Justice.

*Table 8.2*  
**Number and Percentage of Mandates  
 in the 1998 Local Elections in Hungary**

	Mayor	Body of Representatives			County, Capital Assemblies	Total Mandates	% of Total Mandates	% of Total Vote
		0-10,000 Inhabitants	10,000+ Inhabitants	Total				
Independent Candidates	2,662	18,848	191	19,039	0	21,701	61.81	48.39
Independent Minorities	47	788	55	843	0	4,897	13.95	9.55
Hungarian Socialist Party	87	396	931	1,327	270	1,684	4.8	9.47
FIDESZ- Hungarian Civic Party	77	354	546	900	212	1,189	3.39	6.86
Independent Smallholders and Civic Party	77	454	282	736	94	906	2.58	4.62
Alliance of Free Democrats	37	90	320	410	65	512	1.46	3.65
Hungarian Democratic Forum	39	161	302	463	70	572	1.63	3.27
Christian Democrats	18	131	116	246	14	278	0.79	1.28
Others	—	—	—	—	—	—	9.59	12.91
<b>Total</b>							100.00	100.00

*Table 8.3*  
**Distribution of Mandates in 1998 Elections for County and Capital Assemblies  
 and Mayors in Hungary**

Party	Assembly [%]	Mayors [%]
Hungarian Socialist Party	29.97	2.77
FIDESZ–Hungarian Civic Party	23.50	2.46
Independent Smallholders and Civic Party	10.39	2.44
Hungarian Democratic Forum	7.81	1.24
Alliance of Free Democrats	7.22	1.18
Hungarian Alliance of Christian Democrats	3.47	—
Christian Democrats Party	1.54	0.57
Party Hungarian Justice and Life	1.39	—
Others	14.71	3.00
Independents	—	86.34 <sup>a</sup>
<b>Total</b>	100.00	100.00

a. Including independent minorities.

## 2.2 Forms of Direct Democracy

The Act on Local Governments regulates three main forms of direct democracy: local referendum, local public initiative and public hearing. Participants in local referendums and public initiatives are those who have the right to vote in municipal elections.

The representative body of the local government calls local referendums. A local referendum may be initiated by at least one-quarter of the local representatives, by a committee of the representative body, by the executive body of a local civil organization or by ten to twenty-five percent of the electorate, as determined by the statutes of the local government.

The Act on Local Governments regulates the conditions under which local referendums can and cannot be held. The body of representatives is obligated to call local referendums on initiatives to unite or separate villages, establish new communities, establish or separate joint representative bodies and other matters determined by the statutes of the local government. Additionally, the body of representatives may call referendums on issues falling within its competence to confirm its decrees. Referendums cannot be called on decisions concerning the local government budget; local taxes and rates; organizational, personal and operational matters; or the declaration of dissolution of the representative body.

If a referendum is unsuccessful, the body of representatives is entitled to make a decision on the issue put forward. Another local referendum on the same issue may not be called within one year. The statutes of the body of representatives regulate further conditions and procedures of local referendums.

In villages with less than five hundred inhabitants, local referendums may be conducted through village meetings of the local authority with the understanding that the outcome is considered a decision by referendum if more than half of the voters are present at the meeting.

Popular initiatives serve to bring local matters before the body of representatives that fall within its competence. They must be submitted to the mayor. The number of voters necessary for a popular initiative to be successful—between five and ten percent of the electorate—is determined by the statutes of the local authority. The representative body is obligated to hold a debate on the popular initiative.

The final form of direct democracy is public hearing, which must be held at least once annually by the body of representatives. The time and place of a public hearing must be announced in advance. Citizens and representatives of local interest organizations have the right to participate in, have a voice in, and make proposals during such hearings.

### 2.3 Other Organizations

In addition to state administrative organs subordinate to the central government and local governments, Act No. XXI of 1996 on Regional Planning and Development established the institution of county development councils, which are quasi-governmental organizations that coordinate tasks related to regional development. The council is comprised of elected and appointed officials. Representative bodies of municipal governments may create regional development associations, but this is not obligatory. County development councils may form regional development councils that address responsibilities extending to more than one county. In the near future county development councils might become the basis of regionalization.

### 2.4 Internal Structure of Local Government Decision Making

The basic rights and powers of local government are exercised by the body of representatives, which may delegate authority to the mayor, its committees, city district bodies of representatives and bodies of local minority self-government. Delegated powers may not be transferred further. The Act on Local Governments prescribes powers that cannot be delegated to another organ, including the issuance of decrees, establishment of local government organs, calls for local referendum, agreements of cooperation with other local governments and establishment of institutions.

The body of representatives establishes its rules of organization and procedures of operation through its statutes.

Committees of the local body of representatives are elected organs. The decision to establish committees is determined by the body of representatives, with the exception of the financial committee, which is obligatory for every local authority with a population of more than two thousand, and the committee on minority issues, which must be established on the initiative of a minority population that has obtained a mandate in the body of representatives. Other statutory committees are determined by legislation. The body of representatives elects the members of committees; more than half of a committee's membership must be elected from among the representatives, but other members may be citizens or representatives of citizens' organizations.

Committees prepare decisions of the representative body and oversee the implementation of such decisions by the office of the representative body. The body of representatives may grant committees decision-making power and may revise decisions made by committees. Authority may be delegated to committees by decree issued by the body of representatives.

The mayor is the political and administrative head of the local government and is responsible for local policy implementation. The mayor has dual administrative functions: he or she performs both local and state administrative tasks. The mayor represents the body of representatives.

The mayor addresses his/her responsibilities and exercises authority with the assistance of the office of the representative body. The mayor directs the office in organizing the work of the local government and in preparing decisions and their implementation, in accordance with the statutes of the body of representatives. He or she makes decisions on state administrative matters and has the right to delegate such powers. On proposal of the chief executive, the mayor submits a draft to the representative body on the internal organizational structure, tasks and priorities of the office. The mayor exercises employer's rights over the vice-mayor, chief executive and heads of local government institutions.

According to the Act on Local Governments, in villages with less than three thousand inhabitants, the position of mayor may be filled voluntarily.

The vice-mayor or vice-mayors may be elected on proposal of the mayor for the term of office of the representative body from among its members. Vice-mayors perform functions under the supervision of the mayor. In settlements with more than three thousand inhabitants, this position must be a full-time appointment. In practice, this institution serves the purpose of political concession to representatives of political parties within the local government. For example, if the mayor is of a minority party, he or she may appoint a vice-mayor of the majority party in the body of representatives.

The chief executive, also called the notary, is a public administration professional, while the mayor represents its political side. Thus, the chief executive is appointed, not elected, by the

body of representatives for an undetermined period and on the basis of open competition. Law determines the qualifications of chief executives.

The chief executive manages the office of the representative body. The mayor directs the general strategy of the office, while the chief executive is responsible for its day-to-day activities and exercises employer's rights over civil servants employed by the office. The chief executive addresses tasks related to the activities of the local government and prepares decisions on state administrative matters made by the mayor. He or she is delegated authority by the mayor.

The chief executive is responsible for ensuring the lawful activities of the local government. He or she participates in sessions of the body of representatives and its committees and reviews the legality of their decisions and those of the mayor.

On proposal of the chief executive the body of representatives appoints a vice-chief executive. The vice-chief executive represents, is the delegate of and performs tasks determined by the chief executive. The appointment of vice-chief executive is an option in villages and an obligation in other local governments.

The representative body from among its members on proposal of the mayor or any of the representatives may elect a councilor or councilors. Councilors supervise the exercise of self-government functions determined by the body of representatives.

Neighborhood local governments may be formed by the body of representatives in accordance with its statutes and are composed of both representatives and other voters. The head of the neighborhood local government is a member of the body of representatives. The body of representatives may delegate some of its authority and financial resources to the neighborhood government.

## 2.5 Public Participation in Decision Making

There are several forms of public participation in decision making. Direct methods, such as local referendum, local public initiative and public hearing, have been discussed above.

A representative body of local government may designate alternative forms of public participation in its statutes. As determined by the Act on Local Governments, the body of representatives must establish the rules of public fora, the goal of which is to determine public opinion and invite public involvement in the preparation of important decisions. Such venues include, for example, community policy fora, city policy fora, city district conferences, village meetings, et cetera. The representative body must be informed of both the majority and minority positions expressed at such fora.

Citizens may also participate in local decision making through membership on committees of the representative body. Traditionally, members of a committee include representatives of



significant organizations providing services in the field of the committee's responsibility, a delegate of a relevant civil organization and other citizens using the services.

## 2.6 Ethnic Issues, Multicultural Government

The Constitution of the Republic of Hungary protects the interests of national and ethnic minorities by granting them the right to collective participation in public life, including the establishment of their own self-governments at the local and national levels. Such rights are reinforced by several parliamentary acts regulating national and ethnic minority rights. The Act on Local Governments contains provisions concerning this topic in Chapter X/A on self-government of minorities.

Each national and ethnic minority group has the right to form its own local self-government in the settlement in which it resides. The procedures of election of representatives of national and ethnic minority local governments are regulated by Act No. LXIV of 1990 on Local Elections.

National and ethnic minority self-government may be organized by three methods on the local level and by one method on the national level. Each minority group may establish settlement governments in villages, cities and the districts of Budapest (1) directly or (2) indirectly. In the capital, local minority government may be established directly. A municipal government may declare itself a minority government if more than half of its elected representatives are of a certain national or ethnic minority. If more than thirty percent of the local representatives are of the same minority, they indirectly may form a local minority government comprised of at least three members. Local minority governments may also be elected directly by citizens; the rules for such elections are stipulated in Act No. LXIV of 1990. This form of minority self-government elects its own officials.

A minority group may form only one local minority government established either directly or indirectly. Regardless, the functions and powers of local minority governments are the same as those of local governments, plus those regulated by Act No. LXXVII of 1993 on the Rights of National and Ethnic Minorities. The office of the representative body of local government is obligated to assist the activities of local minority governments under conditions regulated by its statutes. In making decisions concerning issues such as education, the media, local traditions and culture, and language use, the local government must obtain agreement with the local minority government of the concerned ethnic group.

In addition to the right to elect national and ethnic self-governments, each minority group may elect a speaker. The speaker is the candidate of the national or ethnic minority group who received the highest number of votes in general local elections. If he or she is not elected to the representative body, he or she has the right to participate in its sessions. Other rights of the speaker are regulated by the Act on the Rights of National and Ethnic Minorities.

If a representative of an ethnic group to a body of representatives initiates the formation of a committee on minority affairs, the body of representatives is obligated to form such a committee.

## 2.7 Local Government Associations and International Contracts

The right of local governments to associate is declared by the Constitution of the Republic of Hungary. Such associations may include cooperation between local representative bodies, participation in associations of self-governments for the protection of their interests, international cooperation and membership in international organizations of self-governments.

This right is particularly important in Hungary, where there are a high number of small settlements with wide legal and administrative autonomy and thus the fulfillment of their functions and powers is difficult. The right to associate is reaffirmed in the Act on Local Governments. For the purpose of representing and protecting their interests, self-governments may join regional or national organizations. Acting within the scope of their functions and powers, they may cooperate with foreign local governments and may join international organizations of local governments.

Associations of local governments may have many forms. The act regulates the establishment of some associations and stipulates that others may be established freely. Such activities improve the efficiency and effectiveness of local government functions; thus, incentives are offered through the central budget to support the establishment and activities of associations. The general rule concerning associations is that their activities may not violate the individual rights of those self-governments participating in them. Some conditions of association are stipulated by Act No. CXXXV of 1997 on the Association and Cooperation of Local Governments. Disputes arising among municipal representative bodies as a result of association activities are resolved in court. Three forms of association are regulated.

1. Local representative bodies may establish administrative authority associations for the purpose of addressing particular state administrative affairs.
2. Associations of institutional control may be established by representative bodies for the management of institutions that serve more than one settlement.
3. Joint representative bodies may be formed by more than one local representative body. In such cases, the collaborating organs may partly or fully unify their budgets and jointly may manage an office and institutions. In affairs relevant exclusively to a particular settlement, the representative body of that settlement independently exercises decision-making authority.

In addition to freely established associations, small villages with less than one thousand inhabitants are obligated to form joint local government offices with other such villages in the same county. The joint local government office addresses tasks of administration. Communities with more than one thousand but less than two thousand inhabitants also may participate in joint local

government offices. Alternatively, local governments with fewer than one thousand inhabitants may avoid membership in joint local government offices if they establish an independent office headed by a chief executive who possesses the required qualifications.

A joint local government office is established on the basis of agreement among the representative bodies concerned. The chief executive of the joint local government office addresses administrative tasks related to the activities of the representative bodies, committees and settlements and prepares and implements state administrative decisions in the scope of the mayor's authority.

Law does not regulate other forms of local government associations. These associations are mainly formed to represent common local government interests. Many Hungarian local governments are members of international organizations or twinning relationships.

There have been numerous attempts to create a nationwide association of local governments to represent their interests, but this aspiration has yet to be realized. Since 1989 eight associations have been formed. In 1996, the seven associations in existence at the time established a common body that was unable to fulfill the functions assigned to it and was dissolved in 1998. Although there is constant communication and cooperation among the eight associations of local government, the creation of a unified national association is still lacking.

The general role of associations is to increase the efficiency of local governments. Potentially, local government associations have several functions as listed below:

- ensuring constant communication between local governments and the central government and parliament on local government issues;
- representing the interests of municipalities at the national level;
- providing training and seminars for mayors, elected representatives, local officials and public managers;
- creating an information center and databank on local government issues (law making, finance, personnel, et cetera);
- analyzing local government issues;
- publishing information bulletins, handbooks and training manuals;
- providing special services (legal, financial audit, crisis management, et cetera).

### 3. Local Administration, Service Provision

#### 3.1 Structure and Operation of Local Administration

One element of Hungarian self-government is the ability to decide autonomously on organization and rules of procedure. The administrative organization of local governments is determined mainly by the statutes of the body of representatives, by the mayor and by the chief executive.

Thus, the body of representatives is responsible for establishment of its office and the division of its powers into departments.

The division of the office may be based on administrative branches (for example education, welfare, local economy), functional tasks (labor, finance) or types of activities (issuing licenses, direction of institutions). Also the office may be divided on the basis of the main functions performed by the local authority—local government or state administrative. The office acts, however, as a unified professional administration.

Responsibilities and authority of self-government may not be exercised directly by the office, but rather are the competence of the body of representatives. State administrative powers are exercised mainly by the chief executive and exceptionally by the mayor of the office. Consequently the office itself has strictly administrative and preparatory tasks.

The management of the office is addressed by the mayor and the chief executive. Often, the mayor directs the office, and the chief executive manages it. The mayor exercises employer's rights over the vice-mayor, chief executive and the heads of local government institutions. The chief executive exercises employer's rights over public servants employed by the office. The mayor's approval is necessary for decisions made by the chief executive that fall under the mayor's competence; for staff appointments to and removal from the office and for granting bonuses. As a general rule, the chief executive has decision-making authority over state administrative affairs, which is why departments dealing with such affairs are subordinate to the chief executive rather than to the mayor, who is responsible for local government affairs.

The personnel of the office of the representative body are civil servants. In Hungary, public service is regulated by Act No. XXIII of 1992 on the Status of Civil Servants, regardless of whether the administration is central or local. Although the rules affect all levels of public service, the act allows some differences concerning the personnel of local governments.

Act No. XXIII of 1992 regulates the qualification requirements of certain positions, such as the chief executive. The salary structure of civil servants exercising executive authority is determined by the body of representatives. Other staff members may be employed in the office of the representative body, whose appointment is regulated by this act.

### 3.2 Control, Audit and Supervision of Local Government

Local government control and audit are performed in two manners: by internal organs and by external organizations. Internal control is the responsibility of the body of representatives and is exercised through the chief executive (whose control functions have been described earlier), the auditor (who oversees the management of assets), the financial committee (which assesses annual budgetary proposals and reports) and the accountant. The financial committee also monitors

changes in budget revenues, examines the justification for and economic soundness of borrowing, may regulate adherence to regulations of cash management and ensures compliance with financial regulations and discipline. In counties, cities with county rights, the capital and its districts the body of representatives must employ a qualified accountant as well.

The State Audit Office exercises control over the management of assets of local governments; its procedures are regulated by the Act on State Audit. The government exercises control of legality through the minister of the interior and through the heads of county public administrative offices.

Public administrative offices and courts share the responsibility of control over local government, but public administrative offices are not entitled to intervene directly in local government affairs; they only may initiate administrative proceeding through the courts. Organs of local government performing state administrative functions usually are subordinate to superior organs. For example, the head of the county public administrative office and several state administrative organs subordinate to the central government on the county or regional level are superior organs to the chief executive.

### 3.3 Local Service Delivery

Local government participation in providing public services is based on the Act on Local Governments, which stipulates that they may act autonomously in public affairs of local interest, including satisfying the needs of the population through the organization and financing of public utility services. Such responsibilities may be assigned to another organization only exceptionally and only by legislation.

The provision of services by the Hungarian local government system is based upon the principle of mandatory and facultative (optional) tasks, as stipulated by Act No. LXV. Mandatory tasks are further categorized; the first category must be provided for every settlement despite type or size, including water supply, general education, basic health and welfare services, public lighting, maintenance of local public roads and cemeteries and the protection of the rights of ethnic and national minorities. The second category of mandatory tasks is determined by legislation, and the financial means necessary for such purposes must be allocated from the state budget. This second type is regulated by the Act on Local Governments, which says that local governments with large populations and greater capabilities may be assigned more mandatory functions and powers in comparison to those of other local governments.

Other tasks are optional. Considering the general rule that local self-governments have various functions and powers that depend upon the requirements and capabilities of their territories, each local government may undertake very different tasks. Through the local elected representative body or by decision of local referendum, local governments may voluntarily transfer any local

public affair that is not assigned by law to the competence of another organ. Managing voluntary tasks may not endanger the fulfillment of obligatory functions.

In performing the tasks determined by the act, municipal governments autonomously make decisions on the requirements of the population, allocation of the financial means available, specific tasks to be addressed and their means of implementation. Such tasks specified by the act include:

- municipal development;
- protection of the natural environment;
- management of housing;
- water management and supply;
- sewage systems;
- maintenance of public cemeteries;
- maintenance of local public roads and public areas;
- local public transportation;
- public sanitary works and waste management facilities;
- local fire protection;
- public security;
- energy supply services;
- provision of incentives for employment;
- administration of educational institutions;
- health and welfare services;
- maintenance of community areas;
- support for educational, scientific, artistic and sports activities;
- protection of the rights of minorities.

The performance of some of these tasks may be deemed optional depending upon the capabilities of the municipal local government.

### *3.3.1 Forms of Service Delivery*

Service delivery may have several different forms. According to legal regulations, local governments perform their tasks according to the needs of the local population through their own budgetary organs, through private organizations and through contractual relations. Local governments autonomously select the forms of service delivery.

The first type of service delivery is provided by the local government itself. In a majority of tasks, the most frequent form of service delivery is organized by the local office or by its budgetary institutions and is financed from the municipal budget. Alternatively, the local government may enlist the assistance of a company over which it has tight control. In accordance with the Act on Local Governments, bodies of representatives may establish local government institutions, enterprises and other organizations and appoint their heads in order to provide the public services

for which they are responsible. Since 31 December 1993, local governments are authorized to establish business ventures only in the form of business associations or cooperatives. Some examples of services that often are addressed in this manner include property management, park maintenance, public cemetery maintenance and public sanitation.

The second main form of service delivery is through contractual relationships with private institutions. Generally, such agreements are entered with private companies or entrepreneurs, but in certain cases the partner of the local government can be a state company. Examples of services addressed in this manner include the operation of water and gas networks and public transportation.

A particular form of contracted service delivery is based on concession. Act No. XVI of 1991 on Concession allows local governments to use their assets to raise revenue, especially through the use of property and exercising the rights of property ownership. Some service delivery based on concession includes operation of local roads and use of local public utilities (for example, water supply, sewage, electricity, gas, central heating, telecommunications). A problem with service delivery through concession is that many public utility systems are part of larger regional or national systems that are also subjected to state concession. Thus, in practice, concession licensed by local governments is usually possible only in water supply, sewage and local broadcasting.

The third main form of service delivery is performed through associations or by another municipality. This form currently applies only in the area of water management and, in a few instances, in landfill operations.

### *3.3.2 Alternative Forms of Service Delivery*

The role of the private sector in performing public services in Hungary has increased over the last decade. Privatization itself is a good example of this phenomenon, considering that it divests responsibility for some service provision from the public sector. A frequent form of privatization is the transformation of public utility companies into private companies, which makes capital investment possible.

In addition to privatization, other private forms of public service provision have emerged. The most common is contracting, as mentioned previously, by which a local authority charges private sector actors with the provision of public tasks. Such practices have created the opportunity for other kinds of organizations to participate in the performance of public services. For example, pluralism in education was realized in the 1990s, the choice between private and public health services exists, et cetera.

Another very important phenomenon is the emergence of foundations, churches, civil association and other nonprofit organizations that are engaged in local service delivery. Such organizations function in fields that technically are the responsibility of local governments. Thus, the

relationship between local government and nonprofit organizations should evolve to one of financial support and legal regulation by the public sector and performance of public service delivery by the third sector.

*Table 8.4*  
**Local Government Ownership in Companies in Hungary**

Proprietary Proportion of Local Governments	Budapest	County	Settlement	Total
<b>Number of Units</b>				
51–100%	79	38	483	600
5–50%	158	65	682	905
0–5%	316	43	2,210	2,569
<b>Total</b>	<b>553</b>	<b>146</b>	<b>3,375</b>	<b>4,074</b>
<b>Value of Property Proportion [in HUF billions]</b>				
51–100%	243.6	3.5	63.1	310.2
5–50%	8	1.4	13.4	22.8
0–5%	8.1	0.3	13.7	22.1
<b>Total</b>	<b>259.7</b>	<b>5.2</b>	<b>90.2</b>	<b>355.1</b>
<b>Proportion of Units [%]</b>				
51–100%	14.3	26.0	14.3	14.7
5–50%	28.6	44.5	20.2	22.2
0–5%	57.1	29.5	65.5	63.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Value of Property Proportion [%]</b>				
51–100%	93.8	67.3	70.0	87.4
5–50%	3.1	26.9	14.9	6.4
0–5%	3.1	5.8	15.2	6.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Number of Units</b>				
51–100%	13.2	6.3	80.5	100.0
5–50%	17.5	7.2	75.4	100.0
0–5%	12.3	1.7	86.0	100.0
<b>Total</b>	<b>13.6</b>	<b>3.6</b>	<b>82.8</b>	<b>100.0</b>



Table 8.4 (continued)  
**Local Government Ownership in Companies in Hungary**

Proprietary Proportion of Local Governments	Budapest	County	Settlement	Total
<b>Value of Property Proportion</b>				
51–100%	78.5	1.1	20.3	100.0
5–50%	35.1	6.1	58.8	100.0
0–5%	36.7	1.4	62.0	100.0
<b>Total</b>	73.1	1.5	25.4	100.0

SOURCE: Hermann, Horváth, Péteri, Ungvári, *Önkormányzati feladat-telepítés szempontjai és feltételei* (Strasbourg, Paris, Washington: Fiscal Decentralization of the Council of Europe, OECD, World Bank, 1988).

#### 4. Local Finance, Economic Development

The main regulations on local finance are enumerated by Chapter IX of the Act on Local Governments entitled “The Economic Resources of Local Governments.”

Local governments have their own assets and independently manage their budgetary revenues and expenditures. The local government budget is subordinate to state budget management in that the state regulates the legality and appropriateness of state fund use, but the local government budgeting process is strictly independent from the state.

Table 8.5  
**Expenditure of Public Finances  
 in Hungary, 1994–97**

Year	Public Expenditures [% of GDP]	Local Expenditures [% of GDP]	Local Expenditures as % of Public Expenditures
1994	54.0	16.8	26.7
1995	44.7	14.1	26.6
1996	40.5	13.3	27.2
1997	39.0	12.0	25.5

SOURCE: Hermann, Horváth, Péteri, Ungvári, *Önkormányzati feladat-telepítés szempontjai és feltételei* (Strasbourg, Paris, Washington: Fiscal Decentralization of the Council of Europe, OECD, World Bank, 1988).

## 4.1 Revenues

Sources of revenues for the local government budget consist of four main elements: independent revenues, shared revenues, normative grants from the central budget and capital investment financing.

Independent revenues are derived mainly from local taxes, determined and imposed by municipal governments in accordance with legislation. Currently, local governments may levy property taxes on real estate and land, communal taxes on plots or buildings owned or rented by individuals or on tourism, and income taxes on for-profit activities. Municipal governments may choose from among these tax sources, but a subject may be taxed only once.

Other types of independent revenues are profits, dividends, interests and leasing fees deriving from local government activities and enterprises and yields of local government property. Local fees are regulated by the Act on Fees. Funds also may be obtained through transfers from other organizations for the management of public services. For example, health services are financed by the Social Security Fund through transfers to local governments, and fines imposed and collected on behalf of the state for environmental violations remain with the local government. Revenues may also be derived from negotiating the right to hunt on the territory of the local government. Other revenues include profits from privatization, loans and the issue of bonds.

The second main category of revenues is derived from sharing mechanisms. The local proportion of shared central taxes is determined annually. A very significant part of shared revenues is personal income tax, forty percent of which currently is allocated to local governments. Taxes on motor vehicles are also shared by the central and local governments.

Normative budgetary grants are determined by the National Assembly proportionate to the population of and various groups in a settlement and to funding provided by other institutions as well as by other indices. Such grants may be used without any limitation by local governments.

Targeted grants for capital investments may be used by local governments for achieving objectives of social priority. The National Assembly determines such objectives and the amounts and conditions of grants for each project. Local governments may apply for grants individually or jointly. Grants targeted for capital investments may be used exclusively for that particular purpose. For the period 1999–2001, social priorities are: (1) water management, including establishment of purification and waste purification plants and sewer construction; (2) reconstruction of educational facilities; (3) health services, especially equipment for medical institutions; and (4) waste management systems. Applications for such grants must meet predetermined requirements, and a local government itself must contribute a certain proportion of financial resources to the project.

Specifically targeted grants may be allocated by the National Assembly for the implementation of particular tasks for which expenditures are more than HUF 200 million. Another condition is that the investment task cannot be granted within the framework of targeted grants for capital investments. Specifically targeted grants must be used exclusively for the purpose for which they were awarded.

Deficit financing is granted to settlement governments that have experienced unexpected shortcomings in order to protect their independence and sustain their operation. The conditions and extent of deficit financing is determined by the Act on the State Budget.

*Table 8.6*  
**Distribution of Local Government Revenues in Hungary [%]**

Revenues	1997	1998
Own Source Revenues	23.4	22.6
Shared Revenues	12.1	14.6
Grants	29.2	31.7
Capital Investment Financing	15.5	10.3
Transfers from Social Security Fund	16.9	17.5
Others	2.9	3.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

SOURCE: *A helyi önkormányzatok és pénzügyeik*, edited by Edit Nyitrai Kusztozné (Budapest: Consulting, 1998).

## 4.2 Expenditures

The scale of local government expenditures in Hungary is exceptional due to their extensive responsibilities. Education, health care and welfare services are important functions of local government, while public utilities, culture and sports are offered mainly by commercial or off-budget entities. Local government expenditures include administrative expenditures, debt servicing and other economic services.

The great number of tasks of local government in the social sector creates dependence upon funding by intergovernmental transfers from the central government. This is one of the reasons for debate on the introduction of a national equalization policy. It is estimated that grants and national tax shares allocated as grants comprised seventy-one percent of local government revenue in 1998, which has a significant impact on the expenditures of local governments.

Table 8.7  
Local Government Expenditures by Sector in Hungary, 1996 [%]

	Manu- factur- ing	Econo- mic Services	Adminis- tration	Edu- cation	Health Care, Social Services	Public Services	Culture, Sport	Other	Total Expen- ditures
Budapest	9.8	23.7	13.8	20.9	25.0	2.6	4.0	0.2	100.0
Counties	2.5	3.1	5.5	10.2	72.6	0.5	5.6	0.0	100.0
Municipalities	8.1	13.1	17.3	33.6	17.4	6.0	3.8	0.6	100.0
<b>Total</b>	7.8	14.4	14.7	26.9	27.3	4.3	4.1	0.4	100.0
<b>Expenditures by Size Categories</b>									
0–199	16.1	30.0	35.4	5.0	5.1	4.7	3.1	0.6	100.0
200–499	10.0	22.9	33.6	16.9	7.9	5.2	2.5	1.0	100.0
500–999	8.6	13.6	27.1	35.3	8.2	4.9	1.7	0.6	100.0
1,000–1,999	8.5	13.3	23.3	35.6	7.8	8.9	2.0	0.7	100.0
2,000–4,999	8.2	13.1	20.9	34.3	9.4	10.7	2.7	0.8	100.0
5,000–9,999	8.2	14.2	19.9	32.6	11.5	8.8	3.5	1.3	100.0
10,000–19,999	7.9	11.4	17.8	30.8	23.2	5.1	3.1	0.6	100.0
20,000–49,999	7.2	13.5	18.0	28.0	25.8	4.3	2.7	0.5	100.0
50,000+	8.2	13.3	16.9	36.6	17.4	2.4	4.9	0.3	100.0

Source: Kenneth Davey and Gábor Péteri, *Local Government Finances: Options for Reform* (Nagykovácsi, Hungary: 1998), 64.

Table 8.8  
Expenditures and Grants of Local Governments by Administrative Status, 1996 [%]

	Expenditures	Grants
1. Local Government of the Capital	14.5	11.0
2. Districts of the Capital	11.5	7.0
<b>3. Total – Budapest</b> (1 and 2)	26.0	18.0
4. Local Governments of Counties	14.4	18.6
5. Cities with County Rights	18.1	16.3
6. Cities	22.0	23.0
<b>7. Total – Cities</b> (5 and 6)	40.1	39.3

Table 8.8 (continued)

**Expenditures and Grants of Local Governments by Administrative Status, 1996 [%]**

	Expenditures	Grants
8. Large Villages	6.5	7.3
9. Villages	13.0	16.8
<b>10. Total – Villages (8 and 9)</b>	19.6	24.1
11. Municipal Governments (7 and 10)	59.7	63.4
12. Countryside	74.0	82.0
<b>13. Total (3 and 12)</b>	100.0	100.0

SOURCE: Hermann, Horváth, Péteri, Ungvári, *Önkormányzati feladat-telepítés szempontjai és feltételei* (Strasbourg, Paris, Washington: Fiscal Decentralization of the Council of Europe, OECD, World Bank, 1988).

The expenditures of a local government include personnel expenses, employer's contributions, material expenses and expenses of accumulation and revival. Personnel expenses include the salaries of the employees of local government offices, joint local government offices and their institutions. Material expenses include the daily operational expenses of the office and of the institutions of the local government, including service delivery. Accumulation and revival refers to investments and reconstruction expenditures in connection with the performance of local government tasks. In the last few years, the volume of local government investment has increased due to central financial aid, more effective activities of local governments, incomes deriving from privatization and the new system of regional development. This category comprised only 14 percent of total expenditures in 1997 and increased to 15.5 percent in 1998. Most of these expenses were invested in the water management sector, followed by health and education.

Table 8.9

**Distribution of Local Government Expenditures by Categories in Hungary [%]**

Expenditures	1997	1998
Personnel Expenses	28.0	28.6
Employer's Contributions	12.6	13.4
Material Expenses	26.0	26.4
Expenses of Accumulation and Revival	33.4	31.6
<b>Total</b>	100.0	100.0

SOURCE: *A helyi önkormányzatok és pénzügyeik*, edited by Edit Nyitrai Kusztozné (Budapest: Consulting, 1998).

## 5. Next Steps in the Transition Process

The main problems of public administration reform are outlined below.

### 1. *Territorial administration-regionalization*

One of the most important questions concerning public administration in Hungary is the system of territorial administration. Regionalization was discussed above. Another aspect is the system of territorial (or regional) administrative organs of the state. More than forty different state administrative organs exist at the territorial level. This large number and the difficulties of dividing administrative function between county governments and state administrative organs as well as among the various state administrative organs themselves induced the government to act in the mid-1990s. The outcome was the establishment of public administrative offices in counties and in the capital that have a coordinating role. At the same time, the integration of state administrative organs into public administrative offices was initiated.

In May 1999, the government issued a resolution on its plans concerning the development of public administration for the period 1999–2000. The major tasks concerning regional and municipal public administration determined by this resolution are as follows:

- revision of the legal status, organization, activities, functions and powers of organs of public administration under central subordination in settlements and in counties and making proposals for necessary modifications including an examination of the possibility of organizing public administration on the basis of regions;
- revision of the functions and powers of local governments and making proposals on the delegation of their functions and powers and on the system of financing;
- evaluation of external control over finances and management of the assets of local governments and making proposals on the supervision of authenticity and legality of claiming of and accounting for revenues deriving from the central budget;
- examination of the possibility of establishing regional local governments with elected representative bodies created by the Act on Regional Development.

### 2. *Role of the Constitutional Court in local government affairs*

The Act on Local Governments declares that the rights of local governments are protected by the Constitutional Court. Such protection mainly includes regulation of the legality of the decrees issued by local governments. However, the quantity of decrees issued by the numerous local governments in existence in Hungary sheds doubt on the Constitutional Court's capabilities and effectiveness. One possible solution is the establishment of a new forum—for example, an administrative court—to exercise control over the legality of local government decrees.

### 3. *Development of associations*

One of the main characteristics of the Hungarian local government system is the great number of very small settlements, which hinders the effective functioning of public administration. This problem may be solved in the way of associations, which was recognized in 1990 in the Act on Local Governments. In practice, associations do not operate effectively and have not developed to the optimal extent. As a result, parliament adopted Act No. CXXXV on Associations and Cooperation of Local Governments in 1997. The act increases possibilities of association among local governments and forms of cooperation, including nongovernmental organizations.

## Recent Publications on Local Government in Hungary (in English)

Hungarian Institute of Public Administration. *Public Administration in Hungary* (Budapest: 1993).

Bird, Richard M., Robert D. Ebel, and Christine I. Wallich, eds. *Decentralization of the Socialist State: Intergovernmental Finance in Transition Economies* (Washington, D.C.: The International Bank for Reconstruction and Development/The World Bank, 1995).

Davey, Kenneth and Gábor Péteri. *Local Government Finances: Options for Reform* (Nagykovácsi, Hungary: Local Government Know-How Program, 1998).

## Contacts for Further Information on Local Government in Hungary

### Office of the Prime Minister

*Address:* Kossuth tér 4, H-1055 Budapest, Hungary  
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*Fax:* (36-1) 268-3050

### Ministry of the Interior, Department of Local Government and Settlement Development

*Address:* Roosevelt tér 1/3, H-1051 Budapest, Hungary  
*Phone:* (36-1) 317-2619  
*Fax:* (36-1) 317-3914

### Hungarian Institute of Public Administration

*Address:* Ménesi út 5, H-1118 Budapest, Hungary  
*Phone:* (36-1) 386-9659  
*Fax:* (36-1) 386-9312

## Hungarian Academy of Sciences, Regional Research Center

*Address:* Papnövelde utca 22, Pécs, Hungary  
*Mail:* P.O. Box 199, H-7601 Pécs, Hungary  
*Phone:* (36-72) 412-755  
*Tel/Fax:* (36-72) 410-390

## Hungarian National Association of Local Governments

*Address:* Eötvös utca 10, H-1067 Budapest, Hungary  
*Phone:* (36-1) 322-3843  
*Fax:* (36-1) 322-7407

## Association of Cities of County Rank

*Address:* Városház tér 8, H-3525 Miskolc, Hungary  
*Phone:* (36-46) 327-211

## National Association of Self Governments of Small Towns

*Address:* Lehel út 18, H-5100 Jászberény, Hungary  
*Phone:* (36-57) 412-648/411-412  
*Fax:* (36-57) 411-248

## Hungarian Association of Local Governments

*Address:* Szabadság tér 7, H-2100 Gödöllő, Hungary  
*Phone:* (36-28) 420-004  
*Fax:* (36-28) 430-180

## Association of Local Governments of Villages

*Address:* Fő utca 166, H-4694 Hosszúhetény, Hungary  
*Phone:* (36-72) 490-814  
*Fax:* (36-72) 490-812

## Hungarian Association of Villages

*Address:* Szondi út 55, H-3073 Tar, Hungary  
*Phone:* (36-32) 470-957  
*Fax:* (36-32) 470-651

## National Association of County General Assemblies

*Address:* Deák F tér 3, H-6000 Kecskemét, Hungary  
*Phone:* (36-76) 481-144  
*Fax:* (36-76) 481-217



National Association of Chief Executives

*Address:* Alsó utca 1, H-2030 Érd, Hungary

*Phone:* (36-23) 365-132 / (36-1) 252-0478

## Annex 8.1

### Major General Indicators

Size of territory	93,030 square kilometers
Population density	108.9 per square kilometer
Population (1998)	10,135,358
Pensioners	2,293,880
Male (over 60)	768,555
Female (over 55)	1,525,325
School-age children (0-18)	2,337,096
Major ethnic divisions (1990)	
Hungarian	97.76 percent
Roma	1.38 percent
German	0.30 percent
Croatian	0.13 percent
Romanian	0.10 percent
Slovak	0.10 percent
Serbian	0.03 percent
Slovenian and Vend	0.02 percent
Other	0.19 percent
GDP at current prices (1997)	HUF 8,541 billion
GDP per capita	HUF 841,000 (USD 4,504)
GNP	USD 45 billion
GNP per capita	USD 4,430
GNP per capita at purchasing power parity	USD 7,000
Public debt (1998)	HUF 10,000 billion
Inflation rate (1998 estimate)	14.5 percent
Unemployment rate (1998)	8.8 percent

## Annex 8.2

## Population, Settlements and Administrative Units

Number of local government units at each level (1998)

Capital	1
Districts of the capital	23
Counties	19
Cities with county rights	22
Other cities	195
Villages	2,913
Total	3,173

Table 8A.1

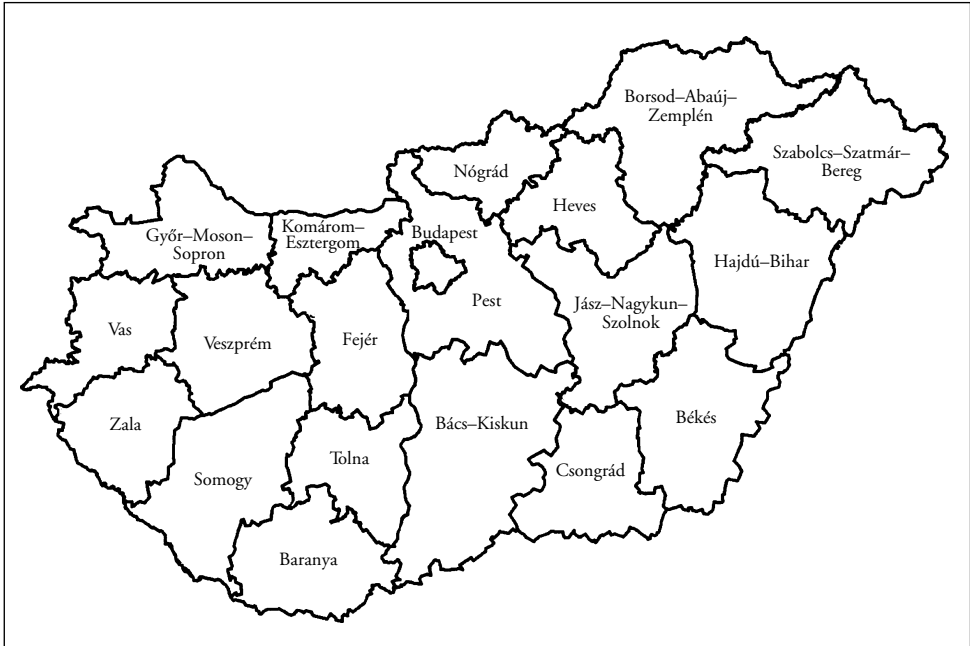
## Settlements by Population Size Categories in Hungary, 1997

Population Size Categories	Number of Settlements	%	Number of Inhabitants	%
0–1,000	1,714	54.81	790,737	7.8
1,001–2,000	651	20.82	934,429	9.2
2,001–5,000	493	15.77	1,476,377	14.6
5,001–10,000	133	4.25	931,912	9.2
10,001–50,000	116	3.71	2,271,414	22.4
50,001–100,000	11	0.35	709,971	7.0
100,001–1,000,000	8	0.26	1,159,135	11.4
1,000,000+	1	0.03	1,861,383	18.4
<b>Total</b>	<b>3,127</b>	<b>100.00</b>	<b>10,135,358</b>	<b>100.0</b>

Number of civil servants (1997) 105,400

Number of other public employees (1997) 586,100

*Figure 8A.1*  
**Administrative Map of Hungary**



## Annex 8.3

### Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in Hungary (presented in order of adoption):

- Act No. LXIV of 1990 on the Election of Representatives and Mayors of Local Self-governments (most important amendments: Acts No. LXII of 1994 and No. C of 1997)
- Act No. LXXV of 1990 on Local Governments (most important amendment: Act No. LXIII of 1994)
- Act No. C of 1990 on Local Taxes (amended several times in 1991, 1993, and from 1995 to 1998)
- Act No. XVI of 1991 on Concessions (amended several times in 1992 and from 1994 to 1997)
- Act No. XX of 1991 on the Tasks and Range of Competence of Local Governments and Their Organs, Commissioners of the Republic and Some Organs Under Central Subordination (amended several times from 1992 to 1997)
- Act No. XXVI of 1991 on the Extension of the Supervision by Courts on Decisions Taken by Public Administration (amended several times in 1996 and 1997)
- Act No. XXXIII of 1991 on the Transfer of Certain State Properties to the Ownership of Local Self-governments (amended several times from 1991 to 1996)
- Act No. LIV of 1991 on the Supplementary State Subsidy for Local Governments in a Disadvantaged Situation
- Act No. XXXVIII of 1992 on Public Finances (most important amendments: Acts No. CV of 1995, No. CXXI of 1996 and No. CXLVI of 1997)
- Act No. LXXXIX of 1992 on the System of Targeted and Specific Grants to Local Governments (most important amendments: Acts No. XIV of 1993, No. LXVII of 1994 and No. CXXXI of 1997)
- Act No. XXI of 1996 on Regional Development and Land Use Planning
- Act No. CXXXV of 1997 on the Association and Cooperation of Local Governments
- Government Decree No. 191 of 17 December 1996 on the Capital and County Public Administration Office
- Decree of the Minister of the Interior No. 4 of 30 January 1997 on State Subsidy of Notarial Circuits

## Annex 8.4

## Responsibilities of Administrative Tiers

*Table 8A.2*  
**Specific Functions of Local Government Units in Hungary**

Functions	All Municipalities	Regional/ District or Urban Governments	Central or State Territorial Administration
<b>I. EDUCATION</b>			
1. Preschool	X		
2. Primary	X		
3. Secondary		X	
4. Technical		X	
<b>II. SOCIAL WELFARE</b>			
1. Nurseries	X		
2. Kindergartens	X		
3. Welfare Homes	X		
4. Personal Services for the Elderly and Handicapped		X	
5. Special Services (for the homeless, families in crisis, etc.)		X	
6. Social Housing		X	
<b>III. HEALTH SERVICES</b>			
1. Primary Health Care	X		
2. Health Protection			
3. Hospitals		X	
4. Public Health			X

*Table 8A.2 (continued)*  
**Specific Functions of Local Government Units in Hungary**

Functions	All Municipalities	Regional/ District or Urban Governments	Central or State Territorial Administration
<b>IV. CULTURE, LEISURE, SPORTS</b>			
1. Theaters		X	
2. Museums		X	
3. Libraries		X	
4. Parks	X		
5. Sports, Leisure		X	
6. Cultural Centers	X		
<b>V. PUBLIC UTILITIES</b>			
1. Water Supply	X		
2. Sewage	X		
3. Electricity			
4. Gas			
5. Central Heating			
<b>VI. ENVIRONMENT, PUBLIC SANITATION</b>			
1. Refuse Collection	X		
2. Refuse Disposal	X		
3. Street Cleaning		X	
4. Cemeteries	X		
5. Environmental Protection	X		X
<b>VII. TRAFFIC, TRANSPORT</b>			
1. Roads	X		X
2. Public Lighting	X		
3. Public Transport		X	X

*Table 8A.2 (continued)*  
**Specific Functions of Local Government Units in Hungary**

Functions	All Municipalities	Regional/ District or Urban Governments	Central or State Territorial Administration
<b>VIII. URBAN DEVELOPMENT</b>			
1. Town Planning	X		
2. Regional/Spatial Planning		X	
3. Local Economic Development	X	X	
4. Tourism	X		X
<b>IX. GENERAL ADMINISTRATION</b>			
1. Authoritative Functions (licenses, etc.)	X		X
2. Other State Administrative Matters (electoral register, etc.)	X		X
3. Local Police			X
4. Fire Brigades	X		X
5. Civil Defense	X		X
6. Consumer Protection			X



Chapter 9



# Local Government in Slovenia

*by*

*Stanka Setnikar-Canka*

*Stane Vljaj*

*and*

*Maja Klun*

**Decentralization: Experiments and Reforms**



# Local Government in Slovenia

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# Local Government in Slovenia

*Stanka Setnikar-Canka, Stane Vljaj and Maja Klun<sup>1</sup>*

## 1. Legal and Constitutional Basis

The development of local democracy requires regulations that will support organizational, financial, material and territorial reforms in local self-government; local populations must manage their own affairs either directly or through bodies of local self-government. From the view of democratic management, it would be ideal for the people of a community to address their affairs directly—that is, to participate in all decision making. In practice, this is impossible in a modern local community as such issues are too various, complicated and frequent to include the entire population. If local self-government is to be democratic, however, it must respond to the needs of the local population. This is only possible if the population directly influences the formation of the most important local bodies—that is, representative bodies elected by the local community—which make the most important decisions on behalf of the inhabitants based on their interests. The operation of such self-government, the stabilization of relations among representative bodies and utilization of direct democracy is also vital.

The Constitution of the Republic of Slovenia establishes local government autonomy and states that its citizens exercise local government powers and functions through representative bodies and other organizations. The Law on Local Self-government, enacted in 1993 and revised six times since, defines the operations, rights and authority of local self-governments and their relationship to the state.

The constitution defines self-government on both municipal and regional levels, but to date only the former exists in practice. Laws creating regions as the second level of local self-government, regulating regional development and redefining the status of municipalities are in preparation. The areas of local self-government competence are defined and revised regularly through legislation that conforms with the European Charter of Local Self-government, which was ratified by Slovenia in 1996 and enacted in 1997.

### 1.1 Legal Basis for Self-government

The Constitution of the Republic of Slovenia protects the autonomy of local self-government and states that the Slovene people exercise such authority and functions through self-governing units (municipalities and regions). A municipality may comprise a single settlement or a number of settlements, the inhabitants of which are bound together by common needs and interests.

The Law on Establishing Municipalities and Determining Their Territory and the Law on Local Self-government stipulate that municipal councils, local community councils or citizens' assemblies must participate in decisions to change or create the territorial structure of a municipality. In accordance with the Law on Referendums and People's Initiatives, a municipality may be established following a local referendum that ascertains public opinion in the affected area. On the basis of initial research and the referendum, the National Assembly (parliament) legally recognizes such new administrative units and approves the demarcation of their territories.

A municipality generally has at least five thousand inhabitants, although exceptions may be made due to geographic location or for national, historical or economic reasons. In 1994, 147 new municipalities were established, and another 45 were added in 1998. Slovenia's administrative structure currently is comprised of 192 municipalities, eleven of which are urban municipalities. The breakdown of municipalities by population is presented in Annex 9.2.

Narrower constituencies of a municipality may be established on its territory (local, village and ward communities). Prior to establishing these subunits or altering their territories, the municipal council must determine by means of a town meeting or referendum the interests of the population of the areas in which a constituent part is to be created.

A municipality's duties include local matters affecting its inhabitants, which the municipality independently may determine. The state may invest such functions in municipalities and wider local self-government bodies through legislative acts, subject to their consent and to the provision of the financial means necessary for performing such duties. The constitution provides that the municipality may raise its own revenues. Municipalities that are unable to meet all required expenditures in performing their duties due to poor economic development are eligible for additional financial assistance from the state. The services provided by municipal local governments are presented in section 2.3.

The constitution also introduces the concept of "urban municipalities." The urban municipality is a compact settlement or group of settlements in a unified area where towns and villages are linked by the daily commuting of the population. A town or city may acquire the status of an urban municipality if it has at least twenty thousand inhabitants, is the place of employment of fifteen thousand individuals and is the geographic, economic and cultural center of the area. The National Assembly founds urban municipalities through legislative acts and determines their territories and names. Statistics on the number of urban municipalities in Slovenia and their populations are presented in Annex 9.2.

Specific duties and functions relating to urban development may be assigned by the state to urban municipalities (described in section 2.3). An urban municipality may perform regional administrative functions if so determined by the municipalities of the region. In addition to local matters of public importance, urban municipalities must also perform specific tasks that fall under national jurisdiction and that apply to the development of towns.

Finally, the Law on Local Self-government provides for the establishment of special status municipalities due to specific conditions with regard to location or level of development. Procedures for establishing such municipalities will be outlined in the Law for the Promotion of Regional Development, which is currently under preparation.

## 1.2 Legal Basis for Regional Self-government

As mentioned above, the constitution also provides for the establishment of regional self-government bodies. Such regional governments will be established on the basis of the Law on Regions, which is under preparation and which will introduce legal norms and procedures for founding regions and will facilitate their functioning. The Slovene government has submitted draft legislation to this effect to the National Assembly for preliminary review.

Regions will become the second level of local self-government and will serve as obligatory, multipurpose facilitators of cooperation among several municipal self-government bodies. In accordance with the constitution and the Law on Local Self-government, the region performs duties of wider interest determined by the municipalities themselves related to community services; economic, cultural and social development of the territory; and strengthening and developing local self-government. The region will also perform duties assigned by the state. The law on the transfer of duties from state jurisdiction to regional jurisdiction will determine the method of funding the implementation of these duties.

Currently, the constitution allows municipalities to independently and voluntarily form regions by integrating into communities or forming alliances of two or more municipalities in order to regulate and perform local tasks of broader interest.

## 1.3 Relationship between the State Administration and Local Government

There are fifty-eight state administrative units in Slovenia, which are territorial bodies with their own fields of operation, competence, functions and authority. They have jurisdiction over one or several municipalities with regard to competencies delegated by the state. Advisory committees are formed in order to ensure cooperation and coordination between municipal bodies and administrative units. Members of these committees are appointed and dismissed by municipal councils.

The Law on Administration and the Law on Local Self-government determine the competence of state authorities. Administrative units of the ministries at the local level monitor local communities in their own specialized areas. Ministries and state administrative units may comment on matters of municipal competence when an act is not in accordance with the constitution or law and may suggest an appropriate solution. If the municipal body fails to

harmonize its decision with such legislation, the supervisory body must advise the government to initiate proceedings with the Constitutional Court. The supervisory body, however, does not have the power to invalidate or amend decisions made by municipal bodies; this is possible only through the Constitutional Court or administrative courts. In some cases, the supervisory body may temporarily perform the duties of the municipal body in order to ensure the regular provision of civil services to its inhabitants.

The regulation of municipal bodies is different concerning duties assigned by the state. In such cases, ministries review the work of municipal bodies and ensure the appropriate and uninterrupted performance of state duties. In order to ensure quality, the supervisory body may dictate reorganization of the project, job conditions or other instructions. If the ministry discovers that the municipal body did not perform the duties invested in it, a decree is issued ordering the implementation of specific measures or, after issuing numerous warnings, the ministry advises the government to initiate procedures to withdraw duties assigned to the municipality. In such cases the municipality may appeal the allegations in court.

Monitoring the effectiveness of municipal bodies is primarily the responsibility of the mayor, as the official who proposes the most important municipal acts and administers the municipal budget. The mayor is obliged to ensure the lawfulness of his or her proposals and has the right to prevent the municipal council from issuing regulations that are unconstitutional or illegal. The municipal council also is responsible for ensuring the legality of its own actions.

A municipality may file an administrative dispute against a supervisory body if the municipality maintains that the supervising body has not acted legally or appropriately. The municipality may submit a request to the Constitutional Court to consider the constitutional and legal character of decisions and regulations issued by a state body if such legislation restricts its autonomy as defined by the constitution and law.

## 2. Local Politics, Decision Making

### 2.1 The System of Local Elections

The Law on Local Elections and the Law on Local Self-government regulate local elections. The former addresses procedures for the elections of municipal councils and mayors, regional councils and councils of town, village and ward communities. General municipal council elections are held every four years, although they may be called earlier. The president of the National Assembly announces regular elections, and the mayor calls early elections.

All inhabitants of a local community of legal age who are citizens of Slovenia have the right to vote. The election law establishes a majority electoral system for municipalities with less than

twelve council members and a proportional electoral system for municipalities with more than twelve council members. Citizens vote for individual candidates in accordance with the majority system, and for lists of candidates where the proportional system is utilized.

The council is the representative body of the municipality and is directly elected by inhabitants, in line with modern standards of democracy. In addition to the council, which makes the fundamental decisions in a municipality, the mayor, elected directly with a four-year mandate, also has the status of an official body of the municipality. The mayor is elected by simple majority. Since a candidate rarely receives the required majority in the first round of elections, a second round generally is held between the two candidates with the most votes. Candidates and lists of candidates can be endorsed by political parties or by the voters in an electoral unit.

The Law on Local Elections establishes that voters nominate candidates by petition or at voters assemblies. During the latter, candidates are selected after being proposed by voters. Each voter may propose at most the same number of candidates as there are seats on the council. Nominated individuals are selected if at least thirty citizens—or if the electoral unit has fewer than five hundred residents, at least fifteen citizens—voted at the assembly in the electoral unit.

The Law on Local Self-government stipulates that the National Assembly may dissolve a municipal council and announce early elections if the council fails to achieve a quorum after being called at least three times in a six-month period, or if the municipal council fails to enact a budget for two consecutive years. Legislation also allows the National Assembly, on proposal of the government, to dissolve a municipal council in the event that it passes unconstitutional or illegal acts, fails to execute the rulings of competent courts, does not fulfill its legal duties or otherwise violates the law and fails to correct such violations.

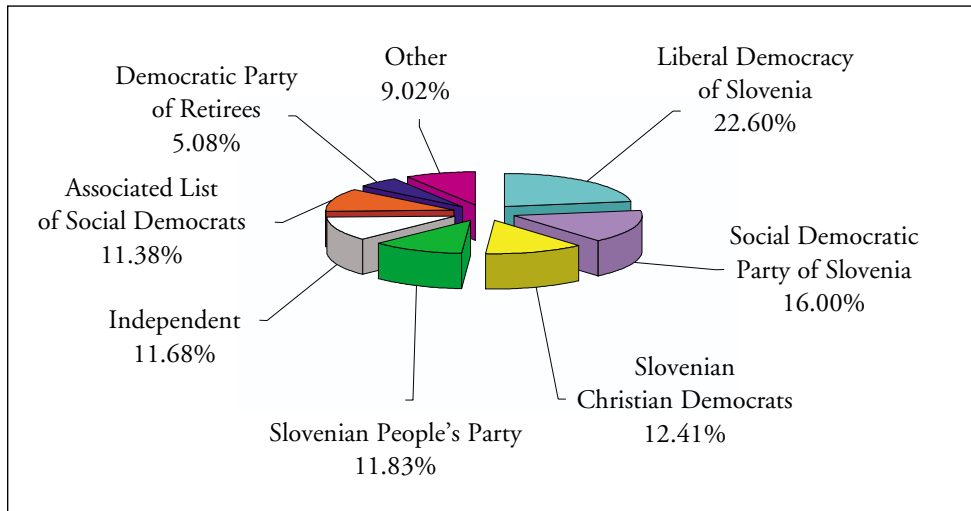
A proposed amendment to the Law on Local Self-government would allow the National Assembly to relieve the mayor and deputy mayor of their duties and appoint a temporary manager in the event that a municipal council is dissolved. Until the election of the new bodies of the municipality, the temporary manager would conduct the responsibilities of the mayor. If a municipal council is dissolved, the National Assembly would announce early elections for the mayor and municipal council.

The Law on Political Parties regulates the financing of election campaigns and determines the method of providing financial support for parties, but not for individual candidates. According to the law, parties acquire funds from membership fees, private contributions from organizations and individuals, revenue from assets, donations and bequests and profits from the income of enterprises owned by a particular party. A party whose candidates are elected to the National Assembly is eligible for financial support. The cost of conducting local elections is otherwise covered by the municipalities. The Law on Election Campaigns regulates matters concerning campaigning through the public media and other forms of communication, organizing election rallies and financing election campaigns.



The term of office of elected members of the municipal council is four years. According to the law, resignation is possible, although procedures are not specified. Current legislation does not provide for the recall of the mayor or members of the municipal council.

*Figure 9.1*  
**Political Representation in Municipal Councils in Slovenia**



The political participation of both genders in Slovenia is not a question of “fair” representation but a matter of different perceptions and approaches. Women have the same rights as men to stand as candidates and establish themselves in politics. Nonetheless, women are represented poorly in politics. There is no regulation that establishes quotas for women in parliament or other bodies of authority.

## 2.2 Forms of Direct Democracy

The Constitution of the Republic of Slovenia and the Law on Local Self-government define the forms of citizen participation in decision making on local public affairs, including citizens’ assemblies, local referendums and people’s initiatives.

A citizens’ assembly is called, in accordance with municipal statutes, by the mayor, by the municipal council or the council of a constituent part of the municipality, or by five percent of the voters in a municipality or one of its constituent parts. In accordance with the law and the municipality’s statutes, citizens discuss individual matters in the competence of the municipality and make proposals or pass decisions at these assemblies.

Various types of referendum can be held in local communities. Preliminary referendums are called by the National Assembly to establish a municipality and define or alter its territory, change the name or seat of a municipality and establish regions. The municipal council may, following a request by voters, call an advisory referendum on an issue of special importance to the local community or on acts concerning the municipality's affairs, with the exception of those concerning the budget, municipal taxes and other duties. The outcome of a referendum is binding for all municipal bodies until the expiry of their mandates. All citizens who have the right to elect members of the municipal council have the right to participate in referendums. A decision is adopted by referendum if supported by a majority of those who voted.

The issuance or cancellation of a general act within the competence of the municipal council or other municipal bodies may be enacted through people's initiatives by no less than five percent of a municipality's voters. The body to which such an initiative is addressed must decide on the matter within the deadline defined by municipal statutes or no later than within three months.

### 2.3 Distribution of Powers among Different Levels of Local Government

The Law on Local Self-government clearly determines the responsibilities that are performed independently by the municipality. Such duties are defined in each municipality's statutes and by law. In addition to the duties performed by all municipalities, urban municipalities also have functions related to the development of the town or city.

The basic needs of the population that the municipality is obligated to address include:

- primary education;
- primary health care;
- provision of essential utilities;
- municipal services;
- postal and banking services;
- library facilities;
- premises for local administration;
- public transportation
- public space maintenance and use.

In addition to the duties of municipalities, those with city status must:

- regulate local public transportation;
- regulate public spaces and the construction of facilities;
- perform tasks in the area of geodesic services;
- administer a public network of primary, secondary, vocational and higher education institutions and libraries in their territories;
- ensure secondary public health service in their territories, including the administration of hospitals;

- provide a network of civil services;
- establish telecommunications centers and specialized information documentation centers, as well as local radio and television stations and press;
- support cultural activities (theaters, museums, archives) and sport and recreation facilities;
- administers all housing matters in accordance with the Housing Law, including maintenance of registers and contracts, monitoring of rents and issuance of construction permits and building inspections.

## 2.4 Internal Structure of Local Government Decision Making

Municipal bodies that exercise local self-government include the municipal council, the mayor, the supervisory board and the elections commission.

The municipal council is the highest decision-making body on all matters concerning the rights and duties of the municipality. The council passes general acts, approves the municipal budget and supervises the performance of the mayor and the municipal administration to ensure implementation of council decisions. The municipal council performs the following functions:

- adopts statutes, decrees and other municipal acts according to which the rights and obligations of organizations and individuals in the municipality are regulated;
- adopts land and other development plans;
- adopts the budget and final financial report of the municipality;
- gives consent when particular duties are transferred from state jurisdiction to the municipality;
- appoints and dismisses members of the supervisory committee, members of commissions and committees of the council, representatives of the municipality in the advisory committee of the head of the state local administrative unit and other representatives of the municipality in public enterprises, institutions, foundations, et cetera and appoints, upon proposal of the mayor, the deputy mayor(s) and the secretary of the municipal administration;
- communicates its opinion on the appointment of the head of the administrative unit;
- decides on the acquisition and divestment of municipal property (if the mayor is not authorized to do so by municipal act);
- decides on other matters determined by law and by the statutes of the municipality.

The municipal council is comprised of between seven and forty-five members proportionate to the number of inhabitants in the municipality who are elected by citizens on the basis of general and equal voting rights at free and direct elections by secret ballot. Members of municipal councils are elected according to the majority or proportional system depending on the number of members of the municipal council (the majority system applies in cases of up to twelve members, and the proportional system for more than twelve); representatives of minority communities are elected according to the majority system.

The mayor represents the municipality, and he or she is its legal representative. The mayor proposes the municipal budget, decrees and other acts within the jurisdiction of the council and is responsible for the implementation of council decisions. The mayor is the head of the municipal administration. On the basis of the Act on the Organization and Field of Operation of the Municipal Administration, the mayor determines the structure of the municipal administration, appoints and employs municipal administrative staff and organizes and heads the municipal office. Neither the mayor nor the municipal council has the right to demand the resignation of another municipal body.

The supervisory board regulates the management of municipal assets, ensures the purpose and efficiency of budgetary expenditures and monitors financial operations. Supervisory board members are appointed and dismissed by the council and may not be members of the council, municipal administrators, public employees or members of the management of budgetary organizations.

The council appoints the municipal elections commission, which is responsible for ensuring the legality of municipal council elections, approving candidates, establishing polling stations, appointing elections boards, assessing election results, et cetera.

## 2.5 Ethnic Issues, Multicultural Government

Due to the constitutional provisions on representation of members of recognized ethnic communities, the law on Local Self-government stipulates that in ethnically mixed areas, the Italian or Hungarian communities must have at least one representative on the municipal council. The transitional provisions of the Law on Local Elections stipulate that one-tenth of all municipal councilors represent minority groups. In addition to these two ethnic groups, the Roma community also has representatives in municipal councils in areas where this community is indigenous. Such councilors specifically are responsible for representing ethnic groups on acts that relate to the exercising of special rights of the Italian or Hungarian minorities.

## 2.6 Local Government Associations and International Contacts

According to the provisions of the Law on Local Self-government, local authorities cooperate among themselves on the principles of free will and solidarity. They may collect funds and designate common bodies and organizations for the performance of common duties.

Municipalities may also integrate into other communities or form alliances of two or more municipalities in order to regulate and perform matters of interest to a broader territory. Their statutes determine the manner of integration and the status of these communities. Such communities and alliances and their common bodies and organizations have status equal to that of municipal administrations and organizations in relations with the state administration. Local governments may cooperate freely with foreign local communities and with local

community international organizations. Municipalities collaborate on local self-government development and local service implementation.

The Slovenian municipalities appointed a working group, the Permanent Conference of Local Communities, that in April 1997 initiated changes and additions to the Law on Local Self-government. The Local Government Office stated that certain provisions of the current Law on Local Self-government caused unnecessary difficulties in practice and therefore needed to be changed or amended. However, this mostly addressed provisions that were difficult to implement because they systemically were incompatible with the nature of exercising of local authority.

### 3. Local Administration, Service Provision

#### 3.1 Structure and Operation of Local Administration

There are no legal provisions concerning the internal structure of municipal administration. The organization of services and departments within an office depends on the size of the municipality. In small municipalities, the structure of the office is based on functional principles; a single municipal authority is created. In large municipalities, departments are formed that are responsible for particular spheres (public activities, economic activities, finance, et cetera). Urban municipalities are organized according to the departmental principle.

The municipal council adopts standing orders on its work and on the organization of the municipal administration. Within a month after adopting this resolution, the mayor issues an act on the systemization of jobs in the municipal administration in accordance with the Local Administration Act and the Law on State Administration Employees. These acts represent the basis for the employment and legal status of workers and specify conditions for acquiring jobs. The mayor, or the secretary of the municipal administration with the authorization of the mayor, decides on the appointment or employment of senior administrative staff, administrative staff and expert technical staff. The exceptions are, of course, the deputy mayor(s) and secretary of the municipal administration, whose appointments are the responsibility of the municipal council upon nomination by the mayor.

It may be determined by statute or decree on the organization of the municipal administration that the secretary heads the municipal administration. The secretary of the municipal administration is a functionary whose duty is expert guidance of the municipal administration. The secretary is appointed and dismissed by the municipal council upon nomination by the mayor and reports to the mayor.

There are four categories of personnel in the municipal administration: functionaries, senior administrative staff, administrative staff and expert technical staff. The Law on Local Self-

government categorizes members of the municipal council, the mayor, the deputy mayor and the municipal secretary as municipal functionaries. Senior administrative staff (advisors to the mayor, senior advisors) are appointed by the municipal council upon nomination by the mayor but do not hold the status of functionaries. Administrative staff (clerks, other public staff) are appointed by the mayor as prescribed in the employment structure. Expert technical staff (expert employees, administrators, junior clerks) are not appointed but are posted to their relevant positions by mayoral decree.

Regulations on employment and salaries for employees in the state administration are applicable to all municipal administration employees. The legal status and employment conditions for local community personnel are regulated by the provisions of the Law on Employment and the Law on Salary Ratios in Public Institutions, State Bodies and Local Community Bodies. Provisions of executive regulations issued by the government also are applicable to local governments, particularly the Decree on Common Grounds for the Internal Organization and Systemization of Jobs in Administrative Bodies, the Decree on the Quotients for Determining Basic Salaries and Allowances for Employees in the Services of the Government of the Republic of Slovenia and in Administrative Bodies, and Regulations on the Promotion of State Administrative Personnel.

### 3.2 Control, Audit and Supervision of Local Governments

Municipalities appoint boards, the responsibilities of which are to:

- supervise the management of municipal assets;
- supervise the appropriate and efficient use of the budget;
- supervise the financial operations of users of the budget.

Supervision involves assessing activities and ensuring their conformity with legislation and specified budgetary objectives.

If commissioned by a municipal body, audits are performed by independent licensed auditors and by the Accounts Court of the Republic of Slovenia. The Accounts Court performs audits in accordance with its program; that is, it performs audits upon the initiative of the municipal body, rather than annually. The most common cases brought to the Court of Auditors in the last four years follow.

1. Fees paid to local elected officials were too high. Amounts were highest in 1994 and have decreased since. The amount of overpaid fees in the last four years totaled approximately USD 705,000 in only twenty-two local authorities. The Court of Auditors estimated that only ten percent of that amount was paid back to local budgets. The main problem is that the Court of Auditors does not have the power to impose obligatory changes on local governments. In such situations, the legal framework in Slovenia does not provide for the repayment of income tax or contributions to the pension fund.
2. Reserves were lower than stipulated by law. According to the Law on the Financing of Local Government, local governments should keep at least 0.5 percent of revenues as reserves to cover unpredicted local community costs.

3. Local property was mismanaged. Local authorities do not update rental contracts for municipal property or charge regular rents. The Court of Auditors found that some local governments do not collect all charges or fees that they are entitled to according to law and therefore lose additional revenue.
4. Local authority borrowing was inappropriate; they borrowed too much or for purposes not permitted by law, or they made guarantees to nonpublic companies and institutions. An amendment to the Law on Financing of Local Government will determine a wider range of purposes for which a local community may borrow.

Two laws guarantee citizen influence on the management of local public services: the Law on Local Self-government and the Law on Commercial Public Services. The Law on Local Self-government provides that municipalities establish a consumer protection council as a mandatory body. This is a committee of citizens who participate in the decision-making process of the municipal council when it considers matters pertaining to commercial (municipal services, road maintenance, gas pipelines, public transport, et cetera) and social (schools, kindergartens, homes for the elderly, et cetera) public services. The body submits comments and proposals regarding the performance of local commercial companies.

The Law on Commercial Public Services stipulates that bodies submit comments and proposals pertaining to the performance of public services to the competent authorities of the Republic of Slovenia and of the local community, which must inform them of measures taken on such proposals. The Law on Commercial Public Services also regulates the protection of the rights of individual consumers. In the event of a breach of contract by the provider of a commercial public service, a consumer may request a competent authority of the Republic of Slovenia or of the local community to issue a decision on the consumer's complaint and to order the provider or contractor to act accordingly.

### 3.3 Local Service Delivery

Annex 9.4 shows that the role assumed by local authorities in the provision of social care, education, health care and housing management differs from field to field. Some social programs and services are provided directly by local communities; others are provided indirectly through public institutes or private individuals. Since there are no special regulatory mechanisms for coordinating local social services management, cooperation takes place mostly in the provision of specific services, such as coordination of groups for dealing with child neglect and abuse (the police, the justice system, social affairs and the education system). Associations of public institutes that operate at a local level have also been founded, which join institutions on the basis of common interests, such as the Community of Kindergartens, the Community of Social Institutes and the Community of Social Work Centers. Together with public and private community services and voluntary organizations, local communities occupy an increasingly important position in the provision of services for the needs of individuals and families.

Provisions of health care services is established by the Law on Health Service. The Health Care Plan, which is currently being considered by parliament, specifies the network of public health care services at the local and national levels. In accordance with the Law on Health Care and Health Insurance, the Health Insurance Institute of Slovenia finances health care, the rates of which are fixed by parliament. The Health Insurance Institute signs contracts directly with health care service providers at all levels.

Responsibility for health care is divided between the state and local communities as follows:

- primary health care (basic health care services and pharmaceutical practices) is the responsibility of the local community and is provided by medical clinics, medical centers, pharmacies and private medical workers;
- at the secondary level, health care services are the responsibility of the state through hospitals and health resorts;
- medical prevention is entirely the responsibility of the local community;
- emergency medical services are the responsibility of either the state or local government.

The Law on Health Service stipulates that primary-level medical institutions be founded by the local community. The duties of a local community are:

- to develop and implement programs to strengthen the health of the population on its territory and to secure budgetary funds for such programs;
- to ensure the execution of sanitation and epidemiological, statistical and sociomedical services for its territory that are not included in the national program;
- to develop and carry out activities to maintain a healthy environment;
- to ensure health care for the members of the civil protection forces, general rescue teams, national defense forces and municipal communication units, unless this has been organized in some other manner;
- as the founder of public health care centers, to provide investment and other funds prescribed by the law and the founding act;
- to run a coroner's office.

Local authorities may sign concession contracts with private doctors to provide medical services in private or public medical centers. The supervision of health care is conducted through internal mechanisms of medical centers; the Medical Chamber of Slovenia, which addresses professional issues; the Ministry of Health, which regulates administration; and the Health Insurance Institute of Slovenia, which monitors financial activities.

Preschool education is regulated by the Law on the Organization and Funding of Education and the Law on Kindergartens. Kindergartens, preschools and nurseries founded by the local community provide a public service. The local community manages these institutions or appoints public or private subcontractors, including nonprofit associations, to provide programs for preschool children (this can be accomplished by several local communities together, if they so agree). This network must be organized in a manner that allows parents and children access to



and a choice of the most suitable program. The Law on Kindergartens also contains a provision guaranteeing all children the right to a place in a public program. Where there are no kindergartens in the place of residence or where there are not enough vacancies to satisfy public demand, the local community must secure additional vacancies in a public kindergarten or publish a call for concession bids to establish new programs within thirty days. The parents of children who are unable to attend kindergarten due to illness may exercise the right to preschool education administered at home.

Preschool educational programs are funded by state funds, the resources of the local community, payments made by parents, donations and other sources. Fees are regulated by the Regulations on Payment for Kindergarten Programs. The amount is determined by the local community that, in accordance with the law, must secure public funding for kindergarten students. The cost includes education, care and food, and parents pay between fifteen and eighty-five percent of the price. The remaining costs are covered from the local community's public funds. The amount to be paid by individual parents is determined according to income level, property value and number of children enrolled in such programs.

Family support services in social care are organized in compliance with the Law on Social Care. Two proposed programs, the National Program of Social Care and the Program of Development of Care for the Elderly, are currently being discussed by parliament. These programs will specify public social care services, including family support at the local level. The program of social care for the elderly contains not only institutional care, but also a plan for the development of services in the home environment that will reach fifteen percent of the elderly population. Such care envisages housing, day centers, residential homes for the elderly, home assistance, long distance services and the founding of home assistance centers as a part of the network of public social and health care services. These new initiatives, which local communities are already developing, will complement current services. Both programs place special emphasis on pluralization of social services delivery within the local community.

The local community funds such programs on the basis of the Law on Local Self-government, which stipulates that it is the responsibility of local government to provide services for the socially underprivileged, the disabled and the elderly. On the basis of this law, municipalities allocate funding for benefits not prescribed by the Law on Social Care, such as the purchase of schoolbooks, heating benefits, et cetera. Users pay the full commercial price for most forms of home assistance; depending on the financial situation of the user, such services may be subsidized by the municipality.

The following public institutes (founded by the state) provide social services for the needs of a local community:

- social work centers;
- homes for the elderly;
- homes for the mentally and physically handicapped;

- homes for children and young people deprived of a normal family life;
- institutions for training and care of children and young people with mental handicaps.

Social services have hitherto been provided exclusively by public social care institutes, but on 12 December 1997 the new Regulations on Concessions in Social Care came into force, which stipulate:

- procedures to be followed when awarding concessions;
- conditions for applicants for concessions;
- other regulations concerning concessions.

Local communities may, in compliance with the Law on Social Care, award a concession for personal assistance and family assistance at home, which means that the local community must provide a public service network for these two services. The concessions for all other services are awarded by the ministry responsible for social care. Each subcontractor must satisfy all technical, personnel and professional standards established by the state that apply to social service providers. The state also ensures the professional monitoring of the provision of these services.

The state and local communities also fund various programs that complement public services; these are generally provided by nongovernmental organizations (NGOs). The number of NGOs operating in the area of social care (around two thousand) has increased since the 1992 amendment of the Law on Social Care, which defines charity organizations, self-help organizations and organizations for the disabled as providers of social services.

The state administers the Housing Fund of the Republic of Slovenia, which enacts the national housing program and encourages the construction, renovation and maintenance of housing. The criteria for social housing allocations are established by standing orders drafted jointly by the Ministry of Labor, Family and Social Affairs and the Ministry of the Environment and Physical Planning. The resources of the Housing Fund are available to citizens who are first-time buyers or builders or whose housing has become unsuitable, residents trying to resolve housing problems by investing in renovation or extensive maintenance work, and nonprofit housing organizations. The Housing Fund currently does not grant loans for social housing. However, the Ministry of the Environment and Physical Planning is planning to promote the construction of social housing, whereby it would be possible to obtain loans from the Housing Fund.

The Law on Housing stipulates that it is the duty of local communities to provide social housing, the construction of which is funded from municipal budgets and from commercial loans, meaning that the number of new social apartments depends on the economic standing of an individual municipality. Local communities have the following responsibilities and duties in the area of housing:

- to adopt and implement municipal housing programs;
- to secure funds for the construction and acquisition of social housing and to cover the difference between the rent determined by contract and other costs incurred under the Housing Law;
- to monitor the average rent in the municipality by category, type and location of housing;

- to secure conditions for the development of various forms of construction and renovation work by applying appropriate land planning policies;
- to adopt guidelines for the design, construction and renovation of apartments based on local standards;
- to maintain a housing register.

Nonprofit organizations are being founded that address housing management. A nonprofit organization that provides social housing can be registered legally with the Ministry of the Environment and Physical Planning. The conditions and rent for nonprofit housing are determined by the state. Eligibility for social housing is based on income; young families, families with many children and the disabled are given priority.

Employment and adult education services are established in accordance with the Law on Employment and Insurance in the Event of Unemployment. The form, content, conditions, rules and procedures for carrying out programs, training and employment measures are stipulated by the Regulations on the Execution of Active Employment Policy Programs and the Regulations on the Execution of Active Employment Policy Measures. The latter also prescribes the research, development and execution of experimental programs in the labor market.

The National Employment Office is an independent legal entity with the status of a public institute that receives funding from the state budget. The Law on Employment and Insurance in the Event of Unemployment lays down the foundations for the National Employment Office. There are five government representatives on its fifteen-member management board, its supreme body. The board proposes elements for the adoption of an employment development policy; employment policies, programs and implementation measures; scholarship policies; et cetera.

The National Employment Office performs professional tasks related to job placement, employment programs, vocational counseling, the awarding of grants, and education and training for the unemployed and the disabled. The office is organized and functions on three levels: the main office, which includes the head office and the central service; ten regional units; and fifty-nine local offices throughout Slovenia. Local employment offices directly provide clients with jobs, employment advice, careers guidance, on-going training and other employment services. Regional units conduct professional and operational tasks and are in charge of advising and monitoring the work of local employment offices. Local authorities work together with regional employment units on the formulation of local development programs and joint funding.

The active employment policy for 1998 placed local communities among the four largest target groups. The promotion of local employment initiatives, which is already taking place in cooperation with the Ministry of Economic Affairs and other government departments, was intended to develop a network and mechanisms for setting up local social and development partnerships, especially in regions in which the local economy is in decline. Forty-eight agreements on local development coalitions have been signed and five regional centers founded to date.

Public work programs include home assistance to the elderly. The service providers employing people on a public work program vary.

Funding comes from the national budget, the budgets of the municipalities that requested the particular public work project and contributions by users. Active employment and adult education programs are implemented and funded by the state (the Ministry of Labor, Family and Social Affairs and the National Employment Office). Unemployment insurance funds are provided mostly by the national budget (around eighty-five percent), as contributions are extremely low (0.14 percent of a worker's gross wage and 0.06 percent of the total gross wages paid by the employer). Individual active employment policy programs receive partial funding from local communities; up to fifty percent of the funding for public works and between five and ten percent of the funding for business workshops, et cetera, are provided by municipalities. A number of public and private learning centers provide officially recognized educational programs for adults.

The system of adult education and employment guarantees multilayer links between the central and local authorities. The Ministry of Labor, Family and Social Affairs consults its social partners and the representatives of employers and workers on all important issues relating to employment and adult education policies. The ministry and the National Employment Office also work in close cooperation, as the latter is well informed of the situation in individual communities through its local offices, which deal directly with the unemployed and with commercial companies. When a crisis situation develops (the bankruptcy of a large company, for example) cooperation occurs between the representatives of the company and the trade union, local authorities, the National Employment Office, the Ministry of Labor, Family and Social Affairs and the Ministry of Economic Affairs.

In the past, private employment agencies only were allowed to perform professional services on the basis of concession grants. Amendments to the Law on Employment and Insurance in the Event of Unemployment will attempt to improve the overall efficiency of the employment system. The new provisions will allow private agencies to conduct job placement, develop employment plans and implement active employment measures.

## 4. Local Finance, Economic Development

### 4.1 Revenues

Local government finances are highly centralized in Slovenia. The central government determines almost all local revenues; only ten percent of public revenues are allocated to municipalities.

The 1994 Law on Financing of Local Government regulates the local budget, types of taxes that local authorities may collect, reserves, local government borrowing, financial equalization and financial transfers. The types of taxes that local authorities may impose include gift and inheritance tax,

tax on gambling machines, tax on the use of goods and property tax. Local authorities are not entitled to introduce any new taxes, and rates are determined by the central government with the exception of property tax; from 1996, local councils can raise this tax by up to five times its assessed legal basis. The Tax Office assesses, levies and collects taxes on behalf of local governments.

In August 1998 an amendment to the Law on Financing of Local Government was adopted. The amendment introduced significant changes to the current law.

1. The concept of guaranteed expenditure was changed to relevant expenditure—that is, support for the performance of local government duties that are determined by the constitution and law. The amount for local relevant expenditure per capita is determined by a formula introduced by the amendment, which considers local population figures, the size of the territory and the length of local roads.
2. Previously the law determined how local revenues were allocated to support guaranteed expenditures and other expenditures. The amendment determined that all tax and nontax revenues should be used for local expenditures in general.
3. The extent of local borrowing was regulated by the amendment. Individual local government loans may have a value equal to ten percent of the previous year's local revenue or more if the loans are used to finance housing, water supply or waste disposal. Interest payments cannot exceed three percent of actual revenues.
4. The amendment established a new ratio for shared income tax. Previously, seventy percent of such revenues were allocated to the state and thirty percent to the local government. The amendment changes these proportions to sixty-five percent and thirty-five percent respectively.
5. The amendment established a scale for special grants. Dependent upon revenues from income tax, local governments can receive special grants totaling up to seventy percent of the amount of resources necessary to fund a project.

In 1998 tax revenue represented 41.2 percent of the total revenue of local authorities (the structure is shown in table 9.1). Property tax, an exclusively local tax, represented 0.4 percent, and income tax, 37.4 percent of all local revenues, or ninety-one percent of all local tax revenues in 1997. Property tax is not used by all local governments and is prohibitively low. The reason for this is that the definition of the tax base for property is poor, there are numerous exemptions, and taxpayers are individuals and not companies. In practice property tax is primarily imposed on weekend houses in municipalities where tourism is well developed. Local councils can raise taxes by up to five times its assessed legal basis, but this base is low and, therefore, revenues collected from this source are not high.

The government is preparing a new law on property taxation to give local authorities the opportunity to collect higher revenues. The new tax on real estate will replace the current property tax and contributions for the use of buildings and land. It will be imposed on all buildings and land in Slovenia and on companies as well as individuals. The primary problem in relation to this new program is that exact ownership records of houses and land do not yet exist. Nevertheless, revenues from property tax and contributions for the use of buildings and land increase gradually every year.

*Table 9.1*  
**Revenues of Local Governments in Slovenia, 1997 and 1998**

Revenue Type	1997 [%]	1998 [%]	Real Growth 98/97 [%]
Tax Revenues	42.6	41.2	2.9
Income Tax (shared)	39.0	37.4	1.9
Property Tax	0.4	0.4	5.6
Gift and Inheritance Tax	0.2	0.2	-8.7
Tax on Gambling	0.2	0.2	19.9
Tax on Use of Goods	2.8	3.0	16.6
Nontax Revenues	35.6	37.3	11.5
Administrative Fees	0.0	0.0	-3.7
Fees on Gambling Machines	0.9	0.7	-12.2
Fines	0.1	0.2	23.3
Local Fees	0.3	0.4	15.3
Communal Fees	2.7	2.7	8.3
Revenues from Administrative Bodies	1.9	1.8	1.9
Contributions for the Use of Buildings and Land	10.3	12.0	24.5
Fees on Farming Land and Forests	0.6	1.1	81.6
Other Revenues	18.8	18.4	4.3
General Grants	18.8	18.4	4.4
Special Grants	3.0	3.1	11.3
<b>Total</b> (borrowing excluded)	100.0	100.0	9.0

SOURCE: Ministry of Finance.

Local governments also may collect nontax revenues. Rates and fees vary among local governments. Nontax revenues represented 35.7 percent of local revenues in 1997. In small local governments, these revenues represented only five percent of funds available for public spending, whereas in large ones, this proportion was as high as forty percent. Contributions for the use of buildings were an important share of these revenues, representing twelve percent of all local revenues and thirty percent of all nontax revenues in 1998. Other fees and contributions represented only 6.8 percent.

Other important nontax revenues are derived from property sales, rental fees, leases and residential funds. Because there is no systematic record of revenues from these sources, the data is grouped in a common category, constituting 18.8 percent of all local revenues and 52.6 percent of all nontax revenues in 1997. Such revenues are the only independent source of funds for municipalities, and their spending is not centrally determined. Unfortunately most municipalities are not able to collect or use these sources in an effective manner, predominantly due to a lack of financial management expertise.

Transfers include grants for the financing of current expenditures and of investment expenditures. These grants are managed and allocated monthly by the Ministry of Finance based on projections of guaranteed spending and, in the future, on projections of relevant expenditures and local proper revenues. Proper revenues comprise all tax and nontax revenues, excluding those from managing local property (property sales, rents and leases; current revenues from residential funds; interest). They are calculated according to rates established by the state or by local government. The actual amount is then determined by agreement among the Ministry of Finance, the Tax Office and each municipality. A local government receives financial equalization if its proper revenues are not sufficient to cover assessed relevant expenditures. The Ministry of Finance guarantees additional funds to those local governments whose actual revenues are lower than originally assessed.

Transfers from the state represented 18.4 percent of local revenues in 1998. Since these transfers were allocated together with revenues from income tax, independence over the spending of this type of funding was almost impossible. In the future, they will be transferred to local authorities separately.

In addition to general grants, special grants also may be allocated by individual ministries on the basis of a local authority's application for financial support for specific projects (such as general infrastructure, heating plants and water supply). Local authorities submit appropriate documentation for the whole investment plan with corresponding permits and confirmation that a certain amount of their proper funds have been allotted to the project. The terms on which local communities can obtain funds are established by systematic laws or by regulations of individual ministries for specific areas of funding. Specific grants comprised 3.1 percent of local revenues in 1998.

According to the Law on Financing of Local Government, municipalities can borrow from any national credit institution. Municipalities must inform the Ministry of Finance of such loans, but state authorization is not required. The amount of municipal borrowing is also limited. Legislation does not permit borrowing from foreign public agencies or on a foreign capital market. If diverse foreign bodies or banks have approved a certain amount of funds, they are regarded as part of the overall balance of public spending on the state level. Such funds then are made available to individual ministries, which can grant nonreturnable funds or funds in the form of loans at a much lower interest rate than domestic banks. Municipalities have the right

to issue local bonds according to the Law on Financing of Local Government, but there is no law regulating such activities, and thus this method remains unused. In 1998 local governments borrowed SLT 1.68 billion, or 1.2 percent of all local revenues.

Local governments collect revenues from different sources. “Controlled revenues”—those determined by the central government—must be spent on expenditures determined by the central government, and local governments do not have any influence in raising these revenues. Controlled revenues represented 45.3 percent of all local revenues (borrowing excluded) in 1998, or 66.8 percent if transfers from the central budget are included.

The Law on Financing of Local Governments allows local governments to identify, determine and levy the rates of other sources of “discretionary revenues” within the framework established by law. Therefore, discretionary revenues provide some financial independence for local governments. Such revenues represented only 18.6 percent of local revenues in 1998. The most important source of discretionary revenues is contributions for the use of buildings and land. The only tax that is part of discretionary revenues is property tax. Comparing 1996 to 1998, the proportion of discretionary revenues increased, thus providing greater financial independence for local governments. On the other hand, this also means greater responsibility and the need to improve financial management at the local level.

## 4.2 Expenditures

The majority of local expenditures are determined by the central government. Municipalities must provide “guaranteed” or, according to the new law, “relevant” expenditures at the local level. According to the amendment to the Law of Financing Local Government, municipalities will spend not only limited revenues but also nontax revenues for relevant expenditures. “Other” expenditures generally foster public and private business and support cultural associations, sport clubs, et cetera. In 1998 local expenditure increased in all fields of spending, as illustrated in table 9.3.

*Table 9.2*  
**Local Government Expenditure as a Percentage of GDP  
 and of General Government Expenditure in Slovenia, 1994–97**

	1994	1995	1996	1997	1998
Local Expenditure as % of GDP	5.4	4.6	4.9	4.8	4.9
Local Expenditure as % of General Government Expenditure	11.5	10.1	10.8	10.5	9.2

SOURCE: Ministry of Finance.



*Table 9.3*  
**Structure of Local Expenditure in Slovenia, 1997 and 1998**

Type of Expenditure	1997 [%]	1998 [%]	Real Growth 98/97 [%]
Administration (wages, costs, etc.)	12.9	13.0	7.7
Protection and Salvage Fund	0.4	0.4	0.0
Public Institutions	41.0	41.7	8.5
Primary Education	11.7	11.9	8.7
Research Activities	0.2	0.1	-35
Culture	5.4	5.3	3.7
Sport	3.3	3.4	11.8
Social Security	3.8	3.7	3.1
Kindergarten and Nursery Schools	14.8	15.1	8.3
Public Health	1.5	1.6	17.7
Other	0.4	0.5	49.9
Transfers to Local Economy	35.6	34.9	4.5
Public Sanitation	12.3	11.6	0.6
Housing	4.8	5.6	24.6
Roads	10.6	9.6	-3.5
Fire Protection	1.9	2.0	10.2
Other Transfers	6.0	6.1	8.7
Reserve Fund	0.8	0.5	-28.8
Transfers to Sublocal Communities <sup>a</sup>	1.1	1.2	12.4
Other	8.2	8.3	

SOURCE: Ministry of Finance.

a. Sublocal communities will not receive special transfers from 1999.

More than 55.1 percent of local revenues is spent on administration, protection and public institutions. If one considers public sanitation, roads and fire protection as public companies, then even more is spent on public purposes. Other transfers to local economies represent six percent of total local expenditures; this proportion varies from one percent to sixteen percent among individual local governments. Some local governments spend the most on fostering small and medium private enterprises, others on agriculture. Therefore, these figures do not provide the full picture on discretionary spending.

## 5. Next Steps in the Transition Process

A review of the current division of jurisdiction between the state and municipalities is being prepared and will constitute the basis for amendments and supplements to the Law on Local Self-government. These should provide municipalities with greater authority in physical planning, the environment, agriculture, small business and other areas. The goals of modifying and amending the law are listed below.

1. Cooperation between the municipal council and the mayor and among other municipal bodies will be improved. According to the proposed amendments, the municipal council remains the highest decision-making body in the municipality, and the mayor, who heads the council, is responsible for implementing its decisions and representing the municipality.
2. The rights and obligations of individual municipal officials will be detailed, and municipal functions will be entrusted only to directly elected officials. According to current proposals, all municipal officials are to be elected directly. In systemic terms this is regulated in such a way that deputy mayors are elected from among the members of the municipal council, and the municipal secretary is no longer an official.
3. Forms of cooperation among municipalities will be defined, ensuring that they will be able to address specific common tasks and interests in a more economical manner through communities and associations.
4. The special status of urban municipalities will be adjusted to ensure the implementation of constitutional provisions.

One of the most important goals of modifying the law is to minimize conflicts related to transferring duties from state jurisdiction to municipalities, as it is in the interest of the state to seek more rational and effective means of successfully addressing public needs. These transfers must have a suitable legal basis, which will allow the state:

- to transfer some tasks related to local public issues to municipalities, where the municipal bodies positively will effect the overall implementation of programs and the development of local self-government without unnecessarily burdening municipalities with administration;
- to determine which tasks can be addressed by all or selected municipalities, based on the geographic, economic, cultural or other characteristics and special features of individual municipalities;
- to organize direct cooperation with citizens in adopting decisions in a municipality;
- to supplement the system of supervising municipal bodies, primarily in carrying out mandatory tasks; the current system does not allow for effective action from the government and ministers in cases where harm is done to an individual, legal entity or a local community due to the illegal activities of municipal bodies.

The purpose of initiating amendment to the Law on Financing Municipalities is to harmonize the system of financing Slovenian local self-government with the directives of the European Charter of Local Self-government. The main goal of these amendments will be to facilitate

greater financial independence of municipalities. Foreseeable amendments include the following objectives.

1. Local finances will become uniform, and municipal revenues will no longer be separated into guaranteed income and other income.
2. Income for guaranteed use will be referred to as the “appropriate volume of funds for financing local affairs of public importance.” This should ensure the normal functioning of municipalities.
3. The government will provide additional assistance for municipalities in the form of general grants. Uniform criteria will be determined that will apply to all municipalities.
4. Special grants will be developed for those areas in which the government has special interest.
5. Mayors will have greater jurisdiction regarding municipal budgets.
6. To address excessive municipal debt, credit will only be granted on the basis of the adopted budget and with the approval of the Ministry of Financial Affairs.
7. Municipalities will improve the collection of data necessary for the preparation of relevant annual budgets.

## Recent Publications on Local Government in Slovenia (in English)

Council of Europe. *Structure and Operation of Local and Regional Democracy: Slovenia's Situation in 1997*. Strasbourg: Council of Europe Publishing, 1997.

*Local Self-government in Slovenia*. Ljubljana: 1998.

*Local Democracy*. Ljubljana: Office for Local Self-government, Republic of Slovenia, 1998.

*Report on the Current Situation in the Area of Local Self-government in the Republic of Slovenia*. Ljubljana: Office for Local Self-government, Republic of Slovenia, 1998.

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Vlaj, Stane. *The Introduction of Local Self-government in the Republic of Slovenia: Current Situation and Outlook*. Ljubljana: 1995.

—. *The Reform of Local Self-government in the Republic of Slovenia, Sustainable Development of Rural Areas: From Global Problems to Local Solutions*. Klagenfurt: Institut für Geographie der Universität Klagenfurt, 1995.

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## Notes

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## Annex 9.1

### Major General Indicators

Note: All data from 1997.

Size of territory	20,256 square kilometers
Population density	98 inhabitants per square kilometer
Population	1,984,923
Major ethnic divisions	
Hungarians	0.4 percent
Italians	0.2 percent
National budget	44.6 percent of GDP
Local governments	4.8 percent of GDP
Pension fund	13.3 percent of GDP
Health insurance	6.8 percent of GDP
Unemployment rate	7.4 percent
Inflation rate	9.4 percent

## Annex 9.2

## Settlements, Population and Administrative Units

*Table 9A.1*  
**Municipalities by Size Categories in Slovenia, 1998**

Population Size Categories	Number of Municipalities in Size Category	% of Total Municipalities	Number of Inhabitants	% of Population
0–1,000	6	3.1	3,412	0.2
1,000–2,000	18	9.4	27,243	1.4
2,000–5,000	72	37.5	252,085	12.7
5,000–10,000	42	21.9	281,782	14.2
10,000–50,000	51	26.6	977,720	49.2
50,000+	3	1.6	443,813	22.3
<b>Total</b>	192	100.0	1,986,055	100.0

*Table 9A.2*  
**Population of Urban Municipalities in Slovenia, 1996**

Urban Municipality	Inhabitants	% of Total Urban Municipality Population
Celje	50,139	6.72
Koper	46,735	6.26
Kranj	51,559	6.91
Ljubljana	271,812	36.41
Maribor	132,250	17.71
Murska Sobota	21,265	2.85
Nova Gorica	40,697	5.45
Novo Mesto	51,057	6.84
Ptuj	32,329	4.33
Slovenj Gradec	16,788	2.25
Velenje	31,903	4.27
<b>Total</b>	746,534	100.00

SOURCE: Office for Local Self-government of the Government of Slovenia.

*Figure 9A.1*  
**Administrative Map of Slovenia**





## Annex 9.3

### Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in Slovenia (presented in order of adoption; date of adoption is given in brackets):

- Law on Local Self-government (Official Gazette of the Republic of Slovenia, no. 72/93, no. 57/94, no. 14/95)
- Law on Local Elections (Official Gazette of the Republic of Slovenia, no. 72/93)
- Law on the Procedure for the Establishment of Municipalities and for Determining Their Territory (Official Gazette of the Republic of Slovenia, no. 44/96)
- Law on the Establishment of Municipalities and on the Determining of their Territory (Official Gazette of the Republic of Slovenia, no. 60/94, 69/94)
- Law on the Financing of Municipalities (Official Gazette of the Republic of Slovenia, no. 80/94)
- Law on the Administration (Official Gazette of the Republic of Slovenia, no. 67/94)
- Law on the Organization and Jurisdiction of Ministries (Official Gazette of the Republic of Slovenia, no. 71/94)
- Law on Assuming State Functions (Official Gazette of the Republic of Slovenia, no. 29/95)
- Law on the Procedure of the Establishment of Municipalities and on the Determining of their Territory (Official Gazette of the Republic of Slovenia, no. 44/96)

## Annex 9.4

## Responsibilities of Administrative Tiers

*Table 9A.3*  
**Specific Functions of Local Government Units in Slovenia**

Functions	Competent Authority			Type of Competence				Exercise of Competence			
	State	Intermediate	Municipality	Exclusive	Shared	Compulsory	Discretionary	Direct	Indirect	In own right	For another authority
<b>I. EDUCATION</b>											
1. Preschool			X	X				X			
2. Primary	X		X		X			X			
3. Secondary	X			X				X			
4. Vocational and Technical	X			X				X			
5. Higher	X			X				X			
6. Adult	X		X		X			X		X	
<b>II. GENERAL ADMINISTRATION</b>											
1. Security, Police	X			X				X			
2. Fire Protection			X	X				X			
3. Civil Protection			X	X				X			
4. Justice	X			X				X			
5. Civil Status Register	X			X				X			
6. Statistical Office	X			X				X			
7. Electorate Register	X			X				X			

Table 9A.3 (continued)  
**Specific Functions of Local Government Units in Slovenia**

Functions	Competent Authority			Type of Competence				Exercise of Competence			
	State	Intermediate	Municipality	Exclusive	Shared	Compulsory	Discretionary	Direct	Indirect	In own right	For another authority
<b>III. SOCIAL WELFARE</b>											
1. Kindergarten and Nursery			X	X				X			
2. Family Welfare Services			X	X			X				
3. Welfare Homes	X		X		X			X	X		
4. Social Security	X		X		X			X	X		
<b>IV. HEALTH SERVICES</b>											
1. Hospitals	X			X				X			
2. Health Protection	X		X		X			X	X		
<b>V. CULTURE, LEISURE, SPORTS</b>											
1. Theaters	X		X		X			X	X		
2. Museum and Libraries	X		X		X			X	X		
3. Parks and Public Spaces	X		X		X			X	X		
4. Sports and Leisure	X		X		X			X	X		
5. Religious Facilities	X			X				X			
6. Other Cultural Facilities	X		X		X			X	X		

Table 9A.3 (continued)  
**Specific Functions of Local Government Units in Slovenia**

Functions	Competent Authority			Type of Competence				Exercise of Competence			
	State	Intermediate	Municipality	Exclusive	Shared	Compulsory	Discretionary	Direct	Indirect	In own right	For another authority
<b>VI. ENVIRONMENT, PUBLIC SANITATION</b>											
1. Water and Sewage	X		X		X			X	X		
2. Refuse Collection and Disposal			X	X				X			
3. Cemeteries and Crematoria			X	X				X			
4. Slaughterhouses	X			X				X			
5. Environmental Protection	X		X		X			X	X		
6. Consumer Protection	X		X		X			X	X		
<b>VII. TRAFFIC, TRANSPORT</b>											
1. Roads	X		X		X			X	X		
2. Transport	X		X		X			X	X		
3. Urban Road Transport	X		X		X			X	X		
4. Urban Rail Transport											
5. Ports	X		X		X			X	X		
6. Airports	X			X				X			
<b>VIII. URBAN DEVELOPMENT</b>											
1. Housing	X		X		X			X	X		
2. Town Planning			X	X				X			
3. Regional/Spatial Planning	X		X		X			X			

Table 9A.3 (continued)  
**Specific Functions of Local Government Units in Slovenia**

Functions	Competent Authority			Type of Competence				Exercise of Competence			
	State	Intermediate	Municipality	Exclusive	Shared	Compulsory	Discretionary	Direct	Indirect	In own right	For another authority
<b>IX. PUBLIC UTILITIES, ECONOMIC</b>											
1. Gas	X		X		X			X	X		
2. District Heating			X	X				X			
3. Water Supply			X	X				X			
4. Agriculture, Forests, Fishing	X		X		X			X	X		
5. Electricity	X			X				X			
6. Economic Promotion	X		X		X			X	X		
7. Trade and Industry	X		X		X			X	X		
8. Tourism	X		X		X			X	X		

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