

Consolidation or Fragmentation?

The Size of Local Governments
in Central and Eastern Europe

Edited by

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Foreword

This book was prepared under the “Local Government Policy Partnership” Program, which is a joint project of two donor organizations. The British Government’s Department for International Development (DFID) and the Local Government and Public Service Initiative (LGI) of the Open Society Institute, Budapest launched this regional program jointly. The “Local Government Policy Partnership” (LGPP) projects intend to contribute to policy development and innovation in these countries (<http://lgi.osi.hu/lgpp/>).

LGPP hopes to develop expertise and to support professional cooperation among local government specialists throughout Central and Eastern Europe. Parallel to this, experiences from this region should be made available in Central and Eastern Europe, and in Central Asia. The core partner countries are the Czech Republic, Hungary, Poland and Slovakia. However, other countries have been invited to participate in these regional projects, which would help direct information exchange and comparison of policy efforts.

LGPP publications include policy studies and proposals discussed with government officials and experts in the countries involved. Targeted beneficiaries of LGPP projects are national government ministries, local government associations, research and training institutions, and individual local authorities throughout the CEE region. LGPP intends to publish three studies each year.

In the first year of LGPP operations, the following three policy areas were selected for analysis: (i) education financing and management; (ii) regulation and competition of local utility services, and (iii) public perception of local governments. The policy studies were widely disseminated throughout our region. They supported the policy dialogue (e.g. on education in Macedonia) and served as training materials (e.g. for regulatory experts).

Topics for the second year of LGPP (2001/2002) were rather different by nature:

- a) decentralization and regional development;
- b) relationship between local government size, local democracy and local services delivery;
- c) local government and housing.

This volume touches the most critical issues of decentralization reforms: how democratic institutions and procedures, public service efficiency and size of local governments are interrelated. Evidence and lessons from countries with fragmented local government structures (Czech Republic, Hungary, Slovakia) are compared

with countries having traditionally large local authorities (Bulgaria, Poland). Beyond these country reports, the comparative chapters in this book specify the conditions and components of each basic policy option.

Kenneth Davey & Gábor Péteri

September, 2002

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Size of Local Government,
Local Democracy and Efficiency
in Delivery of Local Services
—International Context and
Theoretical Framework

Paweł Swianiewicz

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Size of Local Government, Local Democracy and Efficiency in Delivery of Local Services—International Context and Theoretical Framework

Paweł Swianiewicz

1. HOW TO MEASURE THE SIZE OF A LOCAL GOVERNMENT?

There are at least two potential measures of the size of a local government: population number and surface area. Both of these have some advantages when applied to different public administration themes. Population number seems to be the most popular and the most powerful indicator [King 1984]—this relates directly to those consumers of locally provided services. Nevertheless, for some issues, such as network infrastructure, the area to be covered is an almost equally important challenge for local government. Simplifying matters, we may say that with some services, costs are first and foremost a function of the number of beneficiaries (customers), while with others costs are more dependent on the area being covered. In practice, both factors have some significance. For example: in order to construct a rational school network, local government not only has to take into account the number of students, but also the distance from residential areas to the closest school, the social benefits of maintaining small schools in remote rural settlements, the number of teachers to be employed, etc.

For some local government activities we might agree that the key factor determining cost efficiency is population density rather than simple measures of size, as mentioned above. However, in this book, we will concentrate first and foremost on population size, only making reference to surface area. There is a strong argument against expressing the size of a municipality based on population density. Any social research is useful as long as it results in reasonable policy implications. It is feasible (although sometimes a political challenge) to re-draw a country's administrative divisions, to increase or to decrease the population or area surface size of local government units. Even so, it is hard to imagine, unless under a dictatorship, that any country's administrative reform would have a short-term affect on population density within its existing units.

2. FRAGMENTATION OR CONSOLIDATION—INTERNATIONAL EXPERIENCES AND THEORETICAL ARGUMENTS

What is the optimal size of a local government unit? For many years this has been one of the most frequently discussed issues related to the organization of a state on a sub-national level. Such discussions can already be found in works of the classic philosophers. Plato, in his *Republic* and *Laws*, suggested that the ideal city should have a size sufficient for delivery of all important functions but small enough to protect the unity of the city. He came to the conclusion that the ideal number of citizens would be 7!, i.e. 5,040¹. In the 19th century, the recommendation to organize society into localities attracted the attention of utopians. Fourier (1829) suggested the organization into *falansters* (communes) consisting of 1,620 or, even better, 2,000 persons (inhabitants).

Turning to more contemporary discussions and solutions, it is striking how much the size of local governments varies in practice throughout different European countries. On one hand, we have England, the Nordic countries, and Holland with relatively large municipalities. On the other hand, France is divided into almost 40 thousand, very small, local government units. Table 1.1 briefly illustrates this variation.

Countries included in the analysis presented in following chapters of this book represent a good spread in regards to the size of municipal governments. For instance, Bulgaria and Poland belong to the group of countries with relatively large local governments. In contrast Hungary, Slovakia and Czech Republic, after the recent fragmentation processes, have very small units. This provides a good opportunity to observe a variation of political, social and economic processes amongst a variety of territorial organization settings.

Differences between countries may only be explained by history (tradition) and inertia of the spatial organization to some extent. The territorial organization of some states' municipal government is, indeed, deeply rooted in historical tradition and any change would probably be strongly resisted (France provides a classic example of such a situation). Still, we can also indicate countries in which the size of municipal government has only recently been re-shaped. For example, the history of the large British district is just over 20 years old.² Also, in Nordic countries amalgamation of small municipalities been in place no longer than the last 20–40 years. The structural changes introduced in European countries during the last 40 years have usually lead to enlargement of local government units. L.J. Sharpe in his report (1995) treats enlargement as a synonym to changes in territorial structures. The Sharpe generalization stresses the fact that fragmentation trends in Central–East European countries during the beginning of 1990's were very atypical. However, during 1980s and 1990s theoretical arguments in favor of the creation of territorially fragmented systems have become increasingly more pronounced in many analysis published in Western Europe as well.

Table 1.1

Average Size of (Municipal) Local Governments in Selected European Countries

| Country | % of Municipalities Below 1,000 Citizens | Average Population | Average Area [sq. Km] |
|-----------------------|---|--------------------|--------------------------|
| England and Wales | 0 | 123,000 | 533 |
| <i>Lithuania</i> | <i>0</i> | <i>66,000</i> | <i>1,166</i> |
| <i>Yugoslavia</i> | <i>0</i> | <i>49,500</i> | <i>487</i> |
| Bulgaria | 0 | 35,000 | 432 |
| Sweden | 0 | 29,500 | 1,595 |
| Holland | 0.2 | 20,500 | 60 |
| Denmark | 0 | 18,000 | 150 |
| Poland | 0 | 16,000 | 130 |
| <i>Macedonia</i> | <i>3</i> | <i>15,800</i> | <i>209</i> |
| <i>Slovenia</i> | <i>3</i> | <i>10,300</i> | <i>106</i> |
| <i>Albania</i> | <i>0</i> | <i>10,000</i> | <i>77</i> |
| Finland | 5 | 10,500 | 730 |
| Norway | 4 | 9,000 | 710 |
| <i>Croatia</i> | <i>3</i> | <i>8,800</i> | <i>104</i> |
| <i>Romania</i> | <i>2</i> | <i>7,600</i> | <i>81</i> |
| Italy | 24 | 6,500 | 38 |
| <i>Estonia</i> | <i>9</i> | <i>5,700</i> | <i>178</i> |
| Spain | 61 | 5,000 | 60 |
| <i>Ukraine</i> | <i>NA</i> | <i>4,600</i> | <i>56</i> |
| <i>Latvia</i> | <i>32</i> | <i>4,300</i> | <i>115</i> |
| Hungary | 54 | 3,300 | 32 |
| Slovakia | 68 | 1,900 | 17 |
| Czech Republic | 80 | 1,700 | 13 |
| France | 77 | 1,300 | 15 |

NOTE: Countries analyzed in the following chapters of this book are highlighted in bold font, other Central and Eastern Europe countries are marked in italics.

SOURCE: Newton, Karran (1985), Baldersheim et. al. (1996), The Size of Municipalities..., (1995), Horváth (1999), Kandeve (2000).

The issue of the size of local government units has many important practical consequences. This goes beyond the typical results usually identified with territorial organization. For example, Page and Goldsmith (1987) claim that the shape of territorial organization, to large extent, will determine other characteristics of the local government system, including the allocation of functions and the nature of the contact between central and local governments.

Before we veer into deeper analysis of Central European countries, it is worthwhile to review the most important arguments for and against small/large local governments.

Keating (1995) claims that the discussion on optimal size of local government usually focuses on four dimensions:

- Economic efficiency—which scale may produce the most service at the least cost;
- Democracy—what structures can best secure citizen control over government and proper accountability;
- Distribution—which structures can achieve the most equitable distribution of services and tax burdens;
- Development—which structures are best equipped to promote economic growth?

It is the reform theory that provides the most essential arguments for territorial consolidation. These arguments can be summarized under the following items:

- *There is economy of scale in many local services.* Marginal cost of service delivery is lower if the total amount of produced services is larger;
- *Small local governments produce costs related to spillovers* (a.k.a. “free-riders”, those using services in a municipality but who live and pay taxes elsewhere). Many big cities and their suburbs, which have separate local governments, provide a good example of just such a phenomenon. Citizens living in suburbs pay their taxes locally but they still benefit from many services delivered in the center of the city. The “central municipality” carries the burden of providing the services used by commuters. To some extent, this means that tax-payers living in the center subsidize those who live outside city limits. The situation is even more dramatic when the rich inhabit the suburbs and the majority of those living in the center are relatively poor. Examples of spillover are also encountered in Central European countries. In the Czech Republic, many cities complain that surrounding municipalities are not willing to co-finance services (such as schools or administrative services), which are delivered in the city [Blazek, 1994]. During the beginning of 1990s, one frequent conflict in Poland was over financing public transportation to the suburbs. This service was delivered by a company owned by the “central city” but it was mostly serving citizens from surrounding local governments [Swianiewicz, 1997].

The spillover effect can never be eliminated (reduction of its negative impact is usually one reason for central grants systems) but it can be reduced if local government system is territorially consolidated. Obviously the extent of problems related to spillovers also depends on how local services are financed. For example, if tax on citizens' income is one of major local revenues, the situation can be quite different depending upon whether revenues are allocated according to place of residence (as in Scandinavian countries and Poland) or according to place of work (as in Bulgaria or the Ukraine). Central cities will no doubt benefit most from taxes on commercial activity and on commercial properties, while suburban municipalities will benefit more from tax on residential properties.

- *Large local governments can provide more functions, which may lead to more public interest and participation in local politics.* Page and Goldsmith (1987) argue that one of the most important reasons why Northern European countries are responsible for more functions than local governments in their fragmented Southern European counterparts, is the large size of their local governments. This observation was confirmed by Bours (1993) who grouped European local government systems into 4 clusters³: (A) large and responsible for numerous functions (Scandinavia, Netherlands, the United Kingdom), (B) average size and average scope of functions (Finland, Germany, Belgium), (C) small, with an average scope of functions (France, Spain, Switzerland, Austria), (D) small, with a narrow scope of functions (Italy, Portugal, Greece). This classification's correlation between size and scope of functions is very clear. The theory argues that a broader list of functions stimulates citizens' interest and participation as well as helping to attract "better quality" candidates to local councils [Dahl, Tufte, 1973]. Of course, this is also related to the fact that the *power and prestige associated with holding office in larger constituencies is greater* [Goldsmith, Rose, 2000].
- *Territorial consolidation provides more space for interest groups representing a pluralist society.* In this theory, interest groups as well as more developed party systems are seen as a positive emanation of pluralist society. In big communities, it is easier to avoid nepotisms or other forms of political clienteles. It helps citizens influence local politics between the election periods. One potential danger is related to the presence of dominant pressure groups. Such a danger is smaller in large territorial units. Goldsmith and Rose (2000) also suggest that there is better representation of various minority groups in larger local governments, since bigger municipalities are usually more liberal and disadvantaged groups are less likely to meet with negative prejudices preventing them from entering the politics;
- *Similarly, in large local governments, there is a greater possibility of a strong civil society.* In large communities, there is a greater chance that a dense network of voluntary organizations will develop.

- *Large local governments enable promotion of local economic development.* This is the case because larger scale enables complex, coherent planning and also makes it easier to finance expensive infrastructure investment projects, crucial for promoting economic development;
- *Proponents' arguments about territorial fragmentation based on "community arguments" are very often idealistic and vague.* This line of argument tries to dispel some of the counter-arguments used by proponents of territorial fragmentation. It is argued that most people are more interested in getting good quality, cheap services rather than participating in the everyday decision-making and formulation of local policies. Further, to illustrate how vague the notion of "local community" is, Lyon (1987) enumerates 94 different definitions of this term.

The opposing arguments (in favor of territorial fragmentation) include both the idea of localism [Jones, Stewart, 1983] and that of public choice. Although branching from very different theoretical assumptions, both theories come to very similar conclusions—small is beautiful. The following arguments are those most frequently used to support this position:

- *Contact between councilors and citizens are much closer and politicians are more accountable to their local communities when in small units.* According to this argument, "social trust is based on strong personal ties in small communities. Decline of community and social trust resulting from increasing scale will be reflected in declining political trust" [Denters, 2002]. This high trust issue should subsequently be reflected in general positive attitudes towards the elected officials in small units;
- *In small units citizens can "vote with their feet"* [Tiebout, 1956] i.e. choose their preferred ratio of local taxes vs. services publicly delivered. According to the classical Tiebout model, people migrate to local governments in which the ratio of taxes versus services is closest to their personal preferences. Territorial fragmentation decreases the costs of migration and increases the chances of reducing the gap between implemented public policies and the individual preferences of citizens;
- *Small local communities are more homogenous and it is easier to implement policies that meet the preferences of a large proportion of citizenry* (to some extent, this is a less radical formulation of the Tiebout argument).
- *There is more incentive for citizen participation in small communities* because a single individual's vote will "weigh more". Denters (2002) provides an excellent illustration: in Schiemonnikoog, the smallest Dutch municipality, one councilor represents 111 citizens. While in Amsterdam, there is one councilor for almost 16,250 citizens. The rationale of this argument is additionally strengthened by the more socio-psychological argument that people are more likely to develop

a stronger sense of community and local identification in smaller, more homogenous settings. This, in turn, will heighten interest in local affairs and stimulate political involvement.

- *Small local governments are less bureaucratic.* In some functions, economy of scale is overshadowed by problems related to the co-ordination and management of large units. Administrative function is a good example of this.
- *Argument of economy of scale is irrelevant since it is possible to separate responsibility for service from actual delivery.* It is true that economy of scale is important in many services. But many services may be contracted-out to the private sector and, in such a situation, economy of scale depends on the size of the private company. Possible solutions may be found in American and British privatization of local services [Savas, 1987; Walsch, 1989] but also in the French model [Lorrain, 1997], in which large public utility companies serve many municipalities, or in Germany [Reidenbach, 1997], where economy of scale is frequently achieved by the creation of multi-sector companies providing complex services in small towns;
- *Fragmentation supports competition between local governments in attracting capital to those places where it will be most productive;*
- *Fragmentation supports experimentation and innovation.*⁴ If a given territory has many small local governments, it is both easier to experiment with various policies and to learn from neighboring territory's experiences.

The collection of arguments presented above requires at least one critical comment. As Sharpe (1995) notes, size arguments cannot be considered in the abstract. Quite often, what is quoted as an argument for or against small scale local government, in fact, is not related to the size itself, rather to the social nature of the community. For example, it is true that most small local governments have less developed pressure groups and/or weaker media systems. Yet, it is not because they are small, rather, because they are rural. Only some of arguments quoted above can particularly be related to the size itself.

3. ECONOMICS IN SEARCH OF THE OPTIMAL SIZE OF LOCAL GOVERNMENT—KING'S ATTEMPT AT A SUMMARY MODEL

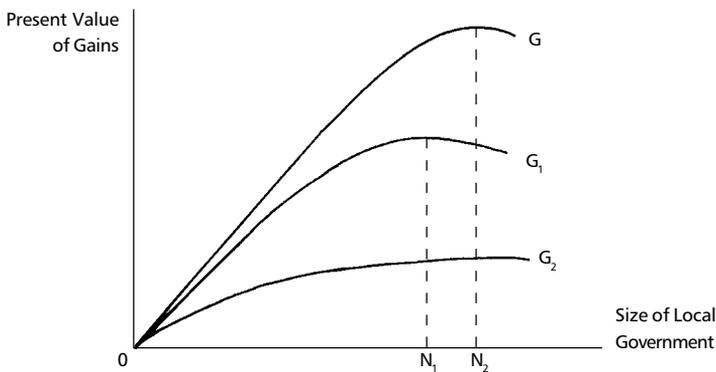
The economic analysis of optimal size for a local government is presented by King (1984). It provides a good summary of most the arguments presented above. Limited space available does not allow us to present the details of his model, but it is worthwhile to highlight at least the most important elements. The model starts with analysis of a basic situation in which:

- all citizens have similar tastes and incomes;
- governments do not co-ordinate with each other
- citizens are geographically immobile
- the authorities that provide a public service, also produce that service
- only one service is entrusted to sub-central authorities
- the area is geographically homogenous
- the population density of the country is broadly uniform.

These assumptions are successively released in the model analysis. The model is based on cost-benefit analysis methods.

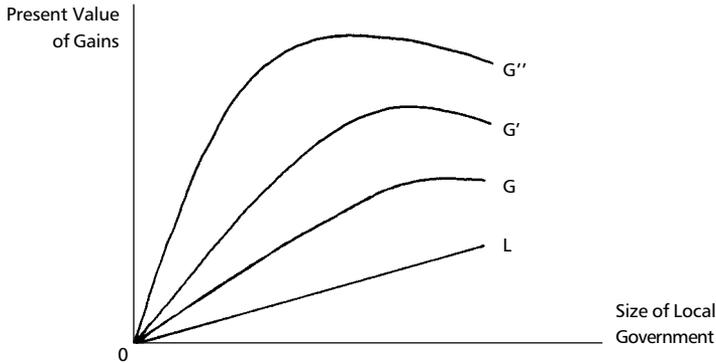
The basic relationship between present value of gains and size of authorities is presented in Figure 1.1. The curve OG1 represents gains from economy of scale (production and managerial gains)—with optimal size at N_1 , while OG2 represents gains due to internalization of externalities and approaching the optimal level of service provision. The total gains are shown by the line OG (with an optimal size at point N_2).

Figure 1.1
The Present Value of Gains and Size of Local Government



The “top point” of the OG curve depends on numerous factors—first of all, it differs depending on the service but it also depends on the demand for the service. If the demand increases, the optimal size decreases because the same quantity of services may be provided within smaller territory, while reducing unit costs. This change is illustrated in Figure 1.2, in which the original OG curve moves to OG’ and OG” with the increase of demand for the provided service.

Figure 1.2
Impact of the Demand for Services and Variation of Citizens' Preferences
on the Optimal Size of Local Government



The situation is more complicated if we release the initial assumption that citizens' preferences are uniform. This is illustrated by line L (illustrating looses), which slopes upwards with increase of population size, because the variation of individual preferences in larger municipalities is greater and the gap between the final output (actual provision) and citizens' tastes has to be larger.

Relaxation of further basic assumptions from the model introduces more complications:

- redistribution problems related to the geographical variation of the local tax base—if local governments are small, then variation in their fiscal capacity is greater. It leads to one of three consequences: (i) regional variation in the level of service provision (which sometimes is unacceptable for various political reasons); (ii) greater variation of local tax rates; (iii) complications in the grant redistribution system. It often happens that optimal size is larger than has been suggested in our earlier discussion because it helps to reduce redistribution problems;
- reduction of territorial spillovers also increases the optimal size;
- administrative costs related, for example, to tax collection—this is another factor leading to the increase of the optimal size (it helps to reduce administrative “unit costs” of tax collection);
- if services are not directly provided by the local government, rather they are purchased on the market, the OG curve becomes much more flat. However, this is not quite horizontal since small local governments may have problems with efficient control of contracts and may find themselves in monopoly provision situations more often than larger authorities.

With some simplification, we may say that the OG curve presents a summary of theoretical expectations for the impact of size on unit costs of service provision, while L line represents a summary of theoretical expectations for the impact of size on democratic processes. The theory also expects that distribution and development considerations will also push the optimal size in the direction of larger local governments.

4. SOME EXAMPLES OF EMPIRICAL ANALYSIS FOR THE IMPACT OF SIZE ON THE FUNCTIONING OF LOCAL GOVERNMENTS

There are many empirical analysis which try to expose the following questions:

- 1) How is size of local governments related to democracy? Is there any relationship between size and citizens satisfaction as well as between size and ability (and willingness) to participate in local public issues?
- 2) How does the size of local governments affect costs of local services' delivery and capacity for development?

Ad. 1.

In their classic analysis, Verba and Nie (1972) came to a conclusion which supports reform theory arguments—that is, participation is positively correlated with the size of local community. Newton (1982) and Nielsen (1981) formulated similar conclusions in their studies in the United Kingdom and Denmark. Yet, another classic book by Dahl and Tufte (1973) leads to opposite conclusions. Very interesting analysis by Mouritzen (1991) suggests that, in Denmark, trust in local government is low in big cities (over 100,000) and the optimal point is probably somewhere between a population of 15 and 20 thousand.

In their recent comparative analysis of the United Kingdom and Norway, Goldsmith and Rose (2000) found that, in both countries, local elections in larger municipalities attract more candidates, this may be interpreted as a larger interest in local politics. In Norway, large cities also have a more balanced social structure for their councils (i.e. representation by a larger proportion of female councilors). On the other hand, there is a strong (and continually increasing) negative correlation between local government size and turnout in local elections in Norway. In the United Kingdom, such a relationship has not been found. This is probably due to the large size of local governments in the UK, where a local government with a population of 50,000 is considered very small. For the nature of social links there is not a huge difference between a population of 50,000 and 100,000, but there is a significant qualitative difference between a community of 2,000 and 20,000.

Rose (2002) provides a comparative analysis of the relationship between size of local government and non-electoral participation in local politics in Denmark, the Netherlands and Norway. He comes to the conclusion that size is an important factor in explaining citizens local political activity. In small local governments, contacting local politicians, contacting local administration and—to a lesser extent—attending public meetings, are all usually much more frequent than they are in big local governments. For other analyzed forms of participation (participation in action groups and petitioning) the relationship is not so clear nor so straightforward. Analysis shows a low participation in the smallest municipalities (especially those below 1,000–2,000 citizens) as well as some advantages of larger governments.

Denters (2002) provides clear examples (on the basis of analysis carry out in the Netherlands, Denmark, Norway and the United Kingdom) that trust in local politicians is significantly, and negatively, related to the size of local government. In spite of theoretical arguments, which present different predictions in this respect, Denters concludes that the civic trust or higher competence perspectives (which provide an argument for better “democratic performance” in bigger municipalities) are not supported by empirical findings.

Many interesting examples of this are provided by a recent Council of Europe report [The Size..., 1995]. Analysis completed in Finland and Iceland did not lead to any definite conclusions on the impact of size. In Norway, it was found that there was larger voter turn-out during elections in small local governments but, on the other hand, larger units seem to stimulate participation through protest actions and general political communication seems to be more intensive. Also, in the Netherlands, size has no clear effect. For example, on one hand, councilors are easier available to citizens in smaller municipalities, but, on the other hand, in regards to consultations on decisions, large municipalities were found to be more active. However, these findings are questioned by Denters, De Jong and Thomassen (1991) who all criticize Dutch amalgamation policy anyway, arguing that it leads to a decrease in citizen satisfaction and participation in local public affairs. This is not always immediately visible in the data because participation is usually positively related to the level of education and low-educated citizens are frequently over-represented in small municipalities. Yet, when impact of size by the education level was controlled, the correlation became much stronger. Surprisingly, the same Dutch research did not find a correlation between the size of local government and the gap between policy preferences of citizens and local councilors.

In Sweden, some very interesting research tries to compare the situation before and after amalgamation of local governments. It found that, after amalgamation, the intensity of local political life and citizens orientation into local policy issues increased but the personal acquaintance between residents with local politicians decreased.

The Council of Europe report also notes also an interesting observation taken from Central Europe. One of problems with local democracy in the Czech Republic is that, in very small villages, it is often difficult to find enough citizens willing to be members of the municipal bodies prescribed by the law.

Ad. 2.

In regards to costs of service delivery and its efficiency, various empirical analyses lead to a variety of conclusions. It is generally accepted that the efficiency function in relation to the size is U-shaped, with the lowest point representing the effect of economy of scale. But location of this point is very different in various empirical analyses. Newton (1992), Sharpe (1995), as well as King (1984) in his theoretical analysis, all point out that optimal size may differ for various services. Therefore, optimal size depends on the allocation of functions to local governments.

The Council of Europe survey on the subject [The Size..., 1995] provides numerous examples of empirical analysis of the impact of size on the efficiency of local services' delivery. Still, there is a basic methodological problem with such analysis. It is extremely difficult to measure the output of certain services and there is certainly no objective method to measure the benefits arising from them. In practice, many researchers adopt a simplified method measuring only the cost-side, following a silent assumption that the level of service provision is invariant. However, some analyses are worthy of mention. In the Netherlands, it has been found that size of municipalities has considerable implications in regards to administrative capabilities concerning certain services such as social security, public order and safety. Yet, it has little importance in regards to others, such as public works. The same Council of Europe survey reported results of analysis occurring in many countries in which the question of the minimum size of municipal government has been asked. In quite a few of the countries (Italy, Norway, Denmark) the conclusion was that a population 5,000 is the minimal size for an efficient local government. Analysis undertaken in the Netherlands and Sweden led to even larger population threshold of about 8,000.

Most research agrees that larger size increases capacity of local administration to promote economic development. However, this finding happens to be in question as well. For example Denters, De Jong and Thomassen (1991), analyzing 30 Dutch municipalities with less than 30,000 citizens, could find no evidence that bigger municipalities are more successful in achieving their planning objectives. This fact, together with other findings, led them to the conclusion that *size of local government is far less important for various dimensions of the quality of government than is generally presumed.*

The brief review presented in this section clearly shows that, although most the empirical findings confirm theoretical arguments presented in the previous sections,

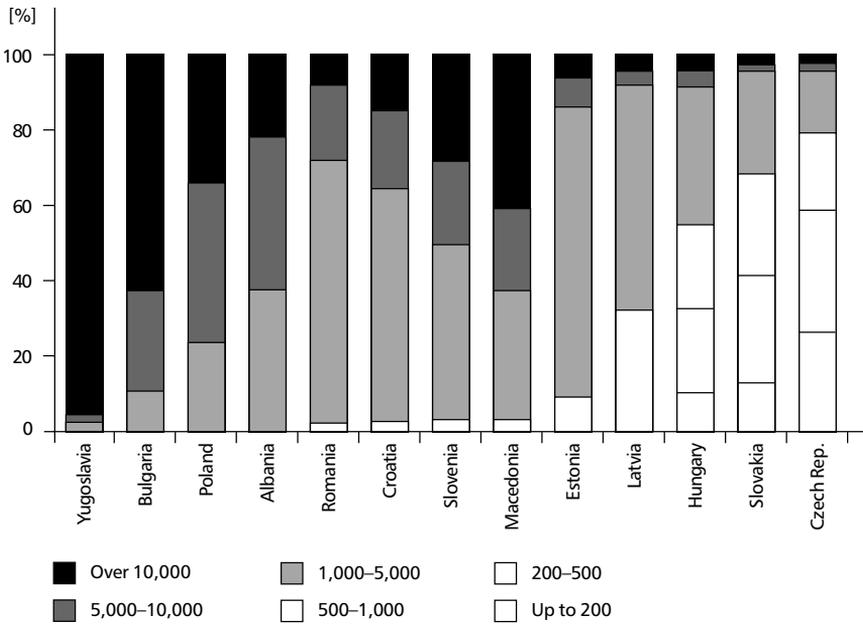
there are considerable differences in the theoretical approaches and a considerable variation of the empirical findings, which lead to far from univocal conclusions.

5. MUNICIPAL CONSOLIDATION AND FRAGMENTATION IN EAST-CENTRAL EUROPE—BASIC FACTS

In the beginning of 1970s, we witnessed the process of territorial consolidation throughout the whole of East–Central Europe. That change was, to large extent, inspired by the reform theory arguments and the very strong and wide-spread belief on the part of communist leaders in the economy of scale. Polish communes were amalgamated in 1973 and their numbers were reduced from over 4,000 to about 2,400. In Hungary, the number of municipalities was reduced from 3,021 in 1962 to 1,364 in 1988. In the Czech Republic, the number of municipalities was similarly reduced from 11,459 in 1950 to 4,104 in 1988. In Bulgaria, the number of municipalities was reduced from 2,178 in 1949 to 255 at the end of 1980s.

The beginning of 1990s was marked with territorial fragmentation in many of these countries, a process which might be seen as a reaction to the forced amalgamation of 70s. In Hungary, the number of municipalities sharply increased to 3,133 in 1992, while the increase in Czech Republic was almost 50% and number of Slovak municipalities increased by over 20 percent. The process of fragmentation in Poland was much less pronounced. Since 1988, the number of Polish municipalities has increased by less than 5 percent. Also, in Bulgaria, Romania, as well as in former Yugoslavia, the process of territorial fragmentation was almost non-existent. As a result, presently in Central and Eastern Europe we have examples of countries with many small local governments (Czech Republic, Slovakia, Hungary, the Ukraine, Latvia or—to a lesser extent—Estonia). We also have examples of countries in which the territorial system is highly consolidated (Lithuania, Yugoslavia, Bulgaria, Poland). There are several examples as well of countries which remain between these two extremes (Macedonia, Albania, Slovenia, Croatia, Romania). This variation is illustrated on Figure 1.3. In the Czech Republic almost 10%, and in Slovakia over 4%, of the local governments are merely tiny villages consisting of less than 100 citizens. Municipalities with less than 500 citizens constitute almost 60% of all units in the Czech Republic and in Slovakia the number is over 40%, while the same statistics are about 15% in Hungary. In contrast, in Bulgaria and Poland, none of local governments have less than 1,000 citizens and only a very few have less than 2,000. Big territorial units (over 10,000 citizens) constitute over 90% of all local government in Lithuania and Yugoslavia, almost 2/3 of in Bulgaria, 1/3 in Poland but only less than 5% in Latvia, Estonia or Hungary and just over 2% in the Czech Republic and Slovakia.

Figure 1.3
 Distribution of Local Governments According to Their Population Size



Not surprisingly, in the countries with territorially fragmented systems—the Czech Republic, Slovakia and Hungary (and also in some other countries of the region—such as the Ukraine, where the average size of a municipal government unit is just over 4,600 citizens, yet in rural areas the average size of over 10,000 of its local governments is just over 1,500 citizens) the issue of the size of municipal government has become among the hottest issues discussed both by local politicians and academics. It has been noted that small local governments (many of them with less than 100 inhabitants) cannot provide important local services and they slow-down the decentralization process [see for example: Szabo, 1991]. It has been also mentioned that territorial fragmentation increases problems related to spillover [Blazek, 1994]. The problems associated with small local government have frequently been the focus of very numerous analyses [see for example: Horvath, 1995, who focused his attention on service delivery issues, or Bucek, 1997, who discussed the weakness of small local governments in promoting economic growth due to their lack of capacity to undertake major infrastructure projects].

Contrary to the Czech Republic, Slovakia or Hungary, the issue of size of municipal government has not been widely discussed in Poland nor have any pointed changes been introduced. The issue has become important only locally, especially

in communities consisting of a small town and several surrounding villages. In such local governments, conflicts between urban and rural councilors were quite common. The former were accused of preferring spending on “pavements and flowers in the city”⁵ while the latter prefer development of water supply and roads in rural areas. Not surprisingly, the division between town and village was the most frequent reason for the modest increase in number of Polish municipalities during the 1990s. This is despite the other rational arguments proving there was even an increase of some service delivery costs after the split [Swianiewicz, 1996].

6. SIZE OF LOCAL GOVERNMENTS IN CENTRAL AND EASTERN EUROPE —WHICH THEORETICAL ARGUMENTS SEEM TO BE VALID?

Do theoretical arguments cited in the first section of this paper seem to be potentially valid in Central and Eastern Europe? We hope that the analysis undertaken in our LGPP project will help to answer this question. It may be best, however, to start by formulating some initial comments and hypothesis.

It seems to me that most of the arguments used in Western literature are worthy of consideration and we should keep them in mind when we prepare our analysis, although there are some specific remarks that are very important.

There is no doubt that *economy of scale* may be important to many local services provided in Central and Eastern Europe. One should also consider though that it is the impact of a weak infrastructure which in some cases makes the benefits of larger scale in rural areas questionable. For example, it is true that larger schools organized for children from a few small villages can be not only cheaper but also may provide better quality education. But for children from villages with very poor or non-existent transportation connections attending the school may raise additional problems which can overshadow the potential benefits. During a visit to the Ukraine, I was told that if snow falls are heavy enough, many villages are almost completely cut-off for most of the winter.

Similarly, we discuss the use of basic administrative services. Bulgaria definitely has the largest local government units among those countries under analysis. But those traveling to the municipal centers in mountain areas may find it very difficult. The village of Srbnica, in the Rodopy mountains, is located in the Municipality of Velingrad. The distance between the settlement units is well above 30 kilometers. There is only one bus per day (and not every day of the week) providing transportation to Velingrad and most citizens do not have their own cars. How can they use administrative services in the municipal center? Such a situation puts a very large question mark over the policy of territorial consolidation justified by the above mentioned theoretical

argument. It also requires significant “decentralization within the municipality” to allow the provision of basic administrative services down in individual villages.

But existing data clearly suggests [for Polish evidence see Swianiewicz, 1996, but similar calculations were conducted in other countries as well] that there is an economy of scale for administrative services in Central and Eastern Europe. Does it mean that the arguments, for local and public choice within larger organizational bureaucracies, are totally invalid? Not necessarily. It might very well happen that benefits from cheaper administrative services in large local governments are partially eaten-up by slower decision making processes and more frequent events of corruption (indirect evidence from Poland suggests that danger of corruption is much larger in big than in small local governments).

Arguments related to the *catchment area and spillover effect* remain valid but should be slightly reformulated. In several Central and Eastern European countries, some of the taxes providing local budget revenues are to be paid in one’s place of work not in one’s place of residency (Bulgarian and Ukrainian local shares in Personal Income Tax provide good examples). In this case, the list of losers and gainers will change. Under such a regulation, it is more likely that suburban municipalities will lose and central cities will gain.

Other theoretical arguments, which require additional comment, concern *better organized pressure groups and more diversified forms of participation in large local governments*. Can this argument, based on the experiences of Western democracies with relatively long traditions of democratic and civic society, be translated into a realistic scenario for Central and Eastern Europe where civic society is at a much earlier stage of formation? This question certainly requires further reflection. It seems that, in Eastern and Central Europe, development of local media (press, TV stations) is very important for pluralist politics and this factor may work in favor of larger local governments.

The set of arguments related to *closeness and openness of local authorities in small units* may be even more important in our region than in well-established Western democracies. Lack of well-established democratic traditions and political culture can make civic control over authorities difficult especially in big, more anonymous communities.

It seems that incentive for citizens’ interest in local politics can be also provided by *the system of voting*. The problem of rural local governments which consist of several settlement units is proper representation of individual villages. In the proportional system (like in Bulgaria) there is no guarantee that a council will not be dominated by representatives from the largest village (town). In the ward majority system (as in Polish municipalities below 20,000 citizens) more balanced territorial representation may be secured. Reports presented in the following chapters will provide us with opportunity to check whether this hypothesis is correct.

The Tiebout concept of *voting by feet* is highly controversial anywhere, but it has to be treated with special suspicion in countries in which spatial mobility is very low. For example, in Poland, a low level of incentive to migrate as well as structural shortage of housing flats, are seen as some of the most important problems in developing a sound policy to cope with unemployment. Still, there is no doubt that the actual ability to migrate, because of variation in local taxes, is quite small. We can treat the Tiebout theory as an interesting point of reference or as an example of elegant model, but certainly it would be unwise to try to apply it in our countries, word for word.

Last but not least, there is the public choice argument, suggesting that the *economy of scale effect should be achieved by private producers to which provision of local services might be contracted*. This raises the question: To what extent are the markets in Central and Eastern Europe developed? Naturally, the situation may differ from one country to another (as well as from one locality to another within each of the countries), but one can definitely say that the types of policies, recommended by the public choice theory, are still more difficult to implement in practice within Central and Eastern Europe than in Northern America or Western Europe.

7. SIZE OF LOCAL GOVERNMENTS IN CENTRAL AND EASTERN EUROPE —WHAT DO WE KNOW FROM EXISTING EMPIRICAL ANALYSIS?

In 1997, mayors from the Czech Republic, Poland, and Slovakia were asked their opinion on both the general idea of amalgamation and on the impact of possible amalgamation on different aspects of local communities' governance⁶ [for more details see Swianiewicz, 2000].

The first observation is that there are many missing values in the answers to relevant questions in the LDI survey—i.e. many mayors do not have very clear opinion on the issue. It might be interpreted in two ways: respondents either have not thought about the issue or they considered the various arguments (leading to different conclusions) and have difficulties deciding. At first glance, the former hypothesis is supported by the fact that, in general, when questioned about amalgamation, Polish mayors have remained undecided much more often (19%) than their Czech (7%) or Slovak (6%) colleagues. It may reflect the fact that, in Poland (opposite to two other countries), territorial division on municipal level is not a hot issue. But surprisingly enough, the situation appears differently when we consider opinions on individual arguments for and against fragmentation. In this case, the proportion of undecided Polish mayors is lower than in two other countries. The proportion of missing values in Poland varies from 2.5% to 12.9%. In the Czech Republic, missing values vary from 4.1% to 13.4%, with three other arguments with missing values

of more than 10% ratio. In Slovakia, the ratio varies from 7.6% to 17.2%, with five (!) other arguments with missing values of over 10%. This suggests that, while Czech and (especially) Slovak mayors usually have a clear general opinion on the issues of territorial consolidation (as we will see later, they are usually against it), their opinion is quite often of a more ideological nature rather than based on analysis of rational arguments.

In general, public choice and localism arguments for territorial fragmentation are much more convincing to Central European mayors than reform theory arguments for consolidation. Yet again, there are important differences between the countries analyzed here.

This is well illustrated in Table 1.2. Overall opinion on consolidation is the most negative in Slovakia. According to the mayors there, three of the strongest arguments against amalgamation are: it would increase level of conflicts between citizens, it would reduce support for local democracy and it would make contact between residents and councilors more difficult. The top-most convincing argument against consolidation is the fear of increased conflicts among citizens. It is also the only argument stressed more in Poland than in the two other countries. Perhaps Polish municipalities, which are usually much larger than Czech or Slovak, have had the most frequent negative experiences related to that issue. Indeed, in recognized cases of division, involving relatively big Polish local governments, the process usually started with conflicts between villages or the town and surrounding villages [Swianiewicz, 1995]. Also, conflicts between geographical areas are among the most important dimensions of political debate in local councils, especially in rural areas, where local politics is usually non-partisan.

On the other hand, arguments for consolidation that are usually the most convincing are: better efficiency of service delivery, possible increase of local autonomy and then (gaining slightly less support) that it would help to increase range of services delivered locally and it would help to adapt services to local needs. The score of the latter argument is surprising, since public choice theory uses this argument to support territorial fragmentation. However, Poland is the only country in which any of the arguments for amalgamation proved to be, all in all, convincing for the mayors (i.e. the average score, as seen in the Table 1.2, is larger than 0)⁷.

Arguments evaluated by mayors during the survey may be divided in two groups: those streaming from reform theory and those referring to arguments of localism or public choice. The summary results for the two groups or, rather, their defined arguments, are presented at the bottom of Table 1.2. Public choice arguments (for fragmentation) are seen everywhere as more important. On the other hand, reform theory arguments for consolidation are considered as largely valid only in Poland. However, support for this is not very high in Poland either. Their average score in favor of reform theory arguments is just over 0. At the same time, they see public

choice arguments for fragmentation more sharply than their counterparts from the Czech Republic and Slovakia.

Table 1.2
Opinions on Various Arguments for Merging Municipalities
in the Czech Republic, Poland, Slovakia

| | Poland | Czech Republic | Slovakia |
|---|--------------|----------------|--------------|
| Overall opinion | -0.85 | -0.72 | -1.24 |
| Conditions for local democracy | -0.61 | -0.70 | -0.78 |
| Better efficiency of service delivery | +0.16 | -0.05 | -0.11 |
| Reduce conflicts between areas of municipality | -1.27 | -1.03 | -1.06 |
| Increase range of services delivered by local govt. | +0.04 | -0.05 | -0.04 |
| A just distribution of services among citizens | -0.53 | -0.56 | -0.52 |
| Stimulate contacts between citizens and councilors | -0.82 | -0.94 | -0.82 |
| Increase local autonomy | +0.26 | -0.08 | -0.17 |
| Help to adapt services to local needs | +0.10 | -0.13 | -0.03 |
| Increase solidarity among municipal residents | -0.86 | -0.64 | -0.66 |
| Increase political involvement of citizens | -0.55 | -0.38 | -0.11 |
| Reduce need for state grants | +0.02 | -0.22 | -0.29 |
| <i>“Reform theory arguments”—together</i> | <i>+0.04</i> | <i>-0.16</i> | <i>-0.22</i> |
| <i>“Public choice argument”—together</i> | <i>-0.67</i> | <i>-0.62</i> | <i>-0.56</i> |

NOTE: The scale of answers was converted into -2—+2 scale, where -2 means—the argument is totally unconvincing (consolidation would make the situation worse), 0—consolidation would have a neutral effect, +2—the argument is convincing (consolidation would have a very positive impact). Scores below 0 mean negative approach towards consolidation, scores above 0 mean positive approach.

The issue of impact of size on citizens perception of local governments and willingness to participate was partially investigated in last year’s LGPP project [Swianiewicz, 2001]. However, it was the relationship between local governments and citizens (not the impact of size) which was the main focus of analysis and the results quoted below should be treated as preliminary only. It has been discovered that, in the Czech Republic, Hungary, Poland and Slovakia, size was the most frequently referenced variable influencing the variation in citizens’ opinions. As local and public choice theoreticians would expect, the smaller the administrative unit then the more positive the citizens’ opinions on most aspects of local authorities’ activities. They feel better informed and they are more often better acquainted with the local councilors. We will come back to these findings in the last chapter of this book.

It is hard to formulate very definite conclusions on the basis of the data collected by the “Public perception...” LGPP project, however, it seems that citizens within small administrative units, while enjoying many positive features of their local governments, are at least partially aware that far-reaching decentralization of functions on to very small authorities would be unrealistic or would lead to inefficiency of service provision. Still, this conclusion would require further investigation with the inclusion of economic—not only sociological—analysis.

8. THE STRUCTURE OF THE BOOK

The reports presented in the following chapters provide empirical analysis on the issues previously discussed in regards to four⁸ Central and East European countries: Bulgaria, Hungary, Poland and Slovakia. These analysis lead to general conclusions and practical recommendations which are presented both in national reports and in the summary chapter at the end of the book. The main focus is on the basic (the lowest) level of local governments, however, wherever it is appropriate, references are made to the situation within the upper tiers of government as well.

Each of national studies tries to answer following questions:

- What is the impact of the size of basic local government units on their efficiency and effectiveness? Efficiency considerations include; scale economies in service delivery, the costs of administration, as well as local economic development policies. Effectiveness includes; issues of public trust and participation in local public issues.
- What measures are taken in individual countries to compensate for territorial fragmentation? These measures may include; municipal cooperation, joint offices and differential assignment of functions. In amalgamated systems—how is representation of village interests secured (especially through the election system)?

These general issues are made operational in a list of more specific research issues:

- Impact of the size of local governments on the level citizens’ satisfaction with local government and preservation of community life. There are arguments, including those formed in the year 2000 following the LGPP “public perception study” [Swianiewicz, 2001], that people in small local governments are more willing to participate, trust local authorities more and are more satisfied with the performance of local administration. However, this is not necessarily true for the smallest groups and, anyway, it does not concern all dimensions of citizens’ satisfaction;

- Catchment area of services delivered by local governments. How often does it happen that services delivered by one local government serve population in the surrounding units as well? To what extent is this a problem for small local governments in rural areas? How this situation is dealt with? For example: is the service being delivered when a local government receives special compensation from the state budget? Are there mechanisms of horizontal compensation among local government budgets? Are there examples of voluntary and compulsory co-operation of local governments (for example in form of one-purpose associations)?
- In countries where one local government covers several settlement units—what are examples of “decentralization within local government”? How are the relationships between individual villages managed? Is there any form of government in individual villages? If so, what are its powers and modes of operation (in functional and financial terms)? What is the level of tension (conflicts) between villages within one local government and what are methods to manage these tensions? What measures are, or should be taken, to secure sufficient political representation of individual villages in the amalgamated system?
- The impact of size on unit costs in service delivery. Is there any evidence of the economy (or diseconomy) of scale in local services? In relation to which services has this been noticed?
- Impact of territorial organization on the allocation of functions among tiers of government. In some countries small size is a limit for the further decentralization of many important functions. In result, these are delivered by central government administration—is that the case in some East-Central European countries?
- Impact of territorial organization on local economic development policies. Is there any evidence that territorial fragmentation/consolidation makes economic development policies less or more effective?
- what are the most important features of national debates on the issue of size of local governments? Are those debates “a hot issue” on the political agenda or are they treated as of secondary importance?

Although there is still much to be done, we hope that this book contributes to filling some of the gaps in our knowledge and also provides input into important policy discussions going on in several countries of the region.

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NOTES

- ¹ *The number of our citizens shall be 5,040—this will be a convenient number; and these shall be owners of the land and protectors of the allotment* [Plato 360 B.C.E. *Laws*, Book V, in translation of B.V. Jowett]. Plato was counting heads of households only. So, taking into account the size of their families, he meant a city of about 25–30,000 inhabitants. Interestingly enough, this was a very similar size to identify as optimal by empirical analysis in the Polish national chapter further on in this book.

- ² It is worth noting that the United Kingdom, very recently (last ten years) engaged in discussion about creating a one-tier local government system, leading to even larger units of local government.
- ³ Bours tried to also include Central and Eastern Europe countries in his classification. However, since his data is out-dated and not very precise, we will skip that section of his classification here.
- ⁴ However, it is interesting to note that the most well-known programme, which focused on stimulation of innovations and experiments in local government, has been introduced in Nordic countries where the territorial system is consolidated rather than fragmented [Baldersheim, Stahlberg, 1994].
- ⁵ Direct quotation taken during an interview with one of village managers. [See: Swianiewicz, 1995].
- ⁶ I refer to the Local Democracy and Innovation Project which was financed by the Norwegian government and co-ordinated by Harald Baldersheim from the University of Bergen. The question I refer to was formulated in the following way: *A merging of municipalities can have an impact in several ways. In the event your municipality were to be combined with one or more neighbouring municipalities, do you think it would lead to an improvement or worsening with respect to following matters: ...* (individual items assessed by local mayors are presented in the Table 1.2).
- ⁷ A score over 0 means the mayors expected a positive impact from consolidation. For details of the scaling system used see the note below Table 1.2.
- ⁸ Initially, it was assumed that this book would also include a chapter on the Czech Republic but, eventually, it has not been possible to include the Czech report. Nevertheless, some examples from the Czech Republic are called upon in the introductory and summary chapters.

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in Hungary

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Size of Local Governments, Local Democracy and Local Service Delivery in Hungary

Éva G. Fekete, Mihály Lados, Edit Pfeil, Zsolt Szoboszlai

1. INTRODUCTION: BACKGROUND ON THE ISSUES REGARDING SIZE OF LOCAL GOVERNMENTS

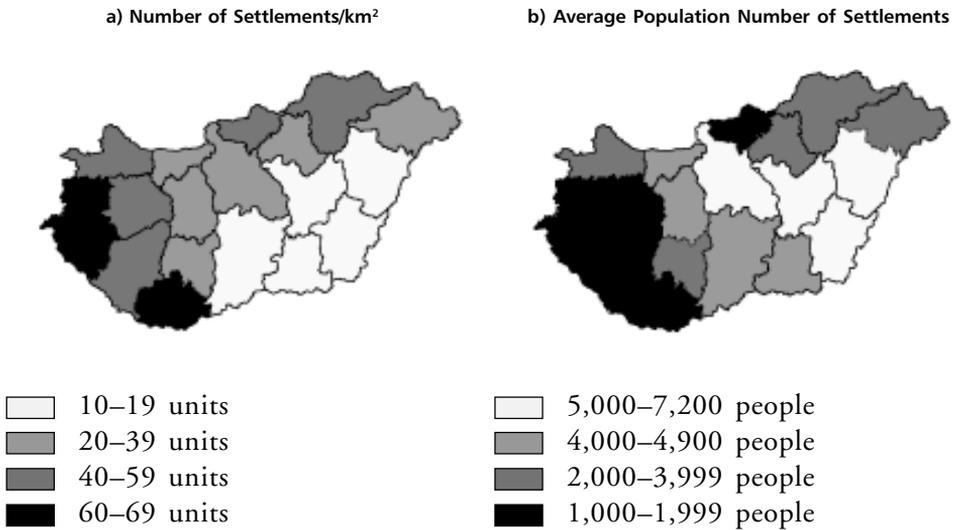
1.1 Dual and Fragmented Settlement Systems and Changing Urban-Rural Relationships

The most important factors that influenced the Hungarian settlement network were the following: 1) geographical conditions—landscape, hidrography, collision line of various regions, 2) special geopolitical location of the country, being at the cross point between East and West. *The features of the Hungarian settlement network are in between the western and eastern type models. There is a special mixture of regions characterized by small and large settlements.* The settlement structure for the Hungarian Great Plains is completely different from western style models for settlements because it consists of relatively large settlements, agricultural towns and homesteads. [Tóth J., 1988]

The average size of a settlement (exempting cities) is 1,264 inhabitants. In the Great Plain region, the average size of a settlement is 2,000 inhabitants. The most common size of a settlement, in counties where small villages dominate the settlement pattern, is between 500–700 inhabitants. Statistically, a total of 17.2% of the population (1.7 million people) live in villages under 2,000 inhabitants while villages amount to 75.8% of the total number of settlements. (In 1900 the first rate was 26.6% and in 1970 it had been 19.3%)

Between 1960 and 1990 a strong concentration process dominated the Hungarian settlement network. The population in the big cities grew dynamically, while the population and rate of growth in the smaller settlements decreased rapidly. Signs of deconcentration began to appear in 1990, when the population started growing again in the smaller settlements. Further *expansion of small settlements can be seen* between 1990 and 2000. The splitting of many formerly amalgamated settlements has resulted 64 new—and rather small—villages.

Figure 2.1
Differences in the Settlement Structure (2000)



Due to legal decrees resulting in the formation of new townships during the 1990s, the average size of the towns decreased from 26,000 to 20,000 inhabitants.

Table 2.1
Changing Size of Settlements Between 1990–2000

| Settlement Types | Settlements | | | | | Population | | | | |
|------------------|-------------|------|--------|------|--------------|------------|------|------------|------|--------------|
| | 1990 | | 1999 | | Changing [%] | 1990 | | 1999 | | Changing [%] |
| | Number | [%] | Number | [%] | | Number | [%] | Number | [%] | |
| Under 499 | 965 | 31.4 | 1,032 | 33.0 | 6.9 | 269,458 | 2.6 | 283,365 | 2.8 | 5.2 |
| 500–999 | 709 | 23.1 | 687 | 21.9 | -3.1 | 517,670 | 5.0 | 501,217 | 5.0 | -3.2 |
| 1,000–1,999 | 647 | 21.1 | 655 | 20.9 | 1.2 | 927,841 | 9.0 | 942,726 | 9.4 | 1.6 |
| 2,000–4,999 | 479 | 15.6 | 483 | 15.4 | 0.8 | 1,421,419 | 13.7 | 1,448,999 | 14.4 | 1.9 |
| 5,000–9,999 | 130 | 4.2 | 138 | 4.4 | 6.2 | 886,272 | 8.6 | 959,069 | 9.5 | 8.2 |
| 10,000–49,999 | 120 | 3.9 | 115 | 3.7 | -4.2 | 2,317,883 | 22.4 | 2,204,851 | 22.0 | -4.9 |
| 50,000–99,999 | 12 | 0.4 | 12 | 0.4 | 0.0 | 785,278 | 7.6 | 749,687 | 7.5 | -4.5 |
| Over 100,000 | 9 | 0.3 | 9 | 0.3 | 0.0 | 3,229,021 | 31.2 | 2,953,310 | 29.4 | -8.5 |
| Total | 3,071 | 100 | 3,131 | 100 | 2.0 | 10,354,842 | 100 | 10,043,224 | 100 | -3.0 |

SOURCE: Central Statistical Office. Statistical Yearbooks 1990, 1999.

To date, each settlement with a population above 10,000 has been declared a township. Among settlements with a population under 10,000, a total of 75 of these have also been declared towns.

1.2 The Features of Local Governmental Legislation

The legal framework of formation and operation of local governments has been laid down in the Constitution,¹ in the Act on Local Governments² and the Act on Associations of Local Governments.³

1.2.1 Strong Local Autonomy in Relation to Local Communities

According to the law, a community of local citizens has the right to self-governance. The state has given up some of its sovereignty and, today, it is not able to intervene in division of territorial structure suitable to national interests if these interests are in conflict with opinion of the local community in question. Any change in connection with this autonomy (merge or split of settlements, establishing new settlements, etc.) can be implemented only by initiation of local community.

Size was not even an issue when the Constitution and Act No. LXV on Local Governments was accepted in 1990. These had given the right to every local community to establish its own local government representative body. (Besides municipal LGs, the governments of the capital and the counties are also considered local governments.) According to the legislation, the most important challenge for local self-governing is managing local public affairs in an independent and democratic way. The LG—within the framework of Act No. LXV—can regulate and govern local public affairs autonomously. The Court supervises operation of the LGs but only in the case of infraction of the law does it have the right to interfere with its decisions. The fundamental rights for local self-governance are:

- the right to autonomy;
- the right to democratic use of local power;
- the right to legal protection of self-governmental rights.

The formation and operation of their institutions can express the autonomy of LGs. An LG—within the legal framework—can form its own organizational and operational structure, create local governmental symbols, and create local badges of honor.

Because of the political conflicts that emerged from the undemocratic and strongly centralized soviet style council system, the former council units, once covering more

settlements, have broken up. The former “supply district” and “urban surrounding zone” categories also have come to an end. Cooperation between new LGs has been based absolutely on voluntary associations.

Regulation of the minimal size LGs was missing in the beginning. Today, the increasing number of split of settlements and growing fragmentation has demanded some *regulations*. Legislation in 1994 changed the preconditions for establishing new LGs. To establish a new LG, the minimum number of inhabitants is 300. In addition, it has to prove its ability to accomplish the obligatory tasks arising from the law.

1.2.2 The Unprecedented Large Scale of Local Governmental Competencies

Local communities self-governments were uniquely allotted a lot of authority from the state to manage public tasks. Most of the compulsory tasks are defined in the Act on Local Governments itself and we list some of these in chapter 2.2.1. According to current legislation, the compulsory tasks must be provided by every settlement, irrespective of its size and capabilities. Besides these tasks, other “sector” regulations can also determine compulsory tasks for the LGs, and they usually do just that. The number of compulsory tasks for LGs increases continually, but without the continuous increase of access to resources needed to accomplish these tasks. Due to the increasing “sector” tasks, LG offices engage 70% of their capacities to the completion of central obligatory tasks and only in 30% to deal with local affairs. [Ministry of Interior, 2001]

1.2.3 The Lack of Spatial Hierarchy and Differentiated Local Governmental Tasks

The structure of public administration in Hungary has traditionally had three levels branching from the central one. These included the communities, the districts and the counties. District governments were abolished in 1984. After 1990, every LG, even those situated at different territorial levels, gained the same rights within the Hungarian governmental system. Within the former political system, county governments played a central role in unfair redistribution of development resources. This is why such a strong antipathy evolved against them. This is also why county and capital governments have no greater authority than that of small villages and there is no difference in authority between smaller and larger settlements, nor towns and villages. Subordination between LGs is completely missing from the Hungarian governmental system.

LG dominance is expressed through its *no more than assisting role of county governments on the division of competencies*. County governments must carry out all those tasks that are not obligatory for the LGs. Such tasks are public services that cover a part of, or the whole, county. The county in this structure *is not an integrating unit* and its most important character is its on mid-level operation of institutions.

Differentiated delegation of governmental competencies—as prescribed by the Act on Local Governments—means that local authorities may carry out different tasks according to local demands and their capabilities. Yet, the legislative body has the right to delegate more tasks and authority to those LGs with a larger number of inhabitants or more developed capabilities. But the LGs priorities are also expressed: The LG of a smaller community by itself, or by formulating association with other LGs, can undertake tasks which are delegated as obligatory tasks to larger LGs or county governments. (In this case, the LG has the right to receive the same subsidy from the central budget.) However, in practice, while the “sector” authorities give an increasing number of tasks to the LGs, these tasks are rarely differentiated. They do not differentiate between LGs from villages or towns, smaller or larger communities. Furthermore, they do not help county governments become real territorial governments with higher levels of competency.

Delegation of competencies to district centers is part of the rationalization behind the first tier of public administration. The architectural authority and the department of child-protection have operated in districts formulated around selected towns since the 1st of January 2001. City administration is responsible for these tasks and LG bodies have no power in this regard. These districts have been designated by the central government. Tasks delegated to districts can be fulfilled by voluntary LG administrative associations only in the case of certain architectural affairs. This possibility was chosen only by a limited number of districts. This is not so suitable for LGs compulsory and optional tasks, especially in the case of distributing public services in integrated territorial units, because the state does not have the right to control and intervene with matters under the LGs authority.

1.2.4 Freedom to Form Voluntary LG Associations

According to 44th paragraph of the Hungarian Constitution, a local representative body can freely form association with other local representative bodies. The Act on Local Governments declares that LGs, within the frame of the Act, can form voluntary associations with other LGs. The local representative body has the right to decide to form associations. The Act on Local Governments defines the possible legal forms of associations. These are the following: administrative authority, institutional directives and joint representative bodies.⁴

Parliament modified the Act on Local Governments and then, in 1997, passed the Act on Associations and Cooperation of Local Governments. The Act on Associations and Cooperation of Local Governments only accepts those *associations based on agreement* and precisely defines the content of this agreement. This represents an important legal guarantee for the unified operation of the associations. It also specifies that the agreement must be sent to the Public Administration Office, which has the right to make legal reflection. The Public Administration Office then endorses the establishment of the association, if it corresponds to the rules of the Act. The association can begin operation legally only after endorsement. Registration with the court is not obligatory. The Act makes it possible to form *associations with autonomic financial rights and liabilities*. (For example; in the case of common investment, distributing services or operating institutions.) In this case, the association must be *registered with the court as a legal entity*. Such an association can establish institutions, can undertake authority from LGs, and can even impose taxes (but there is no precedent for this yet). For the formation of an association as a legal entity, beside the association agreement, a statute is also needed because the association would become a central budget institution. The County Public Administration Office and the Public Prosecutor's Office supervise the operation of local governmental associations. In regards to financial affairs—in case of the presence of public money—the association would be supervised by the State Audit Office.

1.3 Traditionally High Levels of Redistribution

The aim of the Concept for Spatial Development [OTK, 1971] was to provide a more balanced spatial structure in Hungary.⁵ For this purpose, OTK constructed a hierarchical settlement structure system for defining the central function(s) of each level. The distribution of resources was strongly correlated to the concentration of capital investments in order to achieve this structure. In large and medium size towns, districts with housing blocks were set up equipped with all required facilities, like public utilities (roads, waterworks, sewage system, central heating, gas works) and human infrastructure (kindergartens, primary and secondary schools, medical services). At the same time, public administration and public services (education, health care) became very centralized. At the village level the number of local councils reduced from around 3,100 to 1,500. According to the rationale of the OTK, 2,000 villages became a so-called 'settlements without a role'.

As a result of this policy, 90 percent of state grants for capital investment targeted Budapest and the city network. [Vági, 1982] At the same time, the greater share of the country (60 percent of the population) was left to enjoy only 10 percent of the capital

investment resources. Non-centers had almost no chance to develop. ‘Settlements without a role’ applied to two thirds of Hungarian settlements and 20 percent of the country’s population. However, they received only 3–4 percent of the available financial support for their development [ed. Kusztošné, 1998]. Since the early 1980s, more voices emerged calling for a more equitable distribution of capital expenditure because of the great demographic losses and the growing unbalance in the demographic structure of most villages.

In the late 1980s, the proposals for the reform of local finance focused on the following elements [Pitti–Varga, 1995]:

- switch from expenditure oriented to revenue oriented budgetary planning;⁶
- the revenue system of local councils, including state grants, should be legally defined based on objective measures adopted by Parliament;
- regulations should be promoted to generation of own revenues;
- local councils should get their properties back;
- the financial background of local councils should be based on locally generated revenues and normative distributed state grants;
- local councils located in underdeveloped areas and with weak income generation capacity should get extra state grants (equalization grants) on a normative basis.

Because of the system change, instead of the reformed council system, the local self-government system was born in 1990. The principles listed above were also built into the Local Government Act. Both the distribution of capital investment and state grants support of LGs capital expenditure became more balanced during the Transition. In smaller villages (below 1,000 inhabitants), the distribution of these indicators better reflected the distribution of population.

The share of capital expenditure is a little bit lower. At the same time, the share of state grants supporting capital expenditure is a little bit higher than their population proportion. Budapest’s weight changed drastically over this period. The capital absorbed less than 10 percent of capital expenditure related state grants, about half of its population share.

Under the soviet style council system, the decisions on public investment were made on a central level (CG and ministries). Since 1971, the county level received a greater role in this. Besides the basic priorities of cities and any types of central function, there has been strong competition amongst counties at the central level, and among local councils at the county level, for development funds. Success has depended on the ‘*bargaining position*’ of each council. [Vági, 1982]

Table 2.2
Distribution of Capital Expenditure [%]

| Category | | Number of | | | | Total | | State grants Support | |
|----------|---------------------------------|------------|--------|--------|--------|---------------------|--------|----------------------|--------|
| | | Population | | LGs | | Capital Expenditure | | | |
| | | 1991 | 2000 | 1991 | 2000 | 1991 | 2000 | 1991 | 2000 |
| Total | | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Counties | | 0.00 | 0.00 | 0.62 | 0.60 | 15.93 | 7.95 | 49.70 | 18.92 |
| Budapest | | 18.56 | 17.18 | 0.75 | 0.76 | 16.23 | 26.20 | 13.94 | 7.88 |
| Cities | | 42.69 | 47.01 | 5.56 | 7.43 | 40.26 | 34.53 | 23.36 | 31.09 |
| Cities | Large | 19.11 | 19.69 | 0.65 | 0.69 | 16.93 | 12.80 | 7.99 | 5.97 |
| | Medium size | 20.45 | 21.04 | 3.40 | 3.49 | 20.25 | 15.79 | 13.68 | 17.81 |
| | Small | 3.13 | 6.28 | 1.50 | 3.24 | 3.07 | 5.93 | 1.69 | 7.31 |
| Villages | | 38.75 | 35.81 | 93.07 | 91.22 | 27.58 | 31.33 | 13.01 | 42.10 |
| Villages | Above 5,000 inhabitants | 8.10 | 5.11 | 3.66 | 2.27 | 6.03 | 4.82 | 2.03 | 4.73 |
| | Between 1,000–4,999 inhabitants | 23.37 | 23.14 | 38.53 | 35.95 | 15.93 | 20.23 | 6.47 | 27.93 |
| | Between 500–999 inhabitants | 4.89 | 4.89 | 22.91 | 21.84 | 3.53 | 3.98 | 2.32 | 5.74 |
| | Between 200–499 inhabitants | 2.08 | 2.31 | 20.46 | 21.78 | 1.66 | 2.04 | 1.58 | 3.28 |
| | Below 200 inhabitants | 0.31 | 0.36 | 7.52 | 9.38 | 0.43 | 0.26 | 0.60 | 0.43 |

NOTE: Large cities—cities with county rights; medium size cities—cities above 10,000 inhabitants; small cities—cities below 10,000 inhabitants.

SOURCE: Calculated by Lados, M, based on LG Financial Database of TÁKISZ, 1991 and 2000.

1.4 Regional Divisions

The *political electoral districts* were determined during preparation for the first democratic elections in 1990. The main consideration in determining the electoral districts was equal division of the voters. The country was divided into 176 electoral districts, with 45–50 thousand voters and 50–60 thousand citizen in every district. In larger towns there was more than one district and the relationship between the communities was not taken into consideration. In one district, there can be more than one community and, in regions full of small villages, it can be the case that 80 communities form one district. It also can happen that a part of one town forms one district with the nearby villages.

In Hungary today, there is no general principle for organizing public administration or spatial planning that could influence or determine the formation of general public administrative districts.

The administrative districts established during the de-concentration process of governmental or partially governmental tasks covered the whole country without overlapping, but the different tasks have different divisions. The districts of police departments, the courts, the ambulances, the fire departments, sanitation, the chambers, the enterprise development agencies, the employment offices, the farmers assistance services and administration offices, the tourist agencies, etc., only rarely totally overlap each other and are supervised and controlled by completely different departments or national authorities. The national organizations, because of the lack of coordination, do not know each other's spatial structure. They operate their own spatial institution independently from each other often consuming a lot of local resources uneconomically.

The township districts for public administration have been operating since 2001 as part of a new regional structure. They were created by delegating special administrative tasks (child protection, construction management) from the villages to town governmental offices. Their number is less than the number of towns, so, not every town has public administration district and authority connected to this.

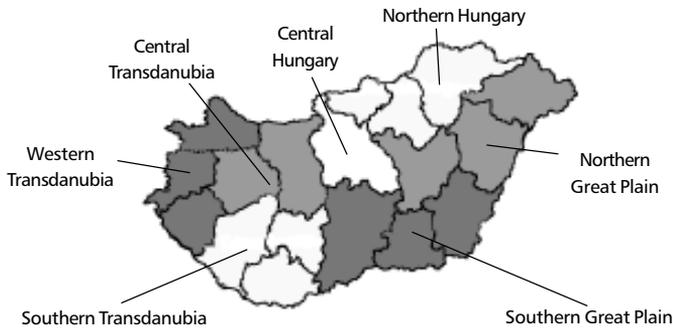
The *statistical districts* were defined in 1996⁷ and modified in 1999. The basic requirement was a statistical territorial classification system conforming to the European NUTS system. Beside the 7 NUTS II regions, 138 statistical small regions were determined in 1996 and, due to some adjustments, this number has increased up to 150 now.

Table 2.3
The Hungarian NUTS System

| | NUTS Level | Number of Spatial Units | Number of Spatial Units Which Form a Spatial Unit on the Next NUTS Level | |
|-----------------|------------|-------------------------|--|---------|
| | | | Average | Min-Max |
| Larger Regions | NUTS 1 | 1 | | |
| Regions | NUTS 2 | 7 | 7 | 7 |
| Counties | NUTS 3 | 19 | 2.4 | 1-3 |
| Smaller Regions | NUTS 4 | 150 | 7.7 | 5-13 |
| Settlements | NUTS 5 | 3,135 | 21 | 3-85 |

SOURCE: Central Statistical Office Yearbook, 2000.

Figure 2.2
Development Regions (NUTS II) in Hungary



The division method considered traditional relationships between the settlements but some deviations from this were tolerated because of the endeavor to create proportionality and implement a town-oriented approach. The average size of the smaller regions is 21 settlements and 58,000 citizens (excluding Budapest). But the variation is great. According to the settlement statistics, the smallest small regions are in Hajdu-Bihar County, where 3–4 settlements cover one small region. According to population, the smallest ones are in Vas County where there are a lot of small villages. Small regions, including the county capital, have 5–6 times higher population than the others because of the large cities and their large surrounding-zones formed by 40–80 settlements.

More than a dozen existing regional divisions (that belong to the three major groups mentioned above) have no connections to each other. The political, the administrative and the statistical districts cover each other only by chance.

Table 2.4
Spatial Units (2000)

| County | Electoral Districts | | Statistical Small Regions | | | | | | |
|----------------------|---------------------|-------------------------------------|---------------------------|----------------------|---------|------------------------|------------|-----------------------|------------|
| | | | Total | | | The Smallest Districts | | The Largest Districts | |
| | Number | Average Population/ Spatial Unit | Number | Average Per One Unit | | Number of Settlements | Population | Number of Settlements | Population |
| | | | Number of Settlements | Population | | | | | |
| Budapest | 32 | 56,611 | | | | | | | |
| Central Hungary | 48 | 59,255 | 14 | 14 | 201,407 | 13 | 12,684 | 13 | 1,785,122 |
| Central Transdanubia | 19 | 58,315 | 23 | 18 | 48,721 | 5 | 13,198 | 17 | 110,982 |
| Western Transdanubia | 17 | 57,843 | 20 | 32 | 50,203 | 22 | 7,661 | 55 | 207,692 |

Table 2.4 (continued)
Spatial Units (2000)

| County | Electoral Districts | | Statistical Small Regions | | | | | | |
|-----------------------|---------------------|-------------------------------------|---------------------------|----------------------|--------|------------------------|------------|-----------------------|------------|
| | | | Total | | | The Smallest Districts | | The Largest Districts | |
| | Number | Average Population/ Spatial Unit | Number | Average Per One Unit | | Number of Settlements | Population | Number of Settlements | Population |
| Number of Settlements | | | | Population | | | | | |
| Southern Transdanubia | 18 | 54,154 | 22 | 30 | 45,692 | 10 | 11,808 | 75 | 206,695 |
| Northern Hungary | 23 | 55,180 | 23 | 26 | 57,157 | 13 | 12,395 | 43 | 287,812 |
| Northern Great Plain | 27 | 56,402 | 23 | 17 | 69,034 | 6 | 15,434 | 22 | 300,795 |
| Southern Great Plain | 24 | 55,872 | 22 | 11 | 62,978 | 4 | 17,409 | 14 | 205,612 |
| Total | 176 | 57,064 | 147 | 21 | 57,829 | 22 | 7,661 | 13 | 1,785,122 |
| Total excl. Budapest | 144 | 58,632 | | | 69,759 | | | 22 | 300,795 |

SOURCE: TSTAR Statistical database, 2000.

2. THE CONSEQUENCES OF A FRAGMENTED LOCAL GOVERNMENTAL SYSTEM

2.1. Fragmentation of the Local Public Administration System

As a part of the political changes, the former council-system, characterized by joint councils, ceased. The new local government system (introduced in 1990) returned to a community basis and *duplicated the number of local administration units*. Consequently, the average size of village governments is very small, about 1,300 inhabitants. The local identity of local self-governments became very strong with the almost unlimited freedoms. However, it often led to autarchy and did not allow the formation of efficient administration and a territorial provision system based on LGs' cooperation.

In 1990, one third of the LGs under a population of 1,000 (528) did not participate in joint LG offices. The purpose of the joint LG office is to do administrative tasks for those LGs that are in association. In the instance of LGs with fewer than 1,000 inhabitants, the law recommends this formation. But a certain sector of LGs refuse to form joint offices. A smaller part of these LGs, not willing to form joint offices, operate in small villages. A larger part of them consists of LGs bigger than 1,000 inhabitants that maintain their independence because of the distance to the next larger settlement or the lack of traditions. [Szigeti, E., 1994].

Because of negative experiences during the soviet style council-system, and the lack of state stimulus for joint LG offices, *the spread of this of form of integration decreased, not increased, during the first half of the 1990s*. A slow disintegration of joint LG offices was experienced during the first 6 years of the new local government system. From 1991—1993, their number decreased by 6% (30), and the number of LGs integrated to joint offices decreased by 8% (129). In 1997, the Ministry of Interior that supervises the LGs decided to make fundamental changes. It formed a new system for centrally financing joint LG offices. This included an extra subsidy, in addition to the former base subsidy, which could be given to every joint office without stipulation. The extra subsidy is allocated monthly to the offices and its amount depends on the number of LGs and total population. The new subsidy system allocates extra money to joint LG offices centered in towns or other large settlements. What is more, the state budget in 2000 put the subsidy system into a normative base. Consequently, in the second part of the 1990's, the atomization of local units of administration in the country had stopped, and *the number joint LG offices increased*.

But the integration process is not evident; the number of LGs in joint offices is 65 less in 2000 than it was in 1991. So, we can see a process of disintegration again. This process results in less efficiency and a less professional local administrative structure.

Table 2.5
The Number of Joint Local Governmental Offices and
Their Members Between 1991–2000

| Year | Number of Joint LG Offices | Member LGs | Rate of the Total Number of LGs [%] | Average Number of LGs |
|------|----------------------------|------------|-------------------------------------|-----------------------|
| 1991 | 529 | 1,526 | 49.6 | 2.9 |
| 1993 | 499 | 1,397 | 45.0 | 2.8 |
| 1997 | 492 | 1,298 | 41.2 | 2.6 |
| 2000 | 535 | 1,461 | 46.6 | 2.7 |

SOURCE: Szigeti E. (1994), p.617, *Settlements in the Hungarian Republic*, Budapest, 1997, p.10. Fürcht P. (2000), p.535.

The tendency toward fragmentation of local administration—especially compared to the former council-system—is better expressed by the number of population served. *The total population served is around 1,000–2,000 for half of the general administrative units*. There are very few single or joint LG offices where the population is over 5,000 people, which is the European optimal standard. [Zehetner, E, 1982; Stern, K., 1968; Damskis, H., 1993; Knemeyer, E.L., 1993; Marcou, G., and Verebélyi I. (Ed.), 1993] Most of these administration units maintain a town as their center.

Table 2.6
Regional Differences in Density of Joint Local Governmental Offices (2000)
and Common Councils (1987)

| Region | Rate of Communities Belonging to Common Councils (1987) [%] | Rate of Communities Belonging to Joint LG Offices (2000) [%] | Rate of Joint LG Offices (2000) in Common Councils (1987) [%] | Rate of Communities Belonging to Joint LG Offices (2000) in Communities Belonging to Common Councils (1987) [%] | Average Number of Communities Belonging to One Joint LG Office (2000) |
|----------------------------------|---|--|---|---|---|
| Average for Counties Data | | | | | |
| Central Hungary | 47.5 | 8.7 | 20.0 | 45.7 | 2.3 |
| Central Transdanubia | 63.7 | 38.1 | 75.4 | 58.8 | 2.2 |
| Western Transdanubia | 88.6 | 61.7 | 85.1 | 69.5 | 2.9 |
| Southern Transdanubia | 85.1 | 75.9 | 106.4 | 77.6 | 2.8 |
| Northern Hungary | 68.7 | 36.2 | 60.8 | 54.5 | 2.6 |
| Northern Great Plain | 64.4 | 17.6 | 30.3 | 26.6 | 2.3 |
| Southern Great Plain | 26.9 | 10.6 | 46.7 | 59.3 | 2.0 |

SOURCE: According to Settlements in the Hungarian Republic 2000, Central Statistical Office Budapest, 2000. pp.137–147, Spatial Statistical Yearbook 1987. CSO Budapest, pp.12–13., E. Pfeil (ed.).

Legislation states that the modification or ceasing of administrative authority associations is an autonomic decision for the LGs. In this case, every LG has the right to leave a joint association without any consideration to the greater interests and without consideration of the interests of any of the other member communities. If LGs are not able to compromise with each other in order to form a joint office, or there is a LG that remains without administrative authority, supervising authorities have the right to oblige the formation of a joint LG office and determine its members. But there are only a few instances of this.

The quality of local administration depends on the fact that LGs with populations under 1,000 are not obliged to take part in a joint LG office, it is enough to employ a chief officer with the necessary qualifications. Legislation does not determine any criteria for establishing a single office. In practice, to employ a chief officer and one or two administrators is enough. However, the Ministry of Interior has worked out a model for LG offices in which the minimum number of employees and their qualifications are determined according to the LGs' size and the type of duties to be performed by the staff. But this model is usually not taken into consideration by the LGs. The ideal size for an office staff would be 5–6 people, but villages often do not want to make sacrifices for a more qualified administration. The National Audit (2000) has

determined that the number of civil servants within LGs is rather low, but the qualification levels are improving.

Examination of 400 LGs by the National Audit Office (2000) has confirmed that joint LG offices operate efficiently and economically. In 1999, the average cost of LGs' administrative services per capita were 10,500 HUF. In the joint offices, this number was 6,500 HUF. In the case of LGs maintaining their own local offices, it was 14,500 HUF. So, the differences are significant. What is more; the greatest differences are in the case of LGs with 500–1,000 citizens. In these communities, the maintenance of common offices was three times cheaper than independent ones.

2.2 Local Services

2.2.1 Local Service Delivery

The provision of services by the Hungarian LGs is based upon the principle of mandatory and optional tasks defined by the Act on Local Governments. Mandatory tasks are separated into two categories. The first must be provided by/for every community regardless of type or size. This includes supply of drinking water, kindergartens and basic education, basic health and welfare services, public lighting, maintenance of local public roads and cemeteries and the protection of ethnic minorities' rights. The second is determined by legislation and the financial means necessary for such purposes must be allocated from the state budget. [Temesi, 2000]

This second type is regulated by the Act on Local Governments, which says LGs with larger populations and greater capabilities may be assigned more mandatory functions and powers in comparison to other LGs. The requirements for different sized LGs' *personal provision* is an example of such regulation:⁸

- above 2,000 inhabitants, it is mandatory to provide daily social care institutions for elderly people;
- above 10,000 inhabitants, it is mandatory to provide temporary social care institutions for elderly people;
- above 20,000 inhabitants, it is mandatory to provide various daily social care institutions for local residents;
- above 30,000 inhabitants, it is mandatory to provide various temporary social care institutions for local residents.

Services are obviously only for local residents and other provisions are optional. According to this regulation, only these municipalities receive special grants related to those services, not others. That is why other municipalities do not install such services on a voluntary base.

Considering the general rule that LGs have various functions and powers depending on the requirements and capabilities of their territories, each LG may undertake very different tasks. Through the locally elected representative bodies or by decision of a local referendum, LGs may voluntarily transfer any local public affair, not assigned to them by law, to the competence of another organ. LGs may also form special associations to provide local services. Yet, managing voluntary tasks must not endanger the fulfillment of their obligatory functions.

Between municipalities and county LGs, there is no hierarchical relationship.

Table 2.7
LGs' Responsibilities in Hungary

| | All LGs | Cities | Counties |
|---|---------|--------|----------|
| I. EDUCATION | | | |
| Pre-school (Kindergarten) | M | M | |
| Primary | M | M | |
| Secondary | | V | M |
| Technical | | V | M |
| Schools for Handicapped | | V | M |
| II. SOCIAL CARE | | | |
| Nurseries | V | V | |
| Personal Services for Elderly People | M | M | |
| Welfare Homes for Elderly People | M | M | |
| Welfare Homes for Handicapped People | | V | M |
| Special Social Services (e.g. Homeless) | | V | |
| Social Housing | | V | |
| III. HEALTH CARE | | | |
| Primary Health Care | M | M | |
| Hospitals | | V | M |
| IV. CULTURE, LEISURE, SPORTS | | | |
| Libraries | V | V | M |
| Cultural Centers | V | V | M |
| Theaters | V | V | M |
| Museums | V | V | M |
| Parks | V | V | |
| Leisure, Sports | V | V | |

Table 2.7 (Continued)
 LGs' Responsibilities in Hungary

| | All LGs | Cities | Counties |
|---|---------|--------|----------|
| V. PUBLIC UTILITIES | | | |
| Supply of Drinking Water | M | M | |
| Sewage | M | M | |
| Central Heating | | V | |
| VI. ENVIRONMENT, PUBLIC SANITATION | | | |
| Cemeteries | M | M | |
| Refuse Collection | M | M | |
| Refuse Disposal | M | M | |
| Environmental Protection | V | V | |
| Street Cleaning | V | V | |
| VII. TRANSPORT, TRAFFIC | | | |
| Road Maintenance | M | M | |
| Public Lighting | M | M | |
| Public Transport | | V | |
| VIII. URBAN DEVELOPMENT | | | |
| Master Plans (Structural Plans) | V | M | |
| Local Economic Development (inc. Tourism) | V | V | |
| Spatial Planning | | | M |
| IX. GENERAL ADMINISTRATION | | | |
| Protection of Ethnic Minorities' Rights | M | M | |
| Authoritative Functions (e.g. Licenses) | V | V | |
| Fire Brigades | V | V | |
| Civil Defense | V | V | |

M—mandatory tasks; V—voluntary tasks.

SOURCE: Edited Lados, M. based on Temesi (1993) pp.382–384.

The Act on Local Government assigns tasks for County LGs that are to be provided throughout the country or for people living in an expansive area covering the area of several municipalities. However, municipalities may provide other services, like hospital or secondary schools (gymnasium) if the elected body decides to deliver the service. They have a right to do so, if more than half of the users, on average, were local residents in the last four years.⁹

2.2.2 Efficiency of Local Services

The unit costs of services change according to the size of the LG and/or the provider of the service. Services are cost effective when the increase in the effected population or geographical area of the service does not cause additional costs. Sometimes, however, empirical studies show contradictory results when testing this principle. Average unit costs have a ‘U-shape’, which means that services are most costly for the biggest and smallest municipalities. Decreasing (with increasing size) unit costs characterizes capital-intensive services in places where the implementation of the service depends on the use of technology and the level of specialization. In the case of labor-intensive services, higher management and communication costs increase the average unit costs. [Hermann *et al.*, 1998]

According to a study conducted in European countries, public services are economically efficient for municipalities of around 5,000 inhabitants. However, this size cannot be the optimal size for LGs because each of public service has different optimal size based on population. [ACIR, 1974]

Since the first years after the fragmented system was created, in 1990, some professionals have been arguing that this system is very costly and have called for integration. In their view, based on the old principle about the relationship of size and unit costs cited above, increase in service units will reduce the unit costs. Several research projects tested the principle in Hungary, but the results varied according to variety of services or unit costs measured by the direct beneficiaries of a particular service or total population within the LG. In several cases, at a minimum service unit size, costs became constant (the shape of the unit costs curve goes horizontal) or ‘U-shaped’. [Hermann *et al.*, 1998]

We have to separate local public services into two categories. The first includes public utilities like electricity, gas works, water works, sewage and sewage plants and other public services like public transport and solid waste collection and disposal. These services are provided by larger (covering the area of more counties) or smaller (smaller regions in each county) regional utility and service companies. This is why potential amalgamation would not have an immediate effect on the unit costs of these services. However, there is a proposal to create larger local government units on the basis of the area covered by regional public utility companies. [Hermann *et al.*, 1998] Nowadays, related to these services, the question is rather about the break down of monopolies than optimization size.

The other group of local public services is human services like education, health and social care and public administration. We tried to test those local services that are

- mandatory by the Act on Local Government,
- represent a higher cost to the total local running expenditure of villages, and
- potentially available to most LGs.

Administration, pre-schools and primary schools represent more than 50 percent of local expenditure in villages. Further evaluation is made on these sectors only.

A) *Costs of Administration*

The costs of administration within LGs' running expenditure has significantly changed throughout the 1990s. The average share of these costs has increased from 7.8 to 9.9 percent, affecting LGs of all different sizes. There is a very strong correlation between the size of a LG and increase in the share of administration costs within the total running costs, for both the beginning and the end of the last decade. In 2000, all levels of village administrations absorbed at least one fifth of the total running costs. In the smallest LGs, this figure was above 40 percent.

On a per capita basis, the position of each level also changed. It is most visible in relation to Budapest. Its indicator was 94.7 percent of the country average in 1991 and 128.3 percent in 2000. Budapest's shifting position is caused by two factors. Firstly, costs of administration in Budapest increased much faster over this period than the country average (Budapest: 807%; country average: 610%). Secondly, Budapest experienced an intense population flux. In 2000, Budapest had 9.5% fewer inhabitants compared to 1991. The country's total population has decreased only by 2.2% over the same period. The principle of size and costs relation is indicated among the different size of cities for both years. In villages, per capita costs increased by the decreasing size up to category size 500–999 inhabitants. In the smallest LGs, the indicator became lower than the village average.

The unit costs measured per public employees have a totally different shape. According to the different levels (capital–cities–villages), and the different cities' sizes (including Budapest), unit costs are smaller if the size of the LG is smaller. For villages, the trend is similar. However, the mid-range size groups are becoming rather horizontal in shape with unit costs very close to each other. On one hand, the reason behind these results is the relatively significant proportion of wages within the total administrative costs (45.4%). On the other hand, it is due to the strong hierarchy of wages within the LG size categories. In larger LGs, employees get much higher wages for the same position than those employed in smaller ones. For administrations in Budapest during 2000, the average personnel costs including wages was 141.3 percent of the national average. In contrast, the same figure for small cities and villages was 81.1 and 82.5 percent.

B) *Costs of Pre-schools (Kindergartens)*

Due to the decreasing number of children and the emerging provisions of the private sector, the share of kindergartens costs within the total running expenditure has fallen from 6.3 to 3.7 percent. This figure is much higher in villages for both years, but the

Table 2.8
Costs of Administration

| LGs by Size Category | | Share in the Total Running Costs | | Per Capita Cost | | Costs Per Administrative Employee | |
|----------------------|---------------------------------|----------------------------------|-------|-----------------|--------|-----------------------------------|-------|
| | | [%] | | [Thousand HUF] | | | |
| | | 1991 | 2000 | 1991 | 2000 | 1991* | 2000 |
| Total | | 7.83 | 9.94 | 2,189 | 14,418 | 969 | 3,380 |
| Budapest | | 5.81 | 9.74 | 2,073 | 18,499 | 1,675 | 5,017 |
| Cities | | 7.59 | 12.67 | 2,007 | 13,171 | 1,006 | 3,521 |
| Cities | Large | 6.91 | 11.22 | 1,736 | 11,849 | 1,167 | 3,938 |
| | Medium size | 7.61 | 12.69 | 2,129 | 13,715 | 960 | 3,438 |
| | Small | 11.64 | 18.31 | 2,854 | 15,491 | 825 | 2,977 |
| Villages | | 16.48 | 23.47 | 2,451 | 14,097 | 751 | 2,694 |
| Villages | Above 5,000 inhabitants | 13.59 | 20.64 | 1,960 | 11,361 | 1,054 | 3,238 |
| | Between 1,000–4,999 inhabitants | 15.90 | 22.07 | 2,494 | 13,506 | 714 | 2,690 |
| | Between 500–999 inhabitants | 20.72 | 26.55 | 2,996 | 17,933 | 704 | 2,501 |
| | Between 200–499 inhabitants | 27.32 | 36.81 | 2,524 | 16,923 | 697 | 2,678 |
| | Below 200 inhabitants | 30.14 | 42.85 | 2,824 | 13,171 | 710 | 2,085 |

* Data from 1994

SOURCE: Edited by Lados, M. based on LG Financial Database of TÁKISZ, 1991 and 2000.

trend is the same (1991: 12.1%; 2000: 9.2%). This is no surprise considering the number of kindergartens has fallen by 12.7 percent over the same period. The most drastic change has taken place in medium size cities, where this figure is above 30 percent.¹⁰ As a result of this process, except in the smaller size villages, the average size of the service—measured by children per kindergarten—has risen slightly. The average size of kindergartens is decreasing with the decreasing size of the LGs.

We have more options related to this service available for measuring unit costs of the service. In both years, unit cost decrease if the size of the LG is smaller in comparison to the LGs' level (Budapest-cities-villages). Among city levels, the cost curves are mostly horizontal or reversed 'U-shape'. In villages,¹¹ unit costs reflecting the number of children and teachers clearly show the principle of the relationship between an LG's smaller size and higher unit costs. In terms of physical measurement (unit costs by number of kindergartens), the cost of service is lower if the size of LG is smaller at all comparative levels and for both years.

Table 2.9
Unit Costs of Pre-Schools (Kindergartens), 2000

| LGs by Size Category | | 1 | 2 | 3 | 4 |
|----------------------|---------------------------------|-------|-----|-----|-------|
| Total | | 3,633 | 94 | 163 | 1,875 |
| Budapest | | 347 | 139 | 189 | 1,963 |
| Cities | | 1,112 | 144 | 162 | 1,800 |
| Cities | Large | 458 | 144 | 160 | 1,804 |
| | Medium size | 498 | 144 | 166 | 1,841 |
| | Small | 156 | 148 | 155 | 1,833 |
| Villages | | 2,174 | 61 | 155 | 1,902 |
| Villages | Above 5,000 inhabitants | 126 | 158 | 148 | 1,939 |
| | Between 1,000–4,999 inhabitants | 1,190 | 75 | 155 | 1,879 |
| | Between 500–999 inhabitants | 626 | 30 | 158 | 1,945 |
| | Between 200–499 inhabitants | 226 | 19 | 182 | 2,034 |
| | Below 200 inhabitants | 2 | 38 | 104 | 1,581 |

- 1 Number of kindergartens.
- 2 Average size of kindergarten by number of children (children/kindergarten).
- 3 Unit costs per number of children (thousand HUF/children).
- 4 Unit costs per number of teachers (thousand HUF/teachers).

SOURCE: Calculated by Lados, M. based on LG Financial Database of TÁKISZ, 1991 and 2000.

C) Costs of Primary Education

The process connected to primary schools is very similar to the experiences of the kindergartens. Due to the changing conditions and environment, the share of costs for primary schools within the total running expenditure has fallen from 13.6 to 10.0 percent. In villages, this figure is much higher, but the trend is the same (1991: 26.1%; 2000: 21.0%). In cities, the major change in the number of schools is due to economic efficiency. In villages, the changing number of schools is rather the result of the changing number of LGs in each size category (e.g. in villages with more than 5,000 inhabitants, the number of schools has fallen by 37.5 percent, the number of LGs by 35.7 percent). As a result of this process, except in smaller size villages, the average size of this service—measured by students per schools—has become significantly higher (by 20–60 percent) in cities and slightly higher (by 12–16 percent) in larger villages. The average size of a primary school decreases by the decreasing size of the LG.

Table 2.10
Unit Costs of Primary Schools, 2000

| LGs by Size Category | | 1 | 2 | 3 | 4 |
|----------------------|---------------------------------|-------|-----|-----|-------|
| Total | | 3,156 | 358 | 132 | 1,906 |
| Budapest | | 294 | 601 | 151 | 2,222 |
| Cities | | 921 | 671 | 123 | 2,081 |
| Cities | Large | 365 | 763 | 126 | 2,345 |
| | Medium size | 413 | 627 | 122 | 1,957 |
| | Small | 143 | 565 | 117 | 1,725 |
| Villages | | 1,941 | 172 | 139 | 1,565 |
| Villages | Above 5,000 inhabitants | 100 | 508 | 116 | 1,583 |
| | Between 1,000–4,999 inhabitants | 1,153 | 207 | 137 | 1,568 |
| | Between 500–999 inhabitants | 550 | 74 | 176 | 1,537 |
| | Between 200–499 inhabitants | 136 | 31 | 191 | 1,520 |
| | Below 200 inhabitants | 2 | 159 | 142 | 1,880 |

- 1 Number of primary schools.
- 2 Average size of primary schools per number of student (student/school).
- 3 Unit costs per number of students (thousand HUF/students).
- 4 Unit costs per number of teachers (thousand HUF/teachers).

SOURCE: Calculated by Lados, M. based on LG Financial Database of TÁKISZ, 1991 and 2000.

The shape of the cost curves is different depending on the LGs' level and has changed over the last decade. In 1991, per capita costs and unit cost per student and teacher, rather, followed the 'larger size, lower unit costs' principle in all major comparison groups. According to the unit costs per physical indicators (classrooms, schools), unit costs usually decrease if the LG and the average size of the school are smaller. The picture has become both more homogenous and contradictory in 2000. Unit costs per teacher, classroom and school are lower if the size of LG is smaller on all comparison levels. Related to per capita costs and unit costs per student, each comparison level has a different feature. On LG levels (Budapest-cities-villages) one has a 'U-shape', the other has a reversed 'U-shape'. In cities, unit costs decrease with the decreasing size of the city and schools. In villages,¹² these curves follow the 'larger size, lower unit costs' principle.

According to the different LG levels (capital-cities-villages) for unit costs per user, the system is slowly moving towards larger size LG's and services with higher unit costs or an 'U-shape' model. The reason partially behind this is the wage hierarchy along

with the hierarchy of LG size. However, looking at the different size categories within cities and villages, the picture is more complicated. Analyzing cities (or villages) alone, we discover that larger local governments usually have lower unit costs. This is very clear especially in the 1991 data, while a similar trend can be traced in 2000 as well. These findings are summarized in Table 2.11.

Table 2.11
The Shape of Unit Costs by LG Size Category

| Unit Costs by Services | LG Levels ¹ | | Cities | | Villages | |
|--|------------------------|------|--------|------|----------|------|
| | 1991 | 2000 | 1991 | 2000 | 1991 | 2000 |
| Administration – Per Capita Costs | LL | U/LL | LL | LL | H/U | RU |
| Pre-schools (Kindergartens) – Unit Costs Per Number of Children Attending | LH/H | LH | LL | RU | RU/H | LL |
| Primary Schools – Unit Costs Per Number of Pupils | U | U | LL | LH | LL | LL |

¹ LG levels—Budapest, cities’ total, villages’ total.

NOTE: LL – Larger size of LG and lower unit costs of service.
 LH – Larger size of LG and higher unit costs of service.
 H – Horizontal.
 U – ‘U-shape’.
 RU – Reversed ‘U-shape’.

SOURCE: Edited by Lados, M.

Another reason, rather hypothetical than factual, is that larger LGs have higher revenue generating capacities so they can add more resources locally from CG transfers. Some local cases show that local kindergartens and schools in larger LGs have a better chance to accumulate additional resources, for example through local foundations. Our assumption is that a higher per capita revenue position ensures higher expenditure potential. In this respect, higher unit costs partially means higher quality of service with better and more modern equipment, more facilities for users (children, students). Naturally, there are differences among schools and kindergartens within a city (schools in ‘slums’ or tradition style schools). Regarding quality of service in basic public education, however, the majority of inequalities in Hungary are based on the LG hierarchy by the size of population.

With the long-term negative natural growth of the Hungarian population, there is also a trend of declining number of school year children. In cities, there is the

potential to join classrooms or schools together, maintaining the level of service and unit costs. In most larger and medium size cities, this process began in the second half of the 1990s. In villages, if LGs want to keep a service within the community, they can manage it by reducing the level of services. Another possibility is partnership and joint management of the service with another LG. The law on associations ensures this potential form of the partnership. In 1999, around 7 percent of children and students studied in jointly managed kindergartens and schools. The number of kindergarten and school associations fluctuated from between 500 and 550 over the second half of 1990. This fluctuation indicates that the introduced financial incentives for maintaining jointly managed institutional associations have not been effective enough. [Halász, 2000]

2.3 Local Democracy, Which is More Powerful in the Case of the Smallest and in the Largest LGs?

The formation of *democratic society* in Hungary began many years before the political transition. However, the formation of its final structure and efficient operation is a much bigger process and is still under way today. According to our interpretation of social and political democracy; social democracy has a wider view and comprises many parts of political democracy. This is especially true on the local level, since local democracy involves the fundamental parts of political democracy, but cannot be stable without the evolution and operation of local social democracy. LGs play a key role in this process due to their position and authority. They are the leaders of local political democracy, and—if not in everyday work, but in the long term—have a crucial role in the formation and evolution of local social democracy.

According to our previous examinations [Szarvak, T. 1997, 2000; Szoboszlai Zs., 1998, 1999, 2000], the viability of local democracy—under the existing legal framework—depends mainly on the *traditions of the community*; its economic-social-cultural circumstances; the family background of the citizenry; the developmental level of the civil society and its publicity; the level of attentiveness and honesty and socialization of the local governmental representatives. Some connections between the size of LGs and the function of local democracy can be seen in the following examples.

2.3.1 The Various Intensities of Political Activity

At national, as well as local levels, the institutions of *political democracy* have been in operation since 1989. The institutions of political democracy stabilized, thanks to the

national and local governmental elections in 1990 and the legislation of the new democratic parliament and the further elections in 1994 and 1998.

Regarding the number of political parties and the preference of parties among the citizens, there are differences among LGs of various sizes. The function of political organizations is concentrated in towns. Only the Hungarian Socialist Party and the Independent Smallholders' and Civic Party have organizations in the villages, but in decreasing numbers. Since 1998, there has been an increasing number of FIDESZ-Hungarian Civic Party organizations in the countryside. In smaller villages, citizens' party preferences come up only at election time. While the formation of party organization is mainly a typical city feature, party preference among the citizenry does not depend on the type or size of the settlement. Along with age, level of education and sex, the political preference of a person also depends on the developmental level of his or her dwelling place and its geographical location. According to a regional survey during the last election, political preferences are more stable in the western part of the country than to the east or south.

Also, national "large" politics and the local politics are increasingly separated. In smaller LGs (regarding the small towns also), citizens are less interested in "large" politics than in the capital or in the county capitals, but local politics has a stronger emphasis in the smaller ones. Citizens of the capital and the county capitals are interested similarly in "large" and local politics. The strongest influences of the "large" politics reflect life in the largest cities, and the marks of political division are most visible here. Participation in local elections seems to refute this statement. In small villages, the higher rate of participation was explained by the stronger personal relationships among the citizenry and not by the activities of the political groups. [Andorka, R. 1997]

Table 2.12
Rate of Participation in Local Elections by LGs' Size

| Size of LGs | 1990 | 1994 | 1998 |
|---------------|-------|-------|-------|
| 0-499 | 59.68 | 71.60 | 70.64 |
| 500- 999 | 56.62 | 64.09 | 63.04 |
| 1,000-1,999 | 53.69 | 58.18 | 56.83 |
| 2,000-4,999 | 50.15 | 51.55 | 50.62 |
| 5,000-9,999 | 44.09 | 44.52 | 43.50 |
| 10,000-49,999 | | 38.41 | 41.58 |
| 50,000-99,999 | | 36.44 | 39.91 |
| 100,000- | | 33.44 | 40.17 |

SOURCE: Central Election Office of Ministry of Interior, 2002.

2.3.2 The Various Intensity of Civic Organizations

Civic initiatives are an important prerequisite for the formation of social democracy. Formed in the mid-1980's, they had experienced significant development in the second half of the decade, becoming the base of political party organizations at a local level. On one hand, the democratic political institutions swallowed up most of the activists from civic associations. Yet, on the other hand, new relationships and political conflicts began to take shape between the new political elite and civic associations. The opposing interests and their intervening (economic, political) power became more express between the two active poles of local democracy, the LGs with their powerful parties and civic organizations. These opposing interests still exist today.

Civic associations of the 1980's formed in the cities; some of them functioned as "protoparties" but, after the formation of the political parties, they lost their civic character and most of their active members too.

The social legitimacy of local and regional associations creates the base for development of civil society. Activities in which differences are articulated make the social base of associations stronger. This can make associations more attractive for those who have never experienced the beauty of community work in an autonomous association. Space and willingness and capability for cooperation are both necessary for these activities.

About 70% of civic organizations are located in communities larger than 10,000 inhabitants, mostly towns. Besides the multi-color characteristic of larger towns, it seems that direct connection between the inhabitants is also important. This can be seen in the appearance of non-profit organizations. The net of non-profit organizations is thickest in communities with more than 50,000 inhabitants and in communities less than 2,000 inhabitants.

Table 2.13
Appearance of Non-Profit Organizations According to LG Size

| Population | Number of LGs | Number of Civil Organizations | Rate of Civil Organizations [%] | Number of Population/Civil Organizations |
|---------------|---------------|-------------------------------|---------------------------------|--|
| 0-499 | 997 | 1,516 | 2 | 182 |
| 500-999 | 691 | 2,959 | 5 | 170 |
| 1,000-1,999 | 656 | 4,975 | 8 | 189 |
| 2,000-4,999 | 507 | 6,335 | 10 | 243 |
| 5,000-9,999 | 141 | 4,372 | 7 | 223 |
| 10,000-49,999 | 122 | 13,512 | 21 | 174 |
| 50,000-99,999 | 12 | 6,509 | 10 | 118 |
| Over 100,000 | 8 | 9,253 | 14 | 127 |

Table 2.13 (Continued)
 Appearance of Non-Profit Organizations According to LG Size

| Population | Number of LGs | Number of Civil Organizations | Rate of Civil Organizations [%] | Number of Population/ Civil Organizations |
|------------|---------------|-------------------------------|---------------------------------|---|
| Budapest | 1 | 16,003 | 24 | 109 |
| Total | 3,135 | 65,334 | 100 | 146 |

SOURCE: TSTAR database, 1999.

2.3.3 Participation in Local Public Affairs, Trust, Expectations and Satisfaction With Local Governments Depending on the Level of Socio-Economic Development

We consider *Public affairs* those local matters and activities of the citizenry or/and their groups, that are connected with the provision, development, etc. of the given community and have an effect on more of the local citizenry. Those activities, not obligatory to everyday work activities, we must consider *participation in public affairs*. Our empirical experience shows that participation in public affairs is differentiated according to the LG size. Especially in larger towns, and in county capitals as well, participation in public affairs and the intensity of its direction are diverse in various sections of town. According to a survey of Szolnok city, the citizens in the city center are less satisfied and more active, while the citizens of the suburban region are active, satisfied and patient.¹³ The citizens in the industrial zone are less interested in the public affairs, membership in civic associations is low, and their opinions rarely surface. The reason for these tendencies is that qualified citizens with high status live in specific parts of town.

Trust in local governments, in our opinion, also depends on the development level of the settlement, the employment situation, the level of services, and the position of the individual citizen. Party preference only fall into these two categories: Citizens living in average or above average conditions and whose basic needs are fulfilled, therefore, they are more satisfied and citizens with higher criterion, young people and men are less satisfied and more critical.

The results of research into 9 Hungarian counties (6 in the East and 3 in the South) have verified this statement. Where the number of inhabitants is less than 10,000, the respect of the mayor is higher (it scored 82 points of 100) than in settlements with more than 10,000 inhabitants (it scored 72 points). The respect for the governing body of the local authority is also higher in the smaller settlements (less than 10,000—71 point; more than 10,000 inhabitants—66 point), than in the bigger ones.

According to appreciation of leaders roles, there is a significant difference between small and large LGs. Citizens in smaller villages highly esteem the mayor and yet they do not consider the other local representatives and the local governmental bodies.

Surveys conducted in several villages show that village dwellers *are more aware of* the work of the LG and *trust in* it more than town dwellers.¹⁴ Smaller LGs have a deeper participation in the citizens' everyday lives. So, citizens' expectations and satisfaction are stronger, more visible and based on reality. Due to the more laminated and complicated economic and social structure within the cities, the active participation of LG (e.g. in solving of employment problems) is less possible and less required. So, expectations are focused on local infrastructure, services and culture. Yet, trust and acceptance do not necessarily go hand in hand with satisfaction or reduced expectations toward the LGs. Political trust or distrust can only be perceived before elections, especially in big cities.

Table 2.14
Evaluation of the Role of the Local Mayor and the Representative Body
in the Life of a Community (On a Scale of 100 Grades*)

| | Northern Hungary | | Southern Great Plain | |
|---------------|-------------------|---------------------|----------------------|---------------------|
| | Role of the Mayor | Role of the LG Body | Role of the Mayor | Role of the LG Body |
| 0–499 | 93 | 56 | 73 | 67 |
| 500–999 | 80 | 76 | 83 | 74 |
| 1,000–1,999 | 79 | 70 | 78 | 76 |
| 2,000–4,999 | 77 | 64 | 78 | 71 |
| 5,000–9,999 | 80 | 68 | 88 | 80 |
| 10,000–49,999 | 64 | 58 | 81 | 71 |
| 50,000–99,999 | 67 | 65 | 68 | 63 |
| 100,000– | 77 | 66 | 75 | 74 |
| Total | 73 | 64 | 77 | 71 |

* On the 100 grade scale, the score below 50 has a negative meaning (opposition, dissatisfaction) and the score above 50 has a positive meaning (sympathy, satisfaction).

SOURCES: Surveys conducted on patterns of 3,200 people (N=2,000 in Northern Hungary, N=1,200 in the Southern Great Plain region) by the Social Research Group (in Szolnok) of Center for Regional Studies in 1998 and 1999.

2.3.4 The Diverse Tools of Local Publicity and the Various Levels of Informality

Local publicity and regular local communication are essential elements for the operation of civil society and LGs. Local publicity is a social space where the information transfers and reconciliation of interests takes place permanently. [J. Marelyin Kiss–A.

DÉNES, 2000). Publicity is a medium of communication between the citizens, organizations and other players in society. It is important to realize, however, that solving communication problems is not enough to create a social base. It alone is not able to solve the problem of legitimacy, on the other hand, a developed social background will, at the same time, produce a high level of publicity as well.

Local newspapers, radio and television are the most important bases of *local identity* and *community development*. These instruments are under formation and it seems that technical development, the content of publicity, as well as the creation of legal, financial, technical and social backgrounds for its operation, still need more time. All the same, we have to take into consideration the emerging effects of development on the *information society* during the next decade.

The role of local publicity and local media has received less attention than it deserved in the last decade. Politicians focused on influencing national mediums. However, we can see a huge development process in local publicity also. Since 1988, hundreds of *local newspapers* have not only appeared in big cities, but in smaller communities, too. During the 1990's, only a small number of *local television* stations operated (especially in the capital and in some county capitals) and we do not know of any local radio stations of the time. In 2001, according to KÖRMÉDIA statistics, there were 49 circulating TV stations, 156 local cable TV stations and 109 local radio stations.

Local print and electronic media became essential participants in the local and regional news market.

There are some contradictions between LGs' size and the role of local publicity. The smaller the LG, the less the possibility of operating local publicity as a for-profit business. In this situation, the operation of local media needs a subsidy from the LG. But, if they are financially reliant on local public money, how can independence and objectivity be ensured? And, if the subsidy of the LG is exhausted, how will operation of the local TV, radio or newspaper continue? These are significant sources of problems. Even in the case of the most correct and fair LGs; these are also serious ethical and political traps. In most places, it seems that the head of the LG forgot about the communicational principle, that both *giving information and receiving of information are necessary*.

In contrast, there are more possibilities to solve grievances, to handle cases of injustice efficiently, as well as to build up and operate informal channels to the civil society in smaller LGs. The traditional public forums, legally required of LGs by law, do not provide ample opportunity to articulate and expose community intentions [Horváth and Péteri, 1997, Central Budget Policy, p.21.], however, new structures have not yet formed.

2.4 Changing the Intensity of Local Developmental Activity

In the first four years of the local governmental system, LGs endeavored to concentrate on themselves. Even the smallest LG wanted to be self-sufficient. Moreover, every LG wanted to achieve developments exploiting the most favorable financial possibilities between 1990 and 1994. They strongly believed that they now had a chance to dictate their own future. The new system of resource allocation, described above, promoted this idea. This was one of the main reasons, why all localities decide to form their own LG instead of joint LGs.

LGs' initiatives then became significant to development of the basic infrastructure. The result is very visible. Villages have reduced the gap, reflecting the basic infrastructure, like provision of drinking water and gas works over the 1990s. These utilities are not the privilege of cities anymore. Closing the gap related to sewage management takes more time because, according to EU accession, settlements above 2,000 inhabitants are the focus. Smaller villages have started to form 'Sewage associations' to get the effected population to set up the required sewage systems and sewage plants. The local road system has also become more balanced across the size hierarchy of LGs.

Table 2.15

Level of Basic Infrastructure, 1990 and 2000 (At the End of The Year) [%]

Dwellings and Their Facilities

| Category | | Number of Dwellings | | Share of Dwellings With | | | | | |
|----------|-----------------------------|---------------------|-----------|-------------------------|------|--------|------|-----------|------|
| | | | | Water Works | | Sewage | | Gas Works | |
| | | 1990 | 2000 | 1990 | 2000 | 1990 | 2000 | 1990 | 2000 |
| Total | | 3,859,250 | 4,102,362 | 82.7 | 92.6 | 43.0 | 50.2 | 37.4 | 66.7 |
| Budapest | | 799,908 | 829,712 | 98.3 | 99.3 | 92.2 | 84.9 | 52.9 | 78.8 |
| Cities | | 1,618,024 | 1,885,232 | 88.9 | 93.5 | 54.1 | 59.5 | 52.8 | 71.7 |
| Cities | Large | 737,211 | 811,037 | 96.0 | 96.5 | 72.3 | 77.5 | 72.4 | 79.9 |
| | Medium size | 765,939 | 828,410 | 83.7 | 91.3 | 41.1 | 48.7 | 41.9 | 66.0 |
| | Small | 114,874 | 245,785 | 77.9 | 90.8 | 24.9 | 36.7 | 29.5 | 63.8 |
| Villages | | 1,441,318 | 1,387,418 | 67.3 | 87.5 | 3.3 | 16.7 | 11.6 | 52.8 |
| Villages | Above 5,000 inhabitants | 297,337 | 190,039 | 72.8 | 90.2 | 4.2 | 25.5 | 23.0 | 70.1 |
| | Between 1,000–4,999 inhab. | 863,270 | 886,002 | 68.4 | 87.6 | 3.8 | 17.7 | 10.3 | 55.5 |
| | Between 500–999 inhabitants | 184,851 | 194,986 | 61.3 | 85.9 | 0.9 | 10.3 | 4.1 | 40.0 |
| | Between 200–499 inhabitants | 81,617 | 97,684 | 52.5 | 85.4 | 0.2 | 5.9 | 1.9 | 27.3 |
| | Below 200 inhabitants | 14,243 | 18,707 | 44.9 | 82.9 | 0.0 | 4.3 | 0.0 | 15.8 |

Table 2.15 (Continued)

Level of Basic Infrastructure, 1990 and 2000 (At the End of The Year) [%]

Road Infrastructure

| Category | | Total Length of Local Roads [km] | | From This: Length of Paved Roads [km] | | Share of Paved Roads in Total Length of Road [%] | |
|----------|-----------------------------|----------------------------------|--------|---------------------------------------|--------|--|------|
| | | 1990 | 2000 | 1990 | 2000 | 1990 | 2000 |
| Total | | 52,717 | 57,772 | 33,208 | 41,103 | 63.0 | 71.1 |
| Budapest | | 6,390 | 8,346 | 4,808 | 6,448 | 75.2 | 77.3 |
| Cities | | 15,959 | 20,012 | 9,898 | 14,420 | 62.0 | 72.1 |
| Cities | Large | 5,345 | 5,962 | 3,730 | 4,719 | 69.8 | 79.1 |
| | Medium size | 8,710 | 9,823 | 5,029 | 9,690 | 57.7 | 68.1 |
| | Small | 1,904 | 4,226 | 1,139 | 3,011 | 59.8 | 71.2 |
| Villages | | 30,368 | 29,415 | 18,502 | 20,235 | 60.9 | 68.8 |
| Villages | Above 5,000 inhabitants | 4,898 | 3,238 | 1,998 | 1,694 | 40.8 | 52.3 |
| | Between 1,000–4,999 inhab. | 16,908 | 18,101 | 10,271 | 12,582 | 60.7 | 69.5 |
| | Between 500–999 inhabitants | 6,039 | 4,908 | 4,458 | 3,566 | 73.8 | 72.7 |
| | Between 200–499 inhabitants | 2,072 | 2,557 | 1,449 | 1,922 | 69.9 | 75.2 |
| | Below 200 inhabitants | 451 | 611 | 326 | 472 | 72.3 | 77.2 |

SOURCE: Edited by Lados, M. based on LG Financial Database of TÁKISZ, 1991 and 2000.

During the last decade, all the utility investments in villages have been made in small region scale. Villages formed special utility associations related to each type of investment. Usually, one LG has a leading role in coordinating the process: planning, application for funds, and providing financial management including the collection of the LGs, local citizens and firms contributions.¹⁵

Central governmental resources, LGs' own resources, and contributions of citizens make such improvements possible. Larger development was implemented in the smaller settlements, so a strong equalization occurred. Still, it was not enough to offset deficiencies originating from the former 40 years. In contrast, some wantonly large schools, community houses with a capacity to accommodate hundreds of people, and some new local governmental offices were built in settlements of 200–300 inhabitants and below. This illustrates some of the mistakes made during this period.

The largest part of local governmental investments is utilized for local infrastructure development. However, the increased local autonomy has resulted in more energetic local economic development as well as LG enterprises. The tasks of job creation, tele-

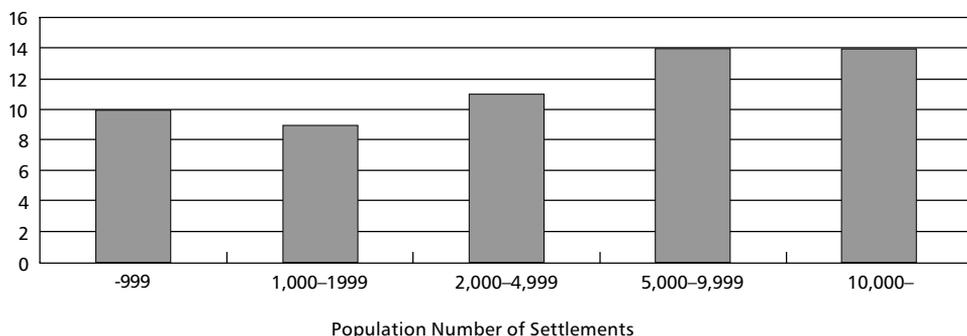
phone services development and local business development received higher priority over the provision of basic public services in 1993.

LGs' business activities—based on a survey conducted in Borsod-Abaúj-Zemplén County—was most energetic in small communities with populations under 1,000 and in the larger towns with populations over 30,000. In the former case, they had only a few entrepreneurs with very weak economic output. Due to this, they were forced to create the local businesses themselves in order to keep the basic functions of the settlements running. In the latter case, the motivation of businesses run by LGs was the larger financial autonomy and utilizable properties.¹⁶

Local governmental investment far exceeds their own capability and they need support from the central government. The average level of investment is 9–14% of the total amount of total local expenditures. In case of smaller LGs, this rate is 9–10%. In LGs with populations over 5 thousand, the share is much closer to 14% [I. Barati, 2001]. Based on the principle of additionally, the strategy used by LGs to finance their investments, especially large scale investments, is to obtain as many central investment grants as possible. Due to their larger own revenue capacity, the bigger LGs can absorb more investment grants and other national developmental supports.

Figure 2.3

The Average Share of Investments in Total Local Government Spending

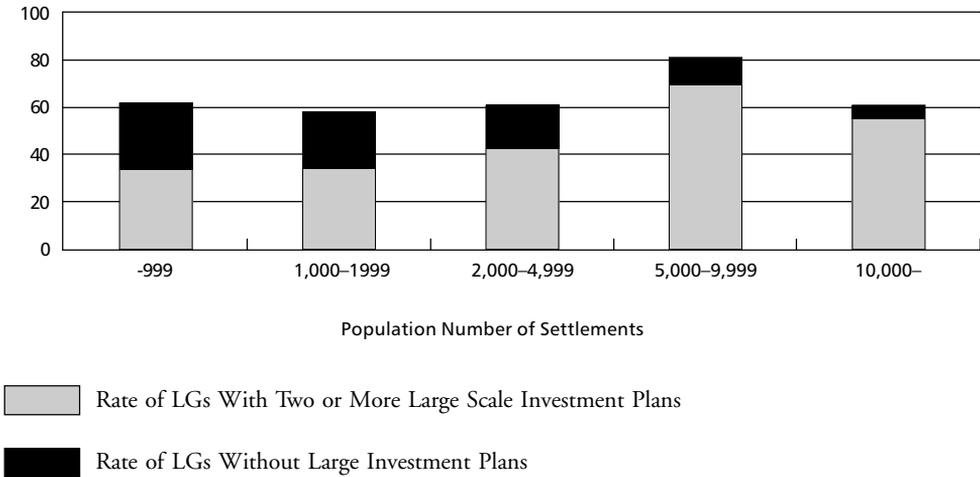


SOURCE: Barati, I., 2001.

According to a survey conducted by I. Barati, every third LG has two or more large scale investment plans for the mid-term period. These are mostly projects for modernization of water works, the establishment and construction of sewage collection and cleaning, waste collection and the modernization of central heating systems. In the instance of LGs with populations between 5–10 thousand, this rate is the highest, about 70% and shows a larger demand for state contributions. Among LGs under one

thousand inhabitants, only 29% plan development projects of this scale and 33% definitely do not plan such investments. Figure 2.4 clearly shows that the percentage of municipalities without large scale investment plans declines with growing population size and the share of municipalities with two or more large scale investments increases with growth in the population size.

Figure 2.4
Demand for “Large” Investment According to LG Size



SOURCE: I. Barati, 2001

In the mid-1990s, the central government began to realize that operation of the public administration system was rather expensive. They also realized that certain settlements had accomplished infrastructure investments that could supply a whole small region. The central government, using *economic and legal means*, began to refresh LGs on the *necessity of association and cooperation*. Parallel to this process, the LGs recognized that it was not enough to accomplish the investment task. They also needed to sustain operation, which resulted in a considerable burden to the budget. *LGs were increasingly looking for cooperation possibilities with other LGs.*

In the last half of the decade, the extra subsidy (10–15%) from the central government took effect. Opposing the formerly isolated investments, joint developments via LGs’ cooperation came to the forefront. Development associations, and later the local governmental associations, became the organizational background for co-operative local development.

3. FORMS OF LOCAL GOVERNMENTAL INTEGRATION

3.1 Unpleasant Memories of Former Integration Practices and Contradictory Preconditions Stemming from the Former Public Administrative System

As the existing fragmented local governmental system seems to be untenable, and there was a more integrated system before, the reasons and experiences from the former structures must be understood. This is important because many barriers in the new amalgamation process originated from the past.

3.1.1 Transformation of the Regional Structure of Public Administration During the 1970s

Centralization was controlled by the central government and managed by administrative tools. Then there was the introduction of an administration model, territorially based on urban surroundings. This situation and experience were the two most important initiatives that brought optimization to the size of local administrative and service units during the 1970s.

The soviet style council-system was established in 1950 and local, district and county councils were formed. The aim of this top down process was to provide a state presence in every community as close to the citizens as possible. But fragmentation of local administration units hindered the proper quality of their function and development was hampered by the de-concentration of financial resources. The forced merger of agricultural cooperatives had removed economic and political resources from many communities, which also meant the withdrawal of local functions and that could be the ideological base to amalgamate local councils too. The legal basis for amalgamating local councils had existed since 1950. However, these activities only accelerated during the mid-60s and then ended by the early 1980s.

Even though Hungary was then a member of the communist block, the rationalization process of the regional structure of public administration had many similarities with the spatial reforms of western countries. The most drastic method, namely the total merger of communities, was ignored by the Hungarian government. On one hand, the policy considered the fragmented and professionally weak local administration. On the other hand, the quality and quantity of the series of tasks waiting to be efficiently solved. It preferred professionalism to local community values and had produced artificially integrated administration units. Besides the arguments for an optimal administration unit that also should also be appropriate for specialization, more eco-

conomic local services and development were considered in case of determining a concentrated regional structure for public administration.

The common councils formed administrative districts, which did not necessarily mean economic or public service attraction zones. There was always a kind of internal conflict in the institution of common councils. Common councils integrated both the center and the satellite communities but the satellite communities retained their legal status. In the statistical registers, they appeared as independent communities and the election laws guaranteed them representation in the common council, proportionate to their population. The law stated that every satellite community had to elect at least three representatives to the common council. Council members from the satellite communities became members of local leadership and they formed a quasi-partial government, according to a 1983 modification of the law. This meant that there was no hierarchy between the center and the other communities. Only one council body, one executive body and one administrative department fulfilled the tasks. As a consequence of the amalgamation, the settlement network and the network of councils had been separated. This was performed in various ways by the counties, according to the features of the settlement network. In counties with many small communities, the councils were common ones. While in the Great Plain, there were much fewer common councils and the communities were left alone.

Table 2.16
The Relationship Between Communities, Local Councils and
Local Governments

| Year | Communities | Communities With Their Own Council | Communities With a Common Council | Number of Councils or Local Governments |
|------|-------------|------------------------------------|-----------------------------------|---|
| 1950 | 3,229 | 2,862 | 361 | 3,032 |
| 1970 | 3,244 | 1,784 | 1,440 | 2,294 |
| 1980 | 3,122 | 811 | 2,311 | 1,525 |

SOURCE: Yearbooks of the Central Statistical Office

The next step was the decentralization of competencies. This prepared for a reduction of public administration to two levels. The target groups of this process were the amalgamated political and administrative units and, further formation of a level between localities and counties.

The council-system only accepted one form of institutional cooperation by the councils and this was to carry out state-administrative tasks on a joint basis. *By the mid-1980s, an expanded network of administrative associations operated, especially in counties*

full of small villages and they drew out a new level of public administration. In some counties, they covered the whole territory. In the instance of local public services, the law did not accept these kinds of associative institutions. The council headquarter was responsible for local public service distribution for all its own citizens and those from the satellite community.

A governmental decision founded in 1968 ordered the merge of annual budgets and development resources from those communities in a common councils in order to accomplish the council's investments in the central settlements. In the satellite settlements, only the basic institutions and infrastructure were allowed to develop. The basic public service institutions (schools, health care, nursery schools, homes for the elderly, culture centers) were concentrated in the council center and were difficult to reach because of bad transportation conditions.

The negative effects of this centralized development policy were further enhanced by the redistribution of development resources designated by county councils.¹⁷ The redistribution of economic resources in the county was not proportional and rational, but based on despotic approach and service of certain clientele.

3.1.2 Abolition of Districts and Institutionalization of Surrounding Urban Areas During the 1980's

The concept of public administration by urban surroundings appeared fairly early in 1969. At that time it had become possible to put certain villages under urban guidance. In 1971, the third Law on Councils had introduced the notion of "the village in urban surroundings" and determined the *criteria for urban surrounding communities*. The criteria were as follows: strong geographical, social, economic, employment and transport connections between the town and the nearby village and specific reasons for their coordinated development. *The real aim of the institutionalization of urban surroundings was the gradual change toward a two level administration structure.* The urban surrounding, as a form of public administration, evolved into a type of development, which nobody had thought of before. After the abolishment of districts in 1984, urban surroundings became more administration-oriented. In reality, the relationships between the towns and the villages had become much more complex. The urban surrounding administration covered three kinds of activities [Kara, P., Kilényi, G., Kökényesi, J. and Verebélyi, I., 1983]:

- the towns provided services for the surrounding villages under an horizontal relationship,
- the towns, taking part in county administration, controlled the surrounding villages' councils,

- the towns and the larger villages became the second level of authority over the surrounding villages and it made a hierarchy between the communities with a strong dependency building up between the town and the villages.

The mixture of these functions was accepted, only because it was seen as a transitional situation. The urban surrounding administration finished only after the political change in 1990, when the local government was established. The urban surrounding administration system created 139 administration districts, of which 105 were towns surrounding districts and 34 were larger villages surrounding districts.

3.2 The Need and Willingness of Local Governments to Cooperate

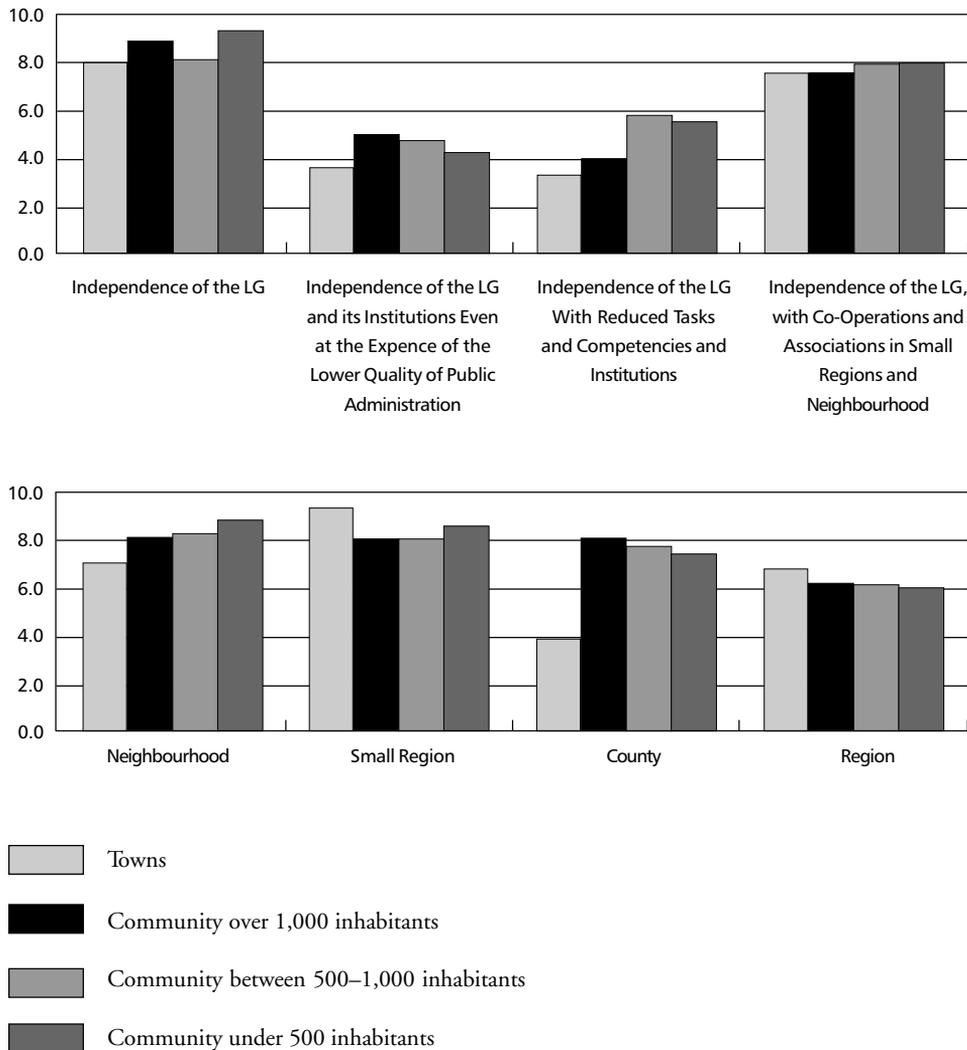
3.2.1 The Notion of Local Autonomy and Co-Operation with LGs in the Minds of Local Leaders

The integration process that took place in the 1970s had its affect. Ongoing conflicts which have flared between communities belonging to a common council, the center and the other communities, towns and villages, the local and the county councils, all rooted in the past, can only be destroyed within decades. These conflicts also shaped citizens attitudes towards cooperation with other communities and inspired them to insist on the autonomy of the LGs.

Results of a survey conducted *in Somogy county in 2000* show LGs attitudes toward cooperation. Mayors and local representatives from various sizes of LGs were questioned. According to their opinions, LGs protect their autonomy but are willing to cooperate, mainly with their neighboring LGs. Insistence on autonomy is fairly strong, especially in case of LGs under 500 inhabitants, but they came out in support of forming associations.

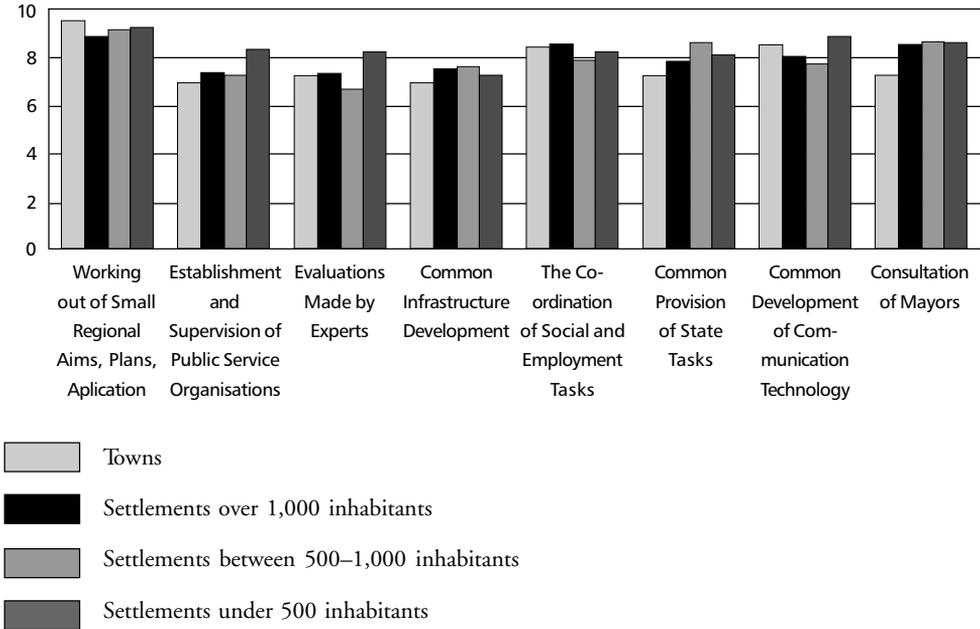
Village governments focused on building relationships with neighboring villages, while towns emphasized small regional connections as their most important mission. In all LG size categories, they expected to develop small regional strategies, common projects and fundraising activities through cooperation on a small regional level. These interests are also common and strong for establishment and operation of a common information infrastructure. The towns have less interest in distribution of public services and implementation of central tasks in cooperation. Consultation between mayors is also not so necessary for villages. The smallest LGs show less interest in common infrastructure development and co-ordination of employment and social care.

Figure 2.5
 Which Public Administration Purposes are Important in the Future?
 (Opinions Ranked on 10-Grade Scale)



SOURCE: Németh, J., 2001. pp.14-15.

Figure 2.6
 What Do You Expect From Small Regional Cooperation?
 (Opinions Ranked on a 10-Grade Scale)



SOURCE: Németh, J., 2001. pp. 4–15.

3.2.2 The Relationship Between LGs Which Were Formerly One Administrative District

The relationship between LGs, which had shared a common council in the previous council-system, can be examined through the existence and intensity of joint LG offices and LG associations. As far as we know, there is no survey dealing with this topic. Still, we have data from empirical research conducted in Baranya County, a typical small village region. This survey illustrates the network and institutional framework of 300 LGs with average populations of around 550 people.

In the case of Baranya County, the *LGs set up their joint offices with the same structure as the common councils*. The LGs were not able to change the relationships built up in the former regional administrative structure because of some objective factors. The council administration districts had become an integral part of the citizens' everyday

lives: the regional transport system, distribution of services, and location of economic units determined the formation of any new structures. It turned out, that it was not possible to revitalize the organic system of centers and their surroundings as they existed before 1949. *But it is a fact that, in this county, the number of LGs maintaining their own office increased to 23 in 1991. While, during the council-system, the number of common councils had only been 9.* Among these LGs, only two have a population near to 1,000, the suggested limit (according to the law) for hiring a chief executive. In five cases, former common council centers split from the associated LGs and set up their own independent office.

Through the formation of LGs, 64 LGs have changed administrative districts, 21.4% of the total number of LGs. The regional structure of local public administration system remained unchanged for least 60%.

Table 2.17

The Changing Numbers of Joint LG Offices and Common Councils As Well As Their Member Communities in Baranya County Between 1989–2000

| Year | Number of Common Councils or Joint LG Offices | Number of Members | Average Number of Members | Share of Local Governments in All Joint Local Governmental Offices [%] |
|------|---|-------------------|---------------------------|--|
| 1987 | 66 | 290 | 4.4 | 94.8 |
| 1991 | 74 | 269 | 3.6 | 90.3 |
| 1997 | 78 | 255 | 3.3 | 84.7 |
| 2001 | 81 | 259 | 3.3 | 85.1 |

SOURCE: Statistical Yearbook of County Baranya 1987, Settlements in the Hungarian Republic 1991, 1997, edited by E. Pfeil according to the data of the Central Public Administration Office in Baranya county.

3.3 Small Regional Associations and Their Characteristics

3.3.1 Administrative Authority Associations and Associations of Institutional Control¹⁸

The complex examination of local governmental associations (which were formed to supply firstly administrative, then later other types of tasks) are hampered by the situation—in contrast with the system of joint local governmental offices—that there is no uniform registration system. Although all of the association agreements have had

to be sent to the Public Administration Office since 1998, the processing of data has not happened by this time.

According to data collected nationwide, the differences between the counties regarding the willingness of LGs to form associations are rather significant. In some counties, (Somogy, Komárom-Esztergom, Borsod-Abaúj-Zemplén, Vas) the density of cooperation is great and it influences the LGs work greatly. But we have to be careful, as the systematic processing of association data is absent, we do not know the extent of the overlapping.

Table 2.18

The Situation of Associations in Hungary as of 31 December 1999

| Name of the Region | Number of Associations | Number of LGs | Average Population of LGs | The Number of LGs Joining Associations | Rate of LGs Joining Associations [%] |
|-----------------------|------------------------|---------------|---------------------------|--|--------------------------------------|
| Central Hungary | 50 | 185 | 15,374 | 84 | 51 |
| Central Transdanubia | 220 | 407 | 2,734 | 345 | 85 |
| Western Transdanubia | 270 | 646 | 2,105 | 538 | 83 |
| Southern Transdanubia | 409 | 653 | 1,451 | 574 | 88 |
| Northern Hungary | 282 | 603 | 2,105 | 496 | 82 |
| Northern Great Plain | 106 | 388 | 3,933 | 237 | 61 |
| Southern Great Plain | 93 | 253 | 5,283 | 155 | 61 |
| Total | 1,430 | 3,135 | 3,204 | 2,439 | 78 |

SOURCE: Ministry of Interior.

By the first of January of 2001, the number of associations has increased to 128 in *Baranya County*. If we add the number of joint local governmental offices to this number, there are 210 integrated institutions of LGs in the county. These 210 organizations have a total number of 932 members (local governments). This number shows that in Baranya County, on average, every LG is a member of 3.1 associations. This results in a dense organizational network among the LGs, which denies the statement that LGs are not willing to form associations. Consequently, the new legislation about LG cooperation had a positive effect on LGs within the county that are full of small villages, where cooperation is an evident necessity to the LG structure. Comparing different parts of the country, the settlement structure dominated by large villages on the Great Plain necessitates less associations than in Trans-Danubia and Northern-Hungary. Among 82 LGs in Hajdú-Bihar County, all examined under the same conditions, [Papp, Zs., 2000] there were 17 associations. They averaged 40 member LGs each. Furthermore, there were five joint local governmental offices, with

13 member LGs. Comparing the two counties, it turns out that for a county in the Great Plain region a LG is, on average, a member of 0.66 associations. Can we draw the conclusion that the variance in the organizational form between two parts of the country for supplying local service goods has got a decent explanation? Perhaps this amount of discrepancy is not evident because the average population of LGs in H-B County is only about 2,000?

Another form of LGs association is an 'association of institutional control', a common operation of institutions, mainly for primary schools (in 1996 there were 489 such associations). There is only few number of waste management, public infrastructure associations (51), even though these can operate in small regional level more efficiently. Further, there are 283 associations which cannot be ranked into any of the categories. [Fürcht, 1998]

Multipurpose cooperation amongst the same LGs is very rare. Though it frequently happens that LGs in the same administration district will make a second or a third agreement of association for supplying public services or operating institutions together. Joint local government offices only represent a common office for the LGs. Legally, it is not appropriate for supplying public services to fulfill local governmental tasks because it does not have its own representative body. *Consequently, the associations operate in a regional structure full of overlapping and dispersion. This means that the economy of size required for efficient supply of tasks is out of the question.* A great part of the associations are nourished by compulsion, which means that during communism the institutions were established in the center settlement and were the joint property of the member communities. So, these institutions can be maintained only jointly. The formation of larger and multi purpose associations, especially in regions full of small villages, would create an arranged situation. For this to happen, the inducement of central support is necessary.

Despite this, the Act on Association and Cooperation of Local Governments and the introduction of new types of associations have helped the upswing of local governmental cooperation in Hungary. At the same time, because of the deficiencies in the regulations, it is not able to handle the problem of diversity. Some of the questions still pending are:

- There is no way of introducing an obligatory set up for cooperation in Hungary because the new Constitution has not been accepted yet.
- The legislator has not dealt with the question of the institutionalization of urban surroundings.
- The participation of private persons is not possible in any type of these association.
- The responsibility of performing duties can not be passed to any kind of association. If the institution is not able to perform its tasks, members LGs have direct responsibility.

- Most of the associations cannot be subject to financing from the national budget. So, the LGs can require subsidies from the central budget as the member of an association and not from the association itself.

(A new type of association, introduced by the modification of Act on Local Government, has been the only exception since 1997. An association with a legal personality can take over competencies from its members and get subsidies from the state.)

3.3.2 Regional Development Associations¹⁹

The first village associations were formed in 1989–1990, in the most underdeveloped part of the country. Four processes influenced the formation of bottom-up associations:

- improvement of the public administration system;
- regional policy and its realization;
- other sector policies;
- organization of civic associations.

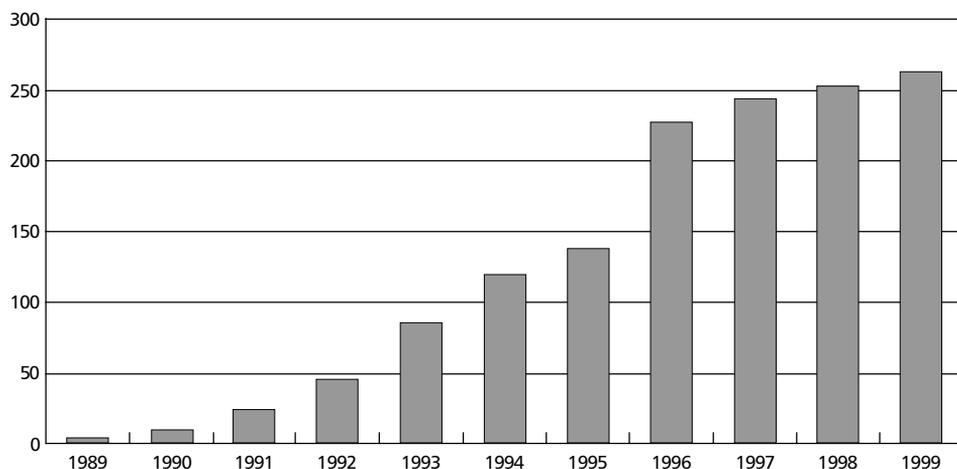
Between 1994–1999, the number of *small regional associations* doubled. Two measures inspired the formation of the new associations. In 1993–94 a PHARE Pilot Program and, in 1996, the Act on Spatial Development both gave an impetus. The formation of associations was rapid in counties full of small villages but, thanks to the Act, the associations covered more than 90% of the communities in each county.

The first associations were a mixture of local governmental, business and civic members. They formed in a real bottom-up process but without any legal registration or with legal status of social organization. After the 1996 Act, only associations with LG members were considered by the state and many former associations had to change their legal form and membership. They have become purely local governmental organizations.

Among the different possible legal forms for small regional development organizations, local governmental associations dominate—2/3 of organizations belong to this type. In the eastern part of the country, this number is larger as is the rate of small regional development associations working as civic associations (the rate is 1/3). Here, the formation of small regional associations occurred a bit earlier and was closer to being a movement. Among organizations set up after 1996, the rate of civic associations is only 8% and the form of public corporation is much higher.

The size of small regional associations, in regards to the population and number of LGs is very different. More than 3/4 of associations contain less than 20 LGs. Only in regions full of small villages do associations have a greater number of LGs.

Figure 2.7
Increasing Number of Small Regional Development Associations



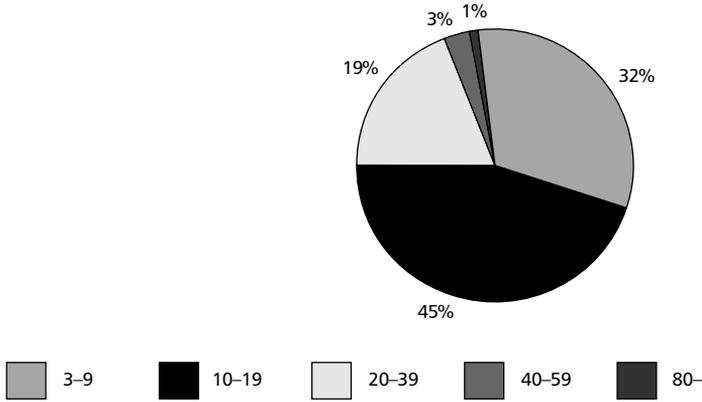
SOURCE: Fekete, É.G., 2001.

The average population for small regional development associations is 34 thousand people. The most common are the ones with populations between 15–40 thousand. The rate for small regions full of small villages, where the population is under 10 thousand people, is 20%. In areas with large villages, the average size of an association is over 40 thousand.

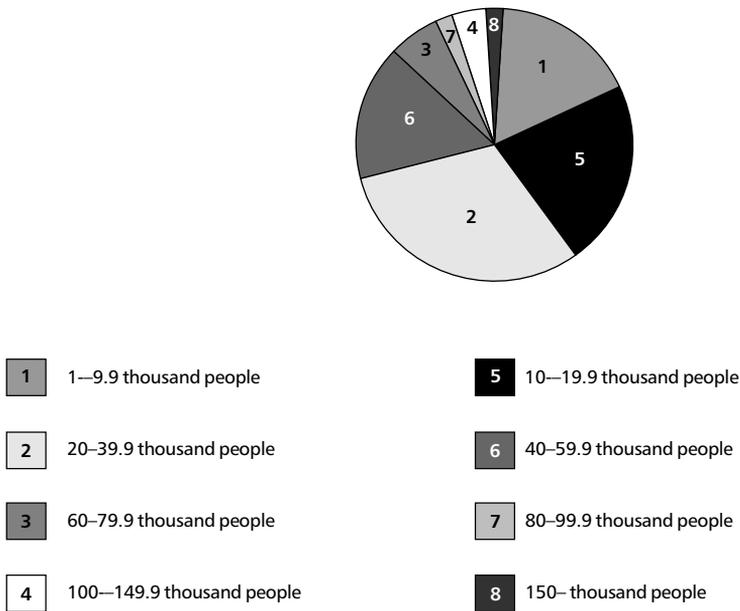
The regional pattern for small regional development associations and connection to the NUTS IV regions are crucial questions for the future. Developing strategies for small regions is the task of small regional development local governmental associations. The basic unit for planning, according to EU legislation, is the level of NUTS IV, which includes the statistically smaller regions. Among 184 small regional development associations, 34 (18%) cover the area of their statistical districts, 37% operate in a smaller areas and 11% in larger areas. Around 29% of the organizations cover areas larger than the statistical district. To solve the problem of the total overlapping of small regional associations and statistical districts it is not necessary. However, it is a requirement that smaller regions comprise a statistical planning district.

Figure 2.8
 The Division of Small Regional Associations According to the Number
 of the LGs and Population

a) Number of LGs



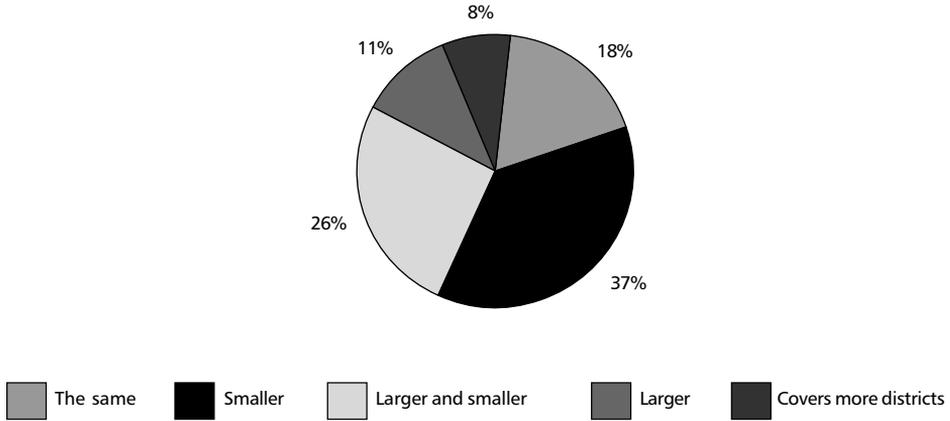
b) Number of Population



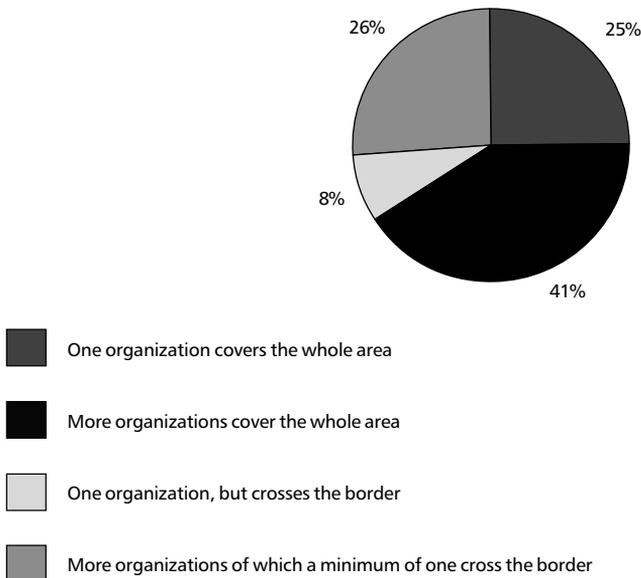
SOURCE: Fekete, É.G., 2001.

Figure 2.9
 Spatial Pattern of Small Regional Associations and Related NUTS IV Regions

a) Territory of Small Regional Associations Compared to Territory of Statistical Districts



b) Territory of Statistical Districts Compared to Territory of Small Regional Associations



SOURCE: Fekete, É.G., 2001.

The rate of small regional associations, which are larger than one statistical district and belong to two statistical districts, is 68%. This is 18% for those who belong to three statistical districts. Those organizations belonging to more than four statistical districts are umbrella organizations.

Approaching this from another angle, we can state that in every statistical district there is a small regional organization. Of the statistical districts, 25% are completely “all right”, a further 41% contain more than one association, but do not extend past the district border. In 34% of statistical districts, the spontaneously organized associations cross the border of the statistical districts.

Between 1996 and 1999, most of the projects fulfilled by smaller regional development associations were the planning and creation of development strategies. While an increasing number of associations were established on a territorial basis from the NUTS IV, indirect development activities received priority to direct ones. Infrastructure and tourism development projects greatly stand out among the investment type projects while other economic projects have less popularity.

Table 2.19
Sector Patterns for Small Regional Projects and Their Tendencies

| | Number of Finished or Ongoing Projects | Number of Projects with Prepared Feasibility Studies or Planned in the Future | Future Project/ Present Project |
|---------------------------------|--|---|---------------------------------|
| Forestry | 23 | 70 | 3.04 |
| Quality Control | 54 | 161 | 2.98 |
| Food Processing | 53 | 139 | 2.62 |
| Handcrafts | 40 | 94 | 2.35 |
| Village Renewal | 139 | 325 | 2.34 |
| Innovation, R+D | 21 | 48 | 2.29 |
| Exploitation of Thermal Water | 58 | 97 | 1.67 |
| Agriculture | 240 | 398 | 1.66 |
| Environmental Protection | 109 | 151 | 1.39 |
| Job-Creation | 236 | 265 | 1.12 |
| Information Technology | 195 | 203 | 1.04 |
| Other | 52 | 54 | 1.04 |
| Industrial Park, Business Zones | 94 | 97 | 1.03 |
| Education, Training | 142 | 145 | 1.02 |
| Infrastructure | 411 | 400 | 0.97 |

Table 2.19 (continued)
Sector Patterns for Small Regional Projects and Their Tendencies

| | Number of Finished or Ongoing Projects | Number of Projects with Prepared Feasibility Studies or Planned in the Future | Future Project/ Present Project |
|---------------------------------|--|---|---------------------------------|
| Tourism | 281 | 258 | 0.92 |
| Marketing | 114 | 102 | 0.89 |
| Protection of Cultural Heritage | 112 | 100 | 0.89 |
| Business Advice | 127 | 102 | 0.80 |
| Community Development | 155 | 111 | 0.72 |
| Youth Programs | 224 | 134 | 0.60 |
| Social Services | 123 | 73 | 0.59 |
| Total | 3,003 | 3,527 | 1.17 |

SOURCE: Fekete, É.G., 2002.

According to surveys conducted by the North Hungarian Department of the Center for Regional Studies, *the most successful associations* were those that:

- covered a territory that they were able to handle (it was not too big) and where regional identity is still perceptible (it was not too small),
- worked in an integrated manner,
- had an appropriate development strategy and more feasibility studies for their projects,
- were able to produce results at every stage which helped keep alive their trust in the cooperative actions,
- were able to get support from both inside and outside,
- involved elected leaders who knew the concept of local development and were able to adopt innovations and mobilize the local people,
- had experts who worked as members of the association, making it possible to continuously provide information and advice to local staff and for a relatively cheap price,
- were able to adjust to the requirements of the governmental level.

The size of LGs influences their success only in that, the smaller the community the larger the necessity for cooperation. Results are much more influenced by the size of the region. Firstly, it must be sufficiently large to have considerable quantity and quality of local resources. Secondly, it must be small enough to make the process, happening within the region, understandable and make daily communication among local actors possible.

3.4 The Ability and Means of the Central Government to Handle Diversity in Local Administration

The policy of the central government to induce formation of associations is hampered by two factors. For one, there is no precise information about the intensity and structure of associations, especially in the case of public services. Yet, since 1994 there has been a regulation in the Act on Local Governments that stipulates associations can be endeavored by financial means. Still, a comprehensive governmental subsidy system is impeded by the idea that legislation for the different sectors must point out those activities that are practical for associations to apply and only after this may these activities be subsidized.

According to this, education and social sectors use more financial subsidies to motivate cooperation between LGs. In the case of elementary schools and child care, extra financial support is available if they are operated by associations, but they must only work in forms determined by the law. Consequently, in last few years, new associations were formed only in these two sectors. *Unfortunately, the preferences of state policy are confused. Subsidies for LGs with small populations and without association compete with the above mentioned extra subsidies given to associations.* For example, in the education sector within Baranya County during 2000, LGs received 2.8 times more supplementary subsidies because of size rather than because of their operating in association. There is no professional or efficiency criterion that should be necessary for receiving financial support.

One of the basic requirements for cooperation and joint running of public institutions is *accessibility*. *School buses* may increase better commute to joint schools. The CG promoted buying school buses during the mid-1990s. Utilizing this incentive, municipalities bought 128 school buses in 1996. This amount provides services for one quarter of the joint school associations and effected 304 LGs. However, the grant was only offered for investment. Municipalities have experienced a lot of difficulty in maintaining the service. They needed support for the running expenditure of the school buses too. Instead of extension of support, the CG stopped this kind of incentive. [Halász, 2000]

Delegation of competencies to district centers is a tool for the state, but it can increase the efficiency only of public administration. The district centers obtain supplementary subsidies also. We mention here again the differentiated subsidy system for joint LG offices.

In Hungary, there is a kind of financial support handling the issue of LGs that, through no fault of their own, get into a critical financial situation. One of the key selection criteria for applicant LGs is their use of the potential capacity of local public facilities (such as kindergartens or schools). The regulation gives different requirements for municipalities above and below 3,000 inhabitants. For the former, the rate of use

should exceed 70%. The threshold for smaller municipalities (in 2001 and 2002) was 50%. Another criterion is related to the compulsory existence of joint offices or membership in associations by municipalities below 500 citizens.

Since 1997, the state introduced an indexing system for the average level of costs of the institutions differentiating according to the size of the LGs. This is the basis for judgement of the applications. Year after year, less divergence from the average level is accepted. So, the greater the difference from the average, the smaller the state subsidy a LG can receive. If the expenditures are higher than 110% of the LGs average expenditure, support is decreased. If the expenditures are lower than 90% of the national average, support is increased.

The first problem with this legislation is that it came too late. The second problem is that the limit of compulsory formation of association (500 inhabitants) is too low. Moreover, it opposes with the paragraph stipulation stating, in the case of LGs with populations under 1,000 it is recommended they form joint offices. Larger LGs are preferred for this kind of subsidy.

Table 2.20
Support for LGs in Handling Financial Problems Caused Through
No Fault of Their Own

| Categories | Supported Applications | | Amount of Subsidies | |
|-----------------------------------|------------------------|----------|---------------------|----------|
| | Number | Rate [%] | [Million HUF] | Rate [%] |
| Below 1,000 Inhabitants | 779 | 57 | 3,066 | 25 |
| 1,000–5,000 Inhabitants | 454 | 33 | 3,736 | 31 |
| Above 5,000 Inhabitants | 21 | 2 | 330 | 3 |
| Villages | 1,254 | 92 | 7,132 | 59 |
| Towns | 103 | 7 | 4,158 | 34 |
| Towns with the Rights of Counties | 1 | 0 | 180 | 1 |
| Counties | 13 | 1 | 726 | 6 |
| Total | 1,371 | 100 | 12,196 | 100 |

SOURCE: Puskás, I., 2000. p.124

While 7% of applications come from towns, they received 34% of this subsidy type in 1999. The preference for towns is explained by their more differentiated tasks. They will need extra subsidy until the delegation of competencies becomes less concentrated. [Puskás, I., 2000]

4. SUMMARY OF THE DEBATES AND SUGGESTIONS REGARDING THE SIZE OF LOCAL GOVERNMENTS AND THE CONFLICTS THAT EMERGED FROM FRAGMENTATION

4.1 Suggestions for Slowing Down Fragmentation and Creating an Optimal Pattern for LGs in Regards to Their Size

Suggestions for the criteria for establishing a new LG are based on the legal philosophy stating that, during the second decade of the new local governmental system in Hungary, the reference to the forced amalgamation of communities during the communist era provides no reason to split up any more LGs. Establishment of a new LG must meet serious requirements in order to hamper further fragmentation of the local governmental system.

A dialogue on the issue, prepared by the Ministry of the Interior (2001), summarizes the possible ways to develop LGs. The opinions represented in this paper's debate deal with this question. According to the paper: The precise content for the right to establish LGs must be determined by the Constitution. The rights that entitle every voter in every local community are the following:

- the right to directly elect their representative body and mayor;
- the right for referendum;
- the right to own property, their own budget, state subsidies and local taxes;
- the right to decide on and regulate local public affairs.

Despite these, the tasks and authorities of LGs must be differentiated and determined according to their potential.

Nevertheless, it is necessary to decrease the fragmentation of LGs. For instance, small areas where located businesses with huge incomes are not allowed to separate from their town and form a new LG. The solution for the LGs with declining populations and weak self-governing potential is to join another LG. There is a belief that the formation of a common representative body should only be induced in areas with a fulltime mayor with a population limit of 1,000, this later became 1,500 inhabitants.

The opinions connecting to the official opinion further strengthen the suggestions. [Debate About the Local..., 2001] The right to establish an LG is considered a significant achievement but, again, the opinion is that those under a certain population size should not be able to establish an independent LG, only a joint representative body. The paper prepared by the Ministry of the Interior, suggests the minimum limit should be 1,000 inhabitants but others consider this too high, suggesting the minimum be 500 inhabitants. In order to strengthen local identity, the category of joint LGs would be extended to some districts of towns that possess their own identity.

Others emphasize the necessity of differentiated provision of tasks and authorities according to the size of LG. For example, it would be possible to differentiate between villages with a population between 500–1,000, over 1,000, small towns and large towns.

The compulsory formation of joint offices above 1,000 or 1,500 inhabitants was also followed by debate. However, more opinions were in favor of it rather than against it. Besides the minimum population limit, it was necessary to define the maximum number of LGs that can join offices. According to experience, the administration of 3–4—according to others, 7—LGs can be performed collectively. [Debate About the Local..., 2001]

Besides population size, further criteria were drawn up. According to a decision by the Constitutional Court, the availability of the financial assets necessary to operate an LG cannot be criteria of establishment of a new LG. According to E. Pfeil (2001), the new LG should prove the possession of its own institutional background for performing basic and obligatory tasks. So, it should be determined that the LG, that wants to split, will be able to perform its future obligatory tasks—accomplished commonly before—in to proper degree or will perform them in an other way (i.e. involving the economic or social sphere). The other criterion, according to the suggestion, is the verification of the existence of a local society through the presence and strength of civic organizations in the given communities. Finally, there remains the existing criteria for the method of property sharing and calculating a budget for the new LG.

4.2 Amalgamation, Political Integration and Functional Cooperation

No one in Hungary considers amalgamation of LGs as a political alternative. One reason for this is that the strained rigidity of the formation of districts is still living in the memories of the people. In spite of this, the opinion that larger local governmental units should be created annually reappears. This is especially in the case of providing physical public services (like transportation, water supply, waste handling) and representing territorial interests on higher levels. The opinions against it emphasize that the different services have different optimal spatial units and the amount of money saved—as these are the smallest LGs is not significant. [Hermann Z., Horváth, M.T., Péteri G., and Ungvári G., 1998] The strongest barrier for amalgamations, which entails disappearance of settlement names, is increasing local identity. This is why, in the present reform of the public administration, value is placed on local communities staying in the center of the LGs system and this value must be preserved.

For the formation of a common representative body, this means political integration,²⁰ the situation has also not matured. Only in special cases are LG's willing to give up their autonomy. Although legislation made the formation of common representa-

tive body possible, there are rarely any examples of it. Despite this, the integration concepts are formed during the conception of the public administration reform.

The most realistic type of integration is to strengthen LGs functional associations. In Hungary today, there are more than 200 small regional spatial development associations and thousands of other local governmental (administrative) associations operating at a small regional level. The situation is more confusing if we consider that the role of small regions in the vertical system is unclear and relationships at the community level and within the regions are not regulated. This confusing situation is the result of a permanent adjustment to small regional organizations according to the actual redistribution policy. The most chaotic characteristics of the system: 1. the mixture of functions and authorities at both the vertical and horizontal level, 2. spatial patterns that do not match each other. Consequently, these two problems must be solved in order to strengthen functional integration between LGs.

There is a suggestion to form the state policies that will introduce and expand on the models of multipurpose associations. These multipurpose associations could guarantee transmission of a more integrated local development policy and efficient operation of public services, organized over a bigger territorial base and achieving higher quality than currently. The supported model of associations should fulfil criteria such as the following:

- established by a minimum of 3 and a maximum of 10 LGs;
- population size within their territory should be higher than 2,000;
- they are engaged in basic education, social care, maintaining local roads, handling waste materials, settlement development and zoning.

Subsidies for distribution of services should be based upon a cost-benefit analysis determined according to the action plan for development of the public administration.

According to some, local governmental competencies should be reorganized into separated organizations (local governmental associations), each with the same authority as authorized to the LGs themselves for the given task. Others think that this is an infringement on governmental autonomy and do not agree with this solution. The law has closed this dispute. Since 1997, the modified Act on Local Governments now provides the opportunity for local governments to delegate competencies to their associations and the Act on Association of LGs makes it possible to form associations with the inclusion of a legal personality. This legal person may have properties and undertake any obligation in order to implement its tasks and provide services to its member communities. Its decision maker body is the associative council. [Fürcht, P., 1998]

4.3 Voluntary and Forced Formation of Associations

The idea of obligatory formation of associations emerged in regards to joint LG offices. During the former parliamentary cycle (1994–98), a proposal on alterations of the Constitution was prepared. This was ultimately refused by Parliament. This proposal included creation of an institution of obligatory joint offices. For their introduction, a modification of the Constitution is necessary. According to the paper, produced by the Ministry of the Interior in 2001, the formation of joint offices would be compulsory, firstly under 1,000 inhabitants, later under 1,500 inhabitants and the possibility to employ a full time mayor would be connected to the joint offices. Beside this, the compulsory formation of association was considered possible in case of certain obligatory tasks financed by central budget.

There is agreement on the necessity of LG stimulation to form larger supplied areas but indirect means are preferred. Such indirect stimulation can be as follows:

- normative subsidies according to village population in relation to the town or according to the number of inhabitants supplied;
- more significant and complex subsidization of multipurpose associations.

The principles of voluntary versus obligatory formation of associations are not totally exclusive. The voluntary principle can be considered the main rule but the obligatory principle, requiring a two-third majority decision, within the legislation can be applied in a few cases too. [Fürcht, P., 1998]

4.4 One and Multicolor Patterns of Association

There is a debate about the question of whether simplification of local governmental integration, by creating one organization responsible for all common tasks, is an achievable and correct solution. This type of organization would improve the comprehensible arrangement for a spatial system of task provisions. Still, it is recognized that different tasks have different spatial divisions. What is more, these change over time. Moreover, besides LGs, other actors are emerging both in local services and in local development. Public-private partnerships require small regional institutions, more than public administration. It is clear, that local governmental associations, or de-concentrated state organizations, are not able to undertake tasks organized by small regional development associations in a bottom-up process and based on wide social participation. Nor can they integrate economic and civic actors in order to mobilize local resources for local development. They are not able to manage integrated local development, in the first instance, due to their purely local governmental membership and, in the

second instance, because of the waning interest of the state and its bureaucratic manner. State governmental, self-governmental integrated associations and development action groups are also necessary for effective development. A flexible system involving more types of organizations is needed. They might form a multicolor pattern of associations, which means more types of associations with several purposes, more types of LGs and those including, not only LGs, but private persons and businesses as well.

There is an interesting pilot project managed by the local governmental development association for the town of Siklos and its surrounding communities. Within this project, a complex small regional public-service system is under formation. They set up an organizational and operational framework for collective performance of regional development, economic development and public administration tasks as well as making a pioneer attempt to unify administrative and regional development associations working in the same small region. [Csefkó F., 2001]

It is an important element lacking in the present legislation that no form of association has been made suitable to receive members of the private sphere, such as representatives of civic organizations or businesses. This critique is made especially in regards to associations with a legal entity being financed by the central budget. The situation of local development associations acting outside the Act of Local Governments is rather problematic, since the principle of partnership should be determinant in their operation. It can be useful to consider the admission of social and economic players into local governmental associations based on public law, since getting under social and state control would become suitable for functions not exploited before. The limited admission of chambers, economic associations and civic organizations into certain types of associations should happen while maintaining the dominance of the public sphere. In this regard, it is a frequently attempted method in Western Europe to allow private actors or representatives to possess a maximum two-fifth of the votes.

4.5 Differential Delegation of Competencies and Financing

Every function allotted to local governments has a geographical attractive zone, i.e. the zone influenced by the settlement as a “central place” for the area. Presently in Hungary, these zones have been reduced to the level of local communities or counties.

Revision of the issuing of tasks and authority is a general requirement for experts dealing with this topic. Beyond raising the questions about task sharing between the state and the LGs [Csefkó, 2000; Kara, 1999], there is a central question on task sharing amongst LGs: Differentiation of delegation of competencies and financing would be possible according to the Act on Local Governments, but it is rarely used in

practice. The concept of differentiation of competency delegation and financing offers, to form a more sophisticated system where different functions have different geographical attractive zones based on size. Bigger units get the power and tools (from the state) to provide services for smaller ones. In this case, LGs in the service centers are responsible for the smaller units, too. Of course, we speak only about obligatory tasks. In the case of optional tasks, the local government should decide to maintain its own institute or create association with others. (In this instance, inhabitants living in smaller units may miss those services.)

P. Fürcht (2000) suggests differentiating between LGs in towns and villages when their competencies and public tasks are delegated. According to him, village government must provide the public services that are necessary for living there (roads, healthy drinking water, public light, electricity, gas works, and local administration for daily life, etc.) For other services sector models should be worked out. According to this, there can be three types of task-delegation:

- local provision of tasks, where population and capacity make it possible;
- provision of tasks through LG associations (voluntary or, if the Constitution makes it possible, in the case of certain obligatory public services, compulsory ones);
- through towns, in case the town supplies services for the surrounding communities according to the sector model. (In this case, towns would get financial resources directly from the central budget or the villages would contribute to funds under a contract that guarantees accountability. Both individual LGs and their association could be the contracting partner of the town.)

By allotting public services to the towns, 65% of the whole population obtains the services locally and an additional 35% living in nearby villages. [Fürcht, P., 2000. p.536]

J. Németh (1999) considers the role of the cooperation of neighboring villages (these can be define as micro-regions) very important. Z. Kéki (2000) differentiates three types of task and authorities:

- 1) sham tasks and authorities: These are in the Act of Local Governments, but never supplied because of lack of demand, financial resources, or other possibilities based on the size of the LG. (For example: provision of new flats, public transport, fire protection, public security, financing scientific public social, art and sport activities);
- 2) tasks and authorities without means: These are provided, but not by the LG itself, rather by other actors; (for example: nursery schools, primary schools and health care)
- 3) wandering tasks and authorities: These can be transferred to the county government; (for example: secondary schools, hospitals)

According to these types, the following suggestion was drawn up for the designation of tasks and authorities:

Table 2.21
 Suggestion for Differentiated Delegation of Competencies
 (According to the Opinion of Chief Executives in County Capitals)

| Level of Administration | Title of the Tasks and Authorities |
|---------------------------------------|--|
| 1.1 County Governments | |
| | <ul style="list-style-type: none"> • The maintenance of institutions operating on the local level exempting districts and county centers • The maintenance of museum centers and National Archives • Homes for the elderly • Children’s homes • Youth houses • The maintenance of other institutions supplying special tasks • Co-ordination of regional development • Passing zoning plans for the county <p>What are still questioned:</p> <ul style="list-style-type: none"> • Maintenance of resources centers • Offices of dues (Tax Office) • Civil defense (State Agency) • National defense (State Agency) |
| 1.2 Local Governments for Communities | |
| 1.2.1 County’s Central Towns | <ul style="list-style-type: none"> • The maintenance of resources centers • The maintenance of institutions supplying regional tasks • Optional tasks designated by the county government • Regional co-ordination • Maintenance of social institutions (home for the elderly, youth houses) • Supporting artistic activities • Supporting scientific activities |

Table 21
Suggestion for Differentiated Delegation of Competencies
 (According to the Opinion of Chief Executives in County Capitals)

| Level of Administration | Title of the Tasks and Authorities |
|-----------------------------------|--|
| 1.2.2 Local Governments for Towns | <p><i>Small Regional Centruns</i></p> <ul style="list-style-type: none"> • The maintenance of educational institutions supplying small regional tasks (secondary schools, hostels) • Small regional co-ordination • Civil defense in small regions • National defense in small regions • Fire protection and rescue operations in small regions • Tourist tasks in small regions • Local public transport • The maintenance of certain institutions (homeless shelters, child protection, nurseries, day-care, family services) • The operation of sewage cleaning plants • Co-ordination of economic development <p><i>Towns</i></p> <ul style="list-style-type: none"> • Housing • The operation of a foster-parents network |
| 1.2.3 Villages | <p><i>With populations between 1,500–2,000</i></p> <ul style="list-style-type: none"> • Participation in public security • Maintenance of primary schools • Supporting general education and sport • Maintenance of nursery school • Maintenance of space for life long learning • Mayoral office or joint LG office • Building up sewage system <p><i>With populations below 1,500</i></p> <ul style="list-style-type: none"> • Primary schools • Nursery schools • Healthy drinking water • Social aid • Public lighting |

Table 2.21 (Continued)
 Suggestion for Differentiated Delegation of Competencies
 (According to the Opinion of Chief Executives in County Capitals)

| Level of Administration | Title of the Tasks and Authorities |
|-------------------------|---|
| | <ul style="list-style-type: none"> • Public roads • Public cemeteries • The enforcement of national and ethnical minorities rights • Settlement physical planning, settlement development • Environmental protection • Drain pipes • Maintenance of public spaces • Basic health care • Basic social care (meals provision or helping system at home—in association, through enterprises or by their own institutions) |

NOTE: The tasks of the higher level contain the task of the lower levels, of course.

SOURCE: Kéki, Z., 2000. pp.161–162.

5. CONCLUSIONS

Within the framework of a highly fragmented Hungarian local governmental system, the following connections can be made between the size of the LGs and local administration, the distribution of public services, local democracy and local development:

- In local public administration:
 The competence and efficiency of public administration is in direct ratio to the size of the LG. That's why, in the case of LGs with populations under 1,000, legislation stimulates formation of joint offices and the idea of compulsory formation of joint LG offices was taken seriously. However, due to the unprecedented autonomy of Hungarian LGs, a two-thirds Parliamentary majority is required to modify the legislation necessary to change this situation.
- In operation of local democracy:
 According to the local media and activity during political elections, communities with a population above fifty thousand and below two thousand show the liveliest local society. In the latter case, the most likely reason for this is the strength of the informal structures. While in the former case, it is likely the provision of the spiritual and technical resources necessary for operation of local publicity and public life.

- In the provision of local public services:
The principle of economy of size prevails in the case of public services. Due to the enormously high rate of wage-cost for services, the efficiency of the services depends on the number of people supplied and it changes in direct ratio to that.
- In local development:
The factor influencing local development, rather than the size of the LG, is the location and distance from the core of regional development and the level of regional development. Directly after the political changes, development activity in the smaller LGs was stronger than in larger ones. This can be explained by the “compensation” of the infrastructure developments which formerly had not occurred.

Today, it is widely accepted that the fragmentation of the local development system has hampered the taking of further steps. Demands for public services remain unsatisfied in certain areas while, in other areas, solutions leading to the waste of resources were carried out. But the formation of common LGs, for political reasons, cannot be the solution. Attention has turned toward associations. For these, there are reasons for both the obligatory as well as the voluntary associations. Besides the stimulation of associations and, in certain cases, the enforcement of them, the most important future duties are creating more strict legislation for formation of new LGs, the differentiated delegation of local governmental competencies and the geographical harmonization of public administrative spatial units. Suggestions summarized in section IV are related to the following propositions for these problems:

- 1) Give up the strong attachment to locality and settlement boundaries in order to find an optimal territorial framework for local services, local society and local development. In many terms, small regions function as a locality.
- 2) Harmonize the spatial division of top-down districts and bottom-up associations based on regional identity, but it should not mean unification. Territories of several organizations and the statistical districts should fit but not necessarily be equal to one another.
- 3) Because of the extremely large size of statistical smaller regions with big cities (especially county capitals), there is a need for typology which should be the basis for programming and redistribution of financial resources.
- 4) Create criteria for establishing new LGs connected to population size (more than the presently required 300 inhabitants) and some additional indicators (capacities, civic organizations ...). However, it should be kept in mind that even the authors of this proposal do not agree on the extension of these criteria to existing LGs.
- 5) Compulsory formation of joint offices and provision of a full time mayor only to populations above 1,000 or 1,500 inhabitants and as would be necessary. This is included in the national plan for developing public administration.

- 6) Strengthen the functional associations of LGs: clear functions and authorities on both vertical and horizontal levels, spatial patterns that fit to each other.
- 7) Form a state policy to introduce and extend the models of multipurpose associations.
- 8) Create normative subsidies for provision of small regional services. For example, according to village population in relation to its town or according to the number of inhabitants supplied
- 9) State governmental, integrated self-governmental associations and development action groups should all be taken into consideration and develop a flexible system for them.
- 10) Involve the representatives of local, social, and economic spheres in small regional associations in order to encourage partnership development.
- 11) Delegate different competencies and functions to different sized communities
- 12) The Local Government Act defines cities with county rights as a type of local government. Instead of a separate entity for such municipalities, there is a need to formulate rules for cooperation between bigger cities and their surroundings. Legislation should deal with this issue.
- 13) In some areas, such as regional development, legislation should accept a wider concept of cooperation between localities. Beside municipalities, local citizens, civil organizations and enterprises should be allowed to join relevant local associations.

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NOTES

- ¹ Constitution of Hungarian Republic.
- ² Act on Local Governments.
- ³ Act CXXXV of 1997 on Associations and Co-operation among Local Governments.
- ⁴ See a detailed explanation in chapter III.
- ⁵ Regional policy wanted to create a stronger city network, which would be able to absorb migration from the villages and stop the inadequate growth of Budapest.
- ⁶ Expenditure oriented budgetary planning: The base for planning is the accepted level of expenditure. Local councils had own revenues. Central government ensured the difference of expenditure and own revenues by state grants.

- Revenue oriented budgetary planning:* LGs have own revenues, shared revenues, state transfers allocated on normative base and transfers from other LGs and/or NGOs. LGs have access to credit too. Each LG's expenditure cannot exceed its total revenue.
- 7 "a" point of the 5th paragraph of the Act of XXI on Regional Development.
 - 8 Act No. III. in 1993 on Social Provision. (Note: Higher categories include all mandatory functions of lower categories.)
 - 9 Act on Local Government 69. §. Paragraphs 1–2.
 - 10 In villages with more than 5,000 inhabitants the number of kindergartens has fallen by 40 percent. The real decline is much lower because a major change in this category has occurred from the changed position of 40 villages (one third of villages in this size category), who received city status during the 1990s.
 - 11 Figures from the smallest villages are not relevant for comparison because of the 298 villages in this category, only 2 have kindergartens.
 - 12 Figures of the smallest villages are not relevant for comparison because of the 298 villages in this category, only 2 have primary schools.
 - 13 According to surveys conducted by MTA RKK in Szolnok, Kisújszállás, Gyomaendrőd, Kalocsa, Mátészalka.
 - 14 Households and firms directly contribute to utility investments through utility associations. The share of their contribution is usually around one third of the total investment budget.
 - 15 Bódi Ferenc, 1992: The enterprise supporting policy of the local governments in Borsod Abaúj Zemplén County. Spatial research in County BAZ. MTA RKK ÉMO.
 - 16 The counties in the middle of the regional hierarchy were, on one hand, the stretched arms of the state which transferred the central decisions to the towns and villages. On the other hand, they represented the interests of the communities to the State. The county council controlled the local councils in two ways. The county council was the second-grade authority in public administration affairs and, what is more, it was the county council that reallocated the development resources taken from taxes.
 - 17 According to the Act CXXXV of 1997 on Associations and Cooperation among Local Governments.
 - 18 According to the Act XXI of 1996 on Regional Development.
 - 19 Representatives are elected from separate lists set up by communities, but they form a common body.

Separate Existences Above All
Else—Local Self-Governments and
Service Delivery in Slovakia

Jaroslav Kling

Viktor Nižňanský

Jaroslav Pilát

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Separate Existences Above All Else —Local Self-Governments and Service Delivery in Slovakia

Jaroslav Kling, Viktor Nižňanský Jaroslav Pilát

1. INTRODUCTION

1.1 Development of Public Management Since 1989¹

Prior to 1990, public administration in Slovakia was managed through a three-level network of the *národný výbor* (national committees)—*miestny* (local), *okresný* (district) and *krajský* (regional). These committees represented the state's power; they were the bodies of state administration as well as of economic management. The lower level depended upon both the higher level and the central government. In 1990, these committees were abolished and the reform of public administration in Slovakia had begun.

With the acceptance of Municipal law no. 369/1990, public management in Slovakia split into elected local self-governments and state administration. At this time, a dual model of public management was introduced with one, municipal, level of territorial self-government.

Until 2001, further developments in public administration reform were purely related to reform of the state administration, with some amendments to Municipal law. Firstly, in 1990, the *kraje* level of state administration was canceled and a new level, subordinated to *okres* (district) level, was created called *obvod* (sub district). The territorial units of state administration in Slovakia from 1990 to 1996 included 38 districts and 121 sub districts.

Secondly, in 1996, the territorial structure of state administration changed. The sub districts were revoked and the number of districts increased to 79. An interim tier of local state administration was created. Eight regions (*kraj*) were then established. Political pressure during creation of new districts resulted in disproportionably large districts. During this period, the difference between the largest and the smallest districts was 150,000 inhabitants (the Nitra district—163,419 inhabitants vs. the Medzilaborce district—12,597 inhabitants in 2001). Although the number of district offices increased in comparison to the previous division, they did not cover the

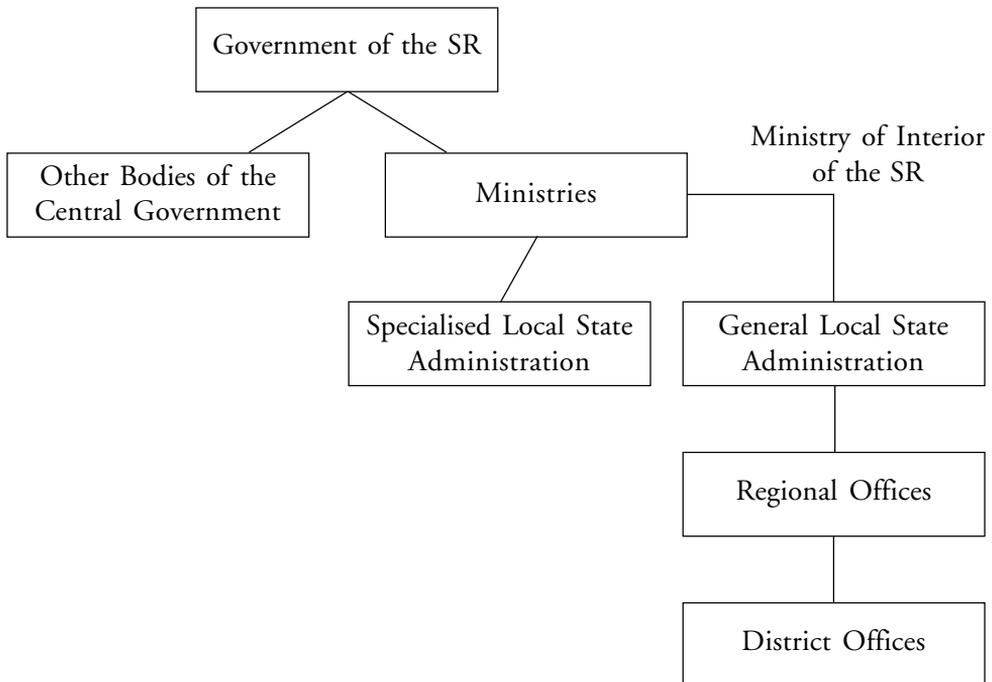
entire territory of Slovakia proportionally. Besides the district office seat, another 43 permanent and temporary district offices were created.

After the 1998 elections, the attention to public administration reform turned towards territorial self-government. In 1999, a government Plenipotentiary for the task of decentralization and reform of public administration was appointed. The group of experts elaborated upon the concept of decentralization of public administration. After several obstructions and delays in the launch of the decentralization project, due to the lack of consensus amongst politicians within the wider government coalition, the necessary laws were only approved in 2001. Since January 1, 2002, there are eight self-governmental regions (*samosprávny kraj*) in Slovakia.² In September 2001, the Parliament adopted the act that defines the scope and timeline for competencies to transfer to territorial self-government.

1.2 The Current Form of Public Management in Slovakia

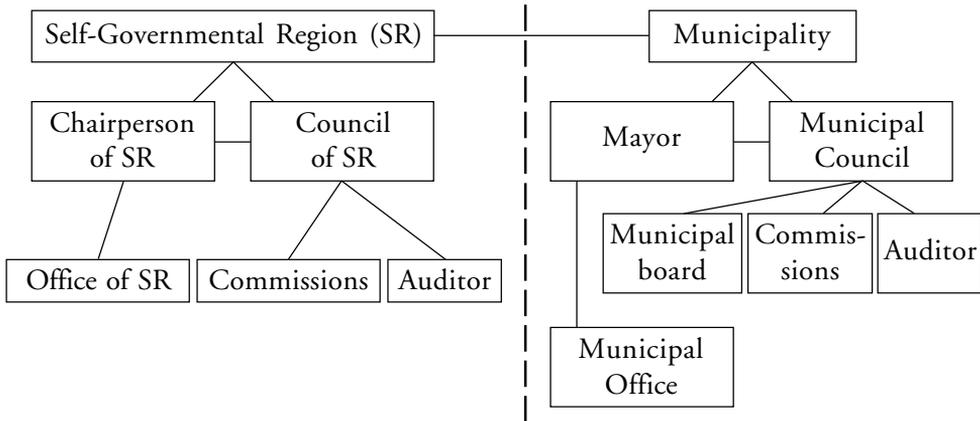
1.2.1 State Administration

Figure 3.1
Structure of State Administration in Slovakia



1.2.2 Territorial Self-Government

Figure 3.2
Structure of Territorial Self-Government in Slovakia



Municipality is the foundation of territorial self-government in Slovakia. In compliance to the Slovak Constitution (Art. 64), the two basic self-governmental territorial units are: municipalities³ and higher territorial units (self-governmental regions). In Slovakia, all municipalities are technically equal. The scope of competencies is the same for any size of local self-government. The law specifies the certain conditions when a village may be declared a town. The only municipal size-category regulated by the special law is over 200,000 inhabitants (i.e. the Act on the capital of Slovakia, Bratislava, and the Act on Košice). These two cities have special systems of local self-government. Bratislava consists of 16 sections (*mestská časť*), all with the status of local self-government and there is also an entire local city self-government body (*magistrát*) above them. The structure in Košice is similar to that of Bratislava. There are 22 city sections in Košice.

Table 3.1
Structure of Local Public Administration in 2000

| | | Number of Units | Population | | Average Territory [km ²] |
|----------------------------|---------------------------|-----------------|------------|-----------------|--------------------------------------|
| | | | Average | Range | |
| Local Self-Government | Municipalities | 2,883 | 1,874 | 2–447,345 | 17 |
| | Self-Governmental Regions | 8 | 675,318 | 551,441–787,483 | 6,129 |
| Local state Administration | Districts | 79 | 68,387 | 12,597–163,419 | 621 |
| | Regions | 8 | 675,318 | 551,441–787,483 | 6,129 |

SOURCE: Statistical Office of the SR.

1.3 Division of Competencies Within Public Management

1.3.1 State Administration

The *regional offices* and *district offices* exercise state administration at the regional and district levels. These offices deliver services provided by the state. In Slovakia, state administration delivers a vast majority of services in the categories of education, health-care, social welfare, environmental issues, cadastre, registry of enterprises and business licenses, etc. These services are administered in the district and regional offices. Individual branches, responsible for the state administration exercised by these offices, are methodologically run by the respective ministries. The Ministry of Interior plays a coordinating role in local state administration and other ministries related work. District and regional offices are appealing bodies for the administrative issues of territorial self-governments. They can also assist territorial self-governments in delivery of their services. The networks for special offices in individual branches of state administration (tax offices, military offices, fire departments, etc.) are further bodies of local state administration.

1.3.2 Territorial Self-Government

Municipality

The major purpose of a municipality is to take care of the municipal territory's development and the needs of the citizenry. A municipality's territory can consist of one or several cadastral territories. The central government can found, cancel, divide or join municipalities. Such an act can be performed only upon agreement by the municipality and the respective regional office. Along with exercising other self-governmental functions, the municipality carries out activities related to proper management of municipal property and state property left for the municipality's use. The range of competency for local self-governments is not very wide. Practically, the services that are fully, and exclusively, provided by local self-government include; municipal road management, municipal waste management, development of municipal territory (construction of municipal facilities and development of municipal property), territory management and green areas, local public transportation and public lighting. The services which may be, or may in part be, delivered by local self-governments include; water works, gas works, sewage systems, environmental issues, culture, sport, other leisure time activities, healthcare, social welfare and education. Generally, these services are delivered by the state administration. Local self-governments also deliver some services delegated to them by the state administration (such as residential registry, building permits, etc. Local self-governments can issue ordinances and have their own municipal police to secure

public safety.⁴ In reality, not every municipality carries out all the services listed due to lack of capacity (the smallest municipality consists of only two people, see section 2).

Municipalities also carry out founding and some economic and managerial functions in some areas decentralized in 2001, from the state administration level down to local self-government. The areas are as follows: water management, social services, education, culture, healthcare, regional development and tourism.

Self-Governmental Region

Beginning in 2002, an interim tier of territorial self-government functions in Slovakia. The self-governmental region individually manages its own property and own revenues. The territory of the self-governmental region is identical with the territory of the region (*kraj*), a state administrative unit. It cooperates with other state bodies, other self-governmental regions, municipalities and other legal entities. The relationship between the self-governmental region and municipalities is not based on the principle of subordination, but partnership. The self-governmental regions have competencies primarily in the area of conceptualizing and planning projects for individual branches of social life. Firstly, the competence transferred to them concerns regional development. The self-governmental regions mainly create the conditions for development of environmental protection, education, healthcare, social welfare and culture. They are allowed to issue ordinances on the matters concerning local self-government. The relationship between regional self-government and state administration is based on partnership, not subordination. Self-governmental regions also carry out founding economic and managerial functions for some areas decentralized in 2001 (Act no. 416/2001) from the state administration level to the local self-government. The areas are as follows: road management, transportation, social services, education, culture, healthcare, regional development and tourism.

1.4 Political Mechanisms for Public Management Operation

Concerning the political mechanisms within public administration, the two divisions of public administration, state administration and local self-government, must be differentiated. Basically, state administration is appointed and local self-government is elected.

1.4.1 State Administration

The operation of all state administration bodies depends upon the results of the parliamentary elections. The elected political parties then appoint leadership for the

central bodies as well as the leadership of local state administrative bodies. This principle creates low accountability on the part of state administration bureaucrats, who are basically only responsible to their nominating political party. In the summer of 2001, the Slovak Parliament adopted an Act on state service that specifies the legal parameters for state administrative positions, the qualification requirements and the terms of state administration employment. It hoped to eliminate the present strong influence of political affiliation in the process of accepting candidates for state administrative positions.

1.4.2 Territorial Self-Government

Political mechanisms, for the operation of local self-government, stem from the Constitution. The determining factor is the principle of election.

Municipality

The municipal council and the mayor are the two municipal bodies. The *municipal council* (*obecné zastupiteľstvo*) consists of the councilors, elected for four years in direct elections by the residents of municipality. Prior to this date, the municipal council specifies the number of councilors elected for the next elections. There are a maximum of three councilors in municipalities up to 40 inhabitants. Municipalities over 100,000 inhabitants have usually 23 to 41 councilors. In Slovakia, municipal elections are based upon the majority electoral system. There are multiple mandate election districts, within each municipality, for municipal councilors elections. The number of mandates for each particular district depends on its population. The maximum number of councilors elected in one election district is 12. The municipal council is a decision-making body seeing to the basic areas of the municipal life.

The *mayor* (*starosta/primátor*), elected in direct elections every four years, is a highest executive body of a municipality. For mayoral elections, each municipality forms one a one-mandate election district. The majority electoral system also applies to mayoral elections. The Municipal law also specifies the terms and conditions for removing the mayor from office before the end of his/her term.

Political mechanisms at the local self-government level are almost exclusively ruled by the principles of the electoral process. Certainly, the political orientation of the elected representatives is important at this level too. At the municipal level, political influence is significantly lower than at the national level. The municipal issues being addressed very often yield to political interests.

The local self-government is managed by its elected representatives. The options for removal of a mayor are quite clearly stated in the Municipal law. Incidentally, the

municipal councilors cannot be removed due to low quality of his/her work prior to the end of their term.

Self-Governmental Regions

The council of the self-governmental region and the chairperson of the self-governmental region are the bodies of the regional self-government.

The *council of the self-governmental region (zastupiteľstvo samosprávneho kraja)* specifies the number of councilors to be elected in the next elections, based on the specifications of 12,000 to 15,000 inhabitants per one councilor. Elections to this body have the same rules as municipal elections.

The *chairperson of the self-governmental region (predseda samosprávneho kraja)* represents it. He/she is its statutory body. Act no. 302/2001 specifies the conditions of his/her removal prior to the end of the term. The election of the chairperson is different than election of the mayor. The candidate who receives plus 50% of the votes in the direct elections becomes the chairperson. If none of the candidates pools this number of votes, the two most successful candidates advance to the second round. In the second round, the candidate with majority of votes becomes the chairperson. The regional self-government body's terms are four years.

1.5 Financial Mechanisms for Public Management Operation

1.5.1 State Administration

The state budget is the funding source for the state administration's central bodies and the regional and district offices. Individual branches within the district and regional offices are financed through the budget chapter of the respective regional office. In 2001, the government came to the decision to decrease the number of budget chapters. The regional offices chapters will be abandoned. The local state administration was to be financed through the chapter of respective ministry or the Ministry of Interior of the SR. Later on, the entire system shall be revised by the Act on the state treasury.

1.5.2 Territorial Self-Government

Municipality

The municipality funds its needs primarily through its own revenues, state subsidies and other sources. Major sources of municipal revenue are:

- a) Share in the state tax revenue: The funds from the state tax revenue (personal income tax, corporate tax and road tax) are distributed to the municipalities in compliance with the given rules. These rules changed during the 1991–2000 period. Revenue from the personal income tax are distributed according to the population (of the municipality). Distribution of corporate tax revenue reflects the localization of the corporation. Sixty percent of revenues are distributed proportionally by population and another forty percent according to the residence of the taxpayer. Municipalities receive 40% of road tax revenues. These funds are distributed proportionally according to the population. The overall portion of state tax monies allotted to the municipalities is annually determined by the state budget (except for the share in the road tax revenues).
- b) Revenue from local taxes and local fees: The real estate tax is an exclusive municipal tax. It is calculated as a multiple of the rate for individual types of real estate given by the notice of the Ministry of Finance of the SR. The maximum multiple is as follows:
 - 1.0 In municipalities up to 1,000 inhabitants
 - 1.4 In municipalities from 1,001 to 6,000 inhabitants
 - 1.6 In municipalities from 6,001 to 10,000 inhabitants
 - 2.0 In municipalities from 10,001 to 25,000 inhabitants
 - 2.5 In municipalities over 25,000 inhabitants
 - 3.5 In the seats of the district and spa municipalities
 - 4.0 In the seats of the region
 - 4.5 In Bratislava

Local fees (taxes) include fines/licenses for: dogs; alcohol and tobacco products sale; gambling and slot machines; cash registers; car entry into the historical center of the city; taxes for lodging; advertisement; public entrance; spa and recreation; non-residential use of an apartment; public property use; air pollution; waste disposal as well as other fees.

- c) Revenues of enterprise and property ownership.
- d) Administrative and other fees and payments.
- e) Capital assets sale revenues.
- f) Revenues from provided loans.
- g) Revenues from rental of buildings and facilities, transfers from contributory organizations and transfers from the financial funds of the municipality.
- h) Donations and voluntary fundraising for municipality revenues. Besides these revenues, municipalities can have also the following revenues.
- i) Transfers and other subsidies from the state budget: Subsidies to municipalities for the provision of self-governmental services belong under this category. Until 1995, all municipalities under 5,000 inhabitants were eli-

gible for this subsidy. The subsidy was given based upon the quality of soil in the territory, as defined by the Ministry of Agriculture of the SR and the size of the municipality. Since 1996, the population stipulation dropped to 3,000 inhabitants. Further subsidies include: subsidies for local public transportation in Bratislava, Košice, Prešov, Žilina and Banská Bystrica; subsidies for completion of complex housing construction; subsidies for regional development; and other specific transfers and subsidies provided by individual chapters of the state budget.

- j) Subsidies from state funds: This category consists mainly of transfers from the State environmental fund for construction of technical infrastructure facilities (sewage, wastewater treatment facilities, etc.) Also, Pro Slovakia, the State fund for funding cultural activities, the State water management fund for supporting the construction of water supply systems and the State fund for housing development and construction.
- k) Received credits and revenue from municipal bonds.

Self-Governmental Region

The self-governmental regions mostly use the revenues from their share in state tax collections, surcharges to personal income taxes they create, and funds of horizontal leveling of self-governmental regions. In addition to these sources, self-governmental regions can use financial sources similar to municipalities. As of the time of this study, exact mechanisms for the finance of self-governmental regions do not exist.

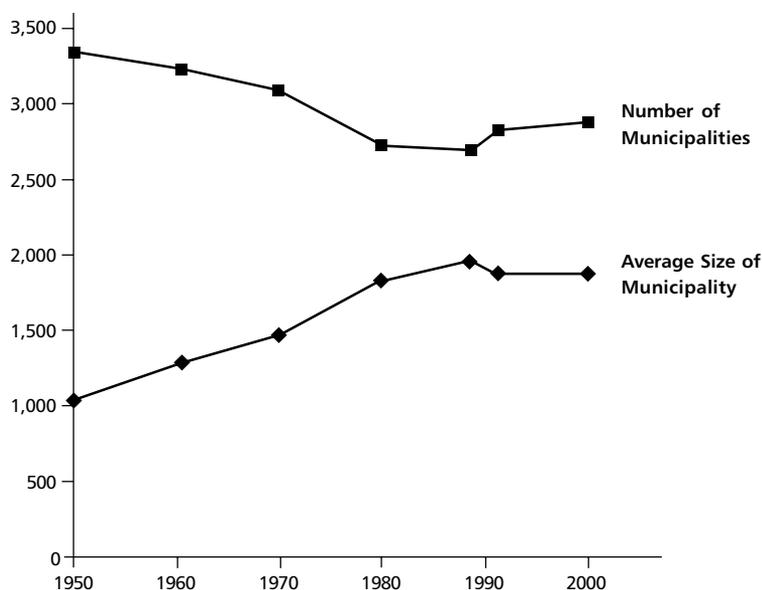
2. MUNICIPAL GOVERNMENT STRUCTURE IN SLOVAKIA

The municipal structure of Slovakia features instability and a large number of small municipalities (fragmentation). In 1950, there were 3,344 municipalities in Slovakia averaging 1,029 residents. In 1989, there were only 2,694 municipalities with an average population of 1,963. After the changes in 1989, the number of municipalities rocketed to 2,825 in 1991 (Figure 3.3).

In 2000, Slovakia had 2,883 municipalities. Of this number, 138 had the statute of city. More than two thirds of the municipalities were under 1,000 inhabitants. Over 42% had less than 500 inhabitants. A total of 123 municipalities (4.3%) had fewer than 100 inhabitants. Príkra, the smallest municipality (two inhabitants) is located in the Svidník district in northeast Slovakia.

Smížany was the village with the highest number of inhabitants (7,367 people). Besides this village, another seven villages exceeded the threshold of 5,000 inhabitants. On the other hand, Modrý Kameň was the smallest town, with a population of 1,441 people. A total of 22 towns fell into the size category of under 5,000 people.

Figure 3.3
 Development of the Number of Municipalities in Slovakia Since 1950



SOURCE: Sčítanie ľudu, domov a bytov 1993, Štatistický lexikón obcí 1961, 1970 a 1980; calculations and figure: M.E.S.A. 10.

Historically, the decrease in the number of the smallest municipalities (less than 499 people) could be observed until 1989 (Table 3.2).

Table 3.2
 Development of the Size Structure of Municipalities in Slovakia [%]

| Size Category | The Share of Municipalities in Given Size Categories | | | | |
|---------------|--|------|------|------|------|
| | 1950 | 1961 | 1980 | 1991 | 2000 |
| Under 500 | 44.6 | 35.8 | 35.3 | 41.2 | 41.5 |
| 500–999 | 30.6 | 31.5 | 29.2 | 27.6 | 27.0 |
| 1,000–1,999 | 16.7 | 20.1 | 20.8 | 18.5 | 18.6 |
| 2,000–4,999 | 6.2 | 9.9 | 10.3 | 8.4 | 8.7 |
| 5,000–9,999 | 1.2 | 1.7 | 2.0 | 1.8 | 1.8 |
| 10,000–49,999 | 0.7 | 0.9 | 2.0 | 2.2 | 2.1 |
| Over 50,000 | 0.06 | 0.06 | 0.3 | 0.4 | 0.4 |

SOURCE: Sčítanie ľudu, domov a bytov 1993, Štatistický lexikón obcí 1961, 1970 a 1980; calculations: M.E.S.A. 10.

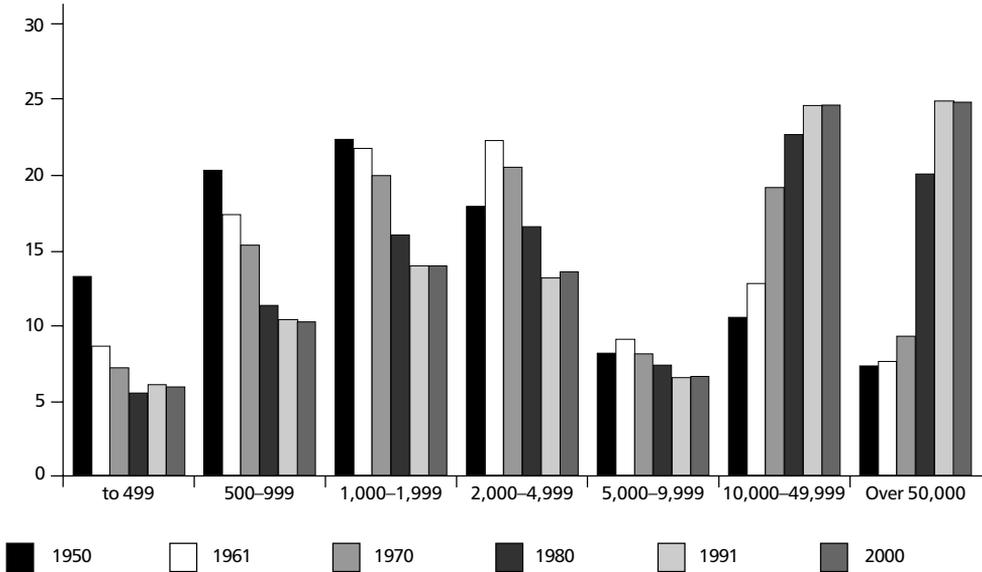
In the first post-1989 Census, conducted in 1991, the number of the smaller municipalities rose again. The process of integration can explain the rapid growth of the towns over 10,000 inhabitants since 1970. This process took place mainly during the 1970s and the 1980s in Slovakia. Similar explanations may be used for the continual decline of the smallest municipalities up until 1991. These municipalities were annexed either to neighboring towns or villages. The joint municipalities then shifted into a higher size category.

In 1950, 13.3% of the Slovak population resided in municipalities with less than 499 inhabitants (the proportion of this size category on the total number of municipalities was 44.6%). In 2000, when these municipalities accounted for 41.5% of all municipalities in the country, only 6% of population lived there. The population proportion from municipalities with less than 999 people decreased with a similarly high rate (from 20.3% in 1950 to 10.3% in 2000). All municipalities with less than 999 inhabitants represented as much as 68.5% of the total municipalities in the Slovak Republic in 2000. However, only 16.3% of population actually lived there. To the contrary, in the case of the largest size categories, the proportion of inhabitants grew more than twofold, in some cases as much as threefold (cities over 50,000 people). The municipalities in the size category 5,000–9,999 inhabitants have maintained relatively stable proportions over the last 50 years (Figure 3.4). Based upon development in the number of municipalities and municipal population, this size category seems to be the most stable element of the settlement structure of Slovakia.

Regarding the spatial aspect, several remarks can be made as to the settlement structure of Slovakia. The largest concentration of small municipalities can be found in the northeastern part of Slovakia. This part of the country is the continuous economic periphery of Slovakia. This explains also the low population within these municipalities. Another area with a large number of small municipalities is situated in the Juhoslovenská kotlina (Southern Slovak Lowlands located in the southern part of Central Slovakia). The western part of Slovakia is the opposite. Primarily medium-sized large villages and towns are concentrated here. The areas in the Vah River Valley, the Orava River Valley and central part of Slovakia have similar concentrations.

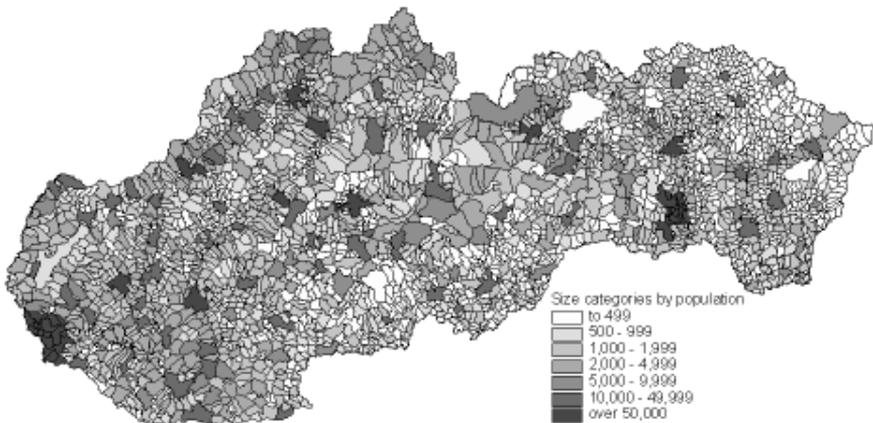
The recent shape of settlement structure in Slovakia is influenced by several factors. Firstly, it is the difficult vertical segmentation of Slovakia's terrain. Secondly, it is the historical patterns of settlement in Slovakia—various settling of the wild terrain (colonization). Later on, it was the development of economic activities and their concentration in select locations. In the second half of the 20th century, there were two contradicting processes taking place in two different societal systems in Slovakia. The integration of municipalities, during the period of state socialism was the first process. The disintegration caused by the implementation of democratic elements into management and administration of the state after 1990 was the second process.

Figure 3.4
Population Distribution Amongst Municipalities by
the Size Categories Since 1950



SOURCE: Sčítanie ľudu domov a bytov 1993, Štatistický lexikón obcí 1961, 1970 a 1980; calculations and figure: M.E.S.A. 10.

Figure 3.5
Size Structure for Municipalities in Slovakia as of December 31, 2000



SOURCE: Statistical Office of the SR 2000; map: M.E.S.A. 10

2.1 Integration of Municipalities Prior to 1990

As part of Czechoslovakia, the Slovak Republic was the agriculturally oriented section with a great deal of rural settlements. After 1948, the process of balancing the differences (inadequacy) between Czech and Slovak lands had begun. Slovakia's fragmented settlement structure was considered one of its barriers to rational development of its society. Amalgamation of villages and urbanization of Slovakia was believed to be the solution to this problem. In the 1950s and the 1960s, urbanization lagged behind industrialization. In 1970, those who lived in municipalities⁵ with populations under 1,999 inhabitants made up as much as 42.7% of the population. This situation, more or less, activated forced integration processes within cities as well as formation of the central municipalities system (*strediskové obce*). In 1972, the proposal for long-term settlement development in Slovakia was approved. It contained the list of municipalities appointed to provide central functions. Based upon this plan, 77 of municipalities with sub district status and 624 municipalities functioning as local centers (a hierarchical structure) were established. The central municipalities were to concentrate on investment activities. They were to be the gravitation points for issues of employment and education as well as the cultural and social centers for these catchment areas. Each catchment area was to contain about 3,000 inhabitants. The municipalities not appointed to be central municipalities were sentenced to a gradual decay. No development at all was allowed in these municipalities. The settlement structure continued to develop in accordance with the directives of the Project for Urbanization in the Slovak Socialist Republic, until the changes in 1989.

The two primary types of integration processes in Slovakia at this time (according to Buček, 1997) were:

- a) Via merging of villages;
- b) Via creating joint national committees for several villages.

Municipality mergers were not undertaken voluntarily. Their decision-making bodies were district national committees. Such integration exceeded all reasonable rates and the dangers of this were pointed out. Shortly after the changes in 1989, this prophesy ended up coming true as a rapid fragmentation process began. Integration via mergers meant that those municipalities that merged, or incorporated, with other municipalities basically ceased to exist as legal entities. Creation of joint national committees was considered to be a more favorable solution since then the village, as a legal entity, would not cease to exist.

Buček(1997) provides a parallel between municipal integrations and the integration of JRD (agricultural cooperatives). A system including 624 central municipalities was the final result of the municipal integrations. The JRD integration resulted in 638 organizations in 1989 as compared to 2,683 JRDs in 1960.

Overall, during those 40 years, almost 800 administrative changes within the Slovak municipalities took place. A vast majority of these changes were integration changes. Compared to 1950, the number of municipalities decreased by 650 in 1989. The most frequent type of integration process was the merger of villages, neighboring cities or larger villages. Andrlé argues that such integration accounted for as much as 33% of the overall population increase within Slovakian cities during this period. The integration processes of the 1970s and the 1980s were the largest interventions into the settlement structure in 20th century Slovakia [Matula, 1986 in Slavík, 1998]. These processes had tremendous impact on the size structure of municipalities and city growth dynamics. They caused a significant decrease in citizen participation in the process of governing and decision-making in municipalities [Slavík, 1994].

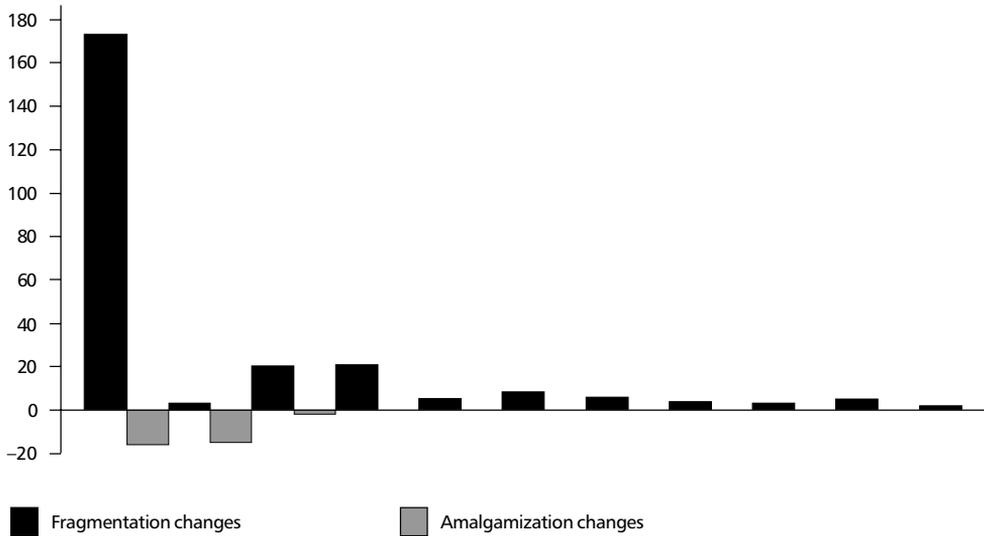
2.2 Fragmentation After 1990

The forced behavior and often irrational reasoning behind integration policies during the period of state socialism was confirmed soon after the Municipal law was approved in 1990 and the process of local fragmentation began. Still, before the Census of 1991, 173 new municipalities were created (Figure 3.6). At the same time, integration took place as well with 16 villages ceasing to exist, many attaching to other villages. Integration changes from 1991 can also be observed, with 15 municipalities that ceased to exist. At the same time, this year was the last one that integration changes exceeded the fragmentation changes. Beginning in 1993, no municipality ceased to exist (in 1992, two municipalities ceased to exist). Out of 283 municipal territorial changes in last decade, 250 were fragmentation changes and 33 were integration changes (Table 3.3).

The highest number of municipalities was created by the separation from other villages (132). A total of 95 municipalities were created via the separation of originally rural villages from cities. Cities between 50,000 and 100,000 inhabitants recorded these activities after 1990 the most often. Even in the case of Bratislava, both the capital and the largest city, the tendency to separate rural parts was noted. However, the citizens of the respected areas did not support the separation efforts in local referendums. The voices that called for separation probably did not consider several of the advantages formerly rural villages had gained through being the part of Bratislava (mass transportation system, a fire department, municipal road maintenance, etc.).

By the end of the 1990s, following the territorial changes boom of the early 1990s, the creation and extinction of municipalities (as legal entities) tuned down. In 1999, only five fragmentation changes occurred and in 2000, only two. Yet, before the law limiting the size of municipality became effective on January 1, 2002, three more villages with less than 3,000 inhabitants successfully separated and gained independent legal status during 2001.

Figure 3.6
Territorial Changes of Municipalities After 1990



SOURCE: Slavík, 1998, Directives of the Slovak government 1999, 2000; figure: M.E.S.A. 10.

Table 3.3
Types of Territorial Changes After 1990

| Type of Territorial Change | 1990 | 1991 | 1992 | 1993 | 1990–2000 |
|--|------|------|------|------|-----------|
| Creation of Rural Village Via Separation From City | 49 | 2 | 13 | 11 | 95 |
| Creation of City Via Separation From Other City | 1 | 0 | 0 | 0 | 1 |
| Creation of Village Via Separation From Other Village | 107 | 0 | 6 | 7 | 132 |
| Creation of Villages Via Breaking Away From a Municipality | 16 | 1 | 1 | 3 | 22 |
| Total Fragmentation Changes | 173 | 3 | 20 | 21 | 250 |
| Incorporation of Rural Village to a City | -2 | -1 | -1 | 0 | -4 |
| Incorporation of Smaller Village to Other Village | -13 | -12 | -1 | 0 | -26 |
| Equal Merger of Villages | 0 | -2 | 0 | 0 | -2 |
| Physical Extinction of Rural Village | -1 | 0 | 0 | 0 | -1 |
| Amalgamation Changes Total | -16 | -15 | -2 | 0 | -33 |
| Total Increase/Decrease of Municipalities | 157 | -12 | 18 | 21 | 217 |

NOTE: Data is not provided for every year of the 1990s due to substantially lower intensity of changes in the period of 1994–2000.

SOURCE: Slavík, 1998, Directives of the Slovak government 1999, 2000.

2.3 Conditions of Settlement Structure Stabilization

Municipal law no. 369/1990 did not originally set up any preconditions for municipalities that intend to separate from other municipalities or municipalities that intend to split into several new municipalities. In accordance to this law, a local referendum and the agreement of all participating municipalities were sufficient to separate or join municipalities. Yet, the Fall 2001 amendment to this law determined some conditions for the creation of new municipalities via separation from other municipalities. Effective January 1, 2002, a municipality may break away only if: The territories of the new municipalities create a coherent territorial unit; and the new municipalities have at least 3,000 inhabitants and new municipalities had not created an urbanite unit with the mother municipality before the change. The municipality cannot be broken up when the extricating part has been given an investment that is of importance to the entire municipality (such as a waste water treatment facility). These provisions are the contribution to stabilization of the settlement structure in Slovakia, since it prevents the creation of further small municipalities.

The stabilization and optimization of the settlement system through amalgamation of municipalities is not acceptable for the representatives of local self-governments [ZMOS, 1999]. The experience of forced amalgamation remains a major barrier to it. The support for the central village in an amalgamated municipality and the contrary, shutdowns of any development in the non-central villages, during state socialism caused voluntary amalgamation to be unacceptable. Another barrier to amalgamation is that municipalities are not willing to give up any of their control to another municipality once they have gained their independence. There is a widely held opinion among citizens than if the municipality consists of several parts (villages), the home of the mayor will be developed the most. It is also perceived that smaller villages in such municipalities are not decently developed. The later opinion prevails among the citizens from the rural parts of the cities. These citizens sense they are being shortchanged in some way. According to their complaints, the city council does not pay appropriate attention to development of rural city sections and it only deals with development of non-rural parts.⁶

Amalgamation, however, is not an exclusive solution for fragmented settlement structure in Slovakia and is an unfavorable structure for municipalities as administrative units. Inter-municipal cooperation, actually one type of it, joint municipal offices, is an alternative solution (see section 4). Creation of joint offices, however, runs into a from all participating municipalities [PHARE, 1998].

Stabilization of the size structure of municipalities must take place in Slovakia so that municipalities can provide to their full capabilities. Discussion on the proper size of a municipality, as the smallest administrative unit, has existed in Slovakia for 50

years, beginning in the period of state socialism. As we have already mentioned, the system of central municipalities operated with a catchment area of about 3,000 inhabitants. This number is often used as a threshold for self-governing municipalities, even today. Populations of 5,000 inhabitants are being discussed as a minimum population for a municipality as well. This number enables municipalities to create own administrative capacities with various expertise and financial coverage (The Concept of Decentralization and Modernization of Public Administration, 2001). In Slovak legislation, 5,000 inhabitants is the threshold for a village upgrading to a city (Act no. 369/1990).

In 1999, ZMOS⁷ turned to its regional associations of municipalities for their comments on the optimum size of local self-governing units. The opinions differed. The most widely accepted limit was 3,000 inhabitants. However, limits such as 5,000 and 8,000 appeared as well. The exact limitation for the minimum and maximum size of municipality was absolutely unacceptable for all the regional associations [ZMOS, 1999].

The issue of self-governmental unit size was also elaborated within work upon decentralization of public administration in Slovakia. Even though the exact size for local self-governments was not set up, 169 nodal municipalities were recommended as the center of a basic administrative unit of territorial self-government, in comparison to 2,883 current local self-governments (The Concept of Decentralization and Modernization of Public Administration, 2001). These centers would provide administrative services for local self-governments. The delivery of economic services would not be limited to their nodal region. The catchment area for these services would be based upon the economic efficiency of delivery.

2.4 Conclusion

The process of decentralization of public administration in Slovakia decidedly needs to have the issue of settlement system fragmentation solved. If the current situation persists, full provision of decentralized services to local self-governments is impossible. The necessity of it is multiplied by the reality that municipalities are to provide, not only their original tasks, but also tasks delegated by the state administration. These delegated tasks are mainly provisions from decisions of individual-legal matters.

The optimal size of municipalities cannot be developed solely on economic principals. The volume of direct costs of public services in individual size categories of municipalities is important, but not crucial. Other assets can balance the higher costs. As we have already mentioned, the amalgamation was not realistic. Perhaps inter-municipal cooperation is the more acceptable and realistic solution (see section 4).

3. SERVICE DELIVERY

3.1 Economy of Local Self-Governments

Unlike the public sector as a whole, the performance of local self-government is permanently in surplus (Table 3.4).

Table 3.4
Public Budgets and GDP

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Local Budget Revenues [SKK bill.] | 20.1 | 22.2 | 25.4 | 28.8 | 28.9 | 27.3 | 33.7 |
| Local Budget Expenditures [SKK bill.] | 19.1 | 18.9 | 23.2 | 26.6 | 27.4 | 26.1 | 31.2 |
| State Budget Expenditures [SKK bill.] | 162.0 | 171.4 | 191.9 | 192.8 | 199.5 | 234.9 | 241.1 |
| GDP in Current Prices [SKK bill.] | 466 | 546 | 606 | 686 | 751 | 815 | 887 |
| Revenues of Local Budgets/GDP | 4.3% | 4.1% | 4.2% | 4.2% | 3.8% | 3.4% | 3.8% |
| Expenditures of Local Budgets/GDP | 4.1% | 3.5% | 3.8% | 3.9% | 3.4% | 3.2% | 3.5% |

SOURCE: State financial statements, Statistical Office of the SR.

The Slovak republic has not ratified the supplement to Article 9 of the European Charter of Local Self-governments, on financing local self-governments, because the current system does not enable its fulfillment. The right of local bodies to have appropriate own financial resources, fair financial leveling, provision of free subsidies and consultation of the drafts of law within local self-governments, are the major problematic areas.

Every year, self-governments fight for an increase of state budget funds directed towards them. They are not completely successful every year. The share of revenues municipalities receive from the annual state budget accounts for about 1/3 of local budget revenues (Table 3.5).

Table 3.5
The Local Self-Governments' Share of State Budget Expenditures

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|------|------|------|------|-------|
| Subsidies and Other Transfers [SKK bill.] | 1.75 | 1.75 | 2.08 | 1.9 | 2.11 |
| State Taxes [SKK bill.] | 6.28 | 6.47 | 7.41 | 7.37 | 8.29 |
| Transfers to Municipalities Total [SKK bill.] | 8.03 | 8.22 | 9.49 | 9.27 | 10.40 |
| Share in State Budget Expenditures [%] | 4.2 | 4.3 | 4.8 | 3.9 | 4.3 |

SOURCE: State financial statements.

Local self-governments uncertainty, of the volume of funds from state budget, results in problems with approving local budgets. Until the final days of each year, local self-governments do not know what funds will be available for them and often local budgets are approved at last moment or corrected immediately after the new budgetary year starts.

3.1.1 Structure of Local Budgets Revenues

Development of local budgets revenues is documented in Table 6. Beginning in 1993, tax revenues have accounted for the largest portion of revenues within local budgets. This situation corresponds to the fact that tax revenues should be a principal revenue item of local self-governments. Tax revenues are the basis of a local budget's autonomy. Tax revenues then reached their maximum in 1993, when they accounted for 52.2% of total revenues. Since this year, their share persists at around 40% of total local budget revenues.

Table 3.6
Development of Local Budget Revenues in 1991–2000 [SKK Million]

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 1. Tax Revenues | 3,564.5 | 7,541.8 | 10,945.0 | 9,576.3 | 8,544.9 | 10,163.1 | 10,569.4 | 11,402.2 | 11,608.5 | 12,799.2 |
| Income Taxes Total: | 2,683.5 | 5,656.3 | 5,647.4 | 5,583.3 | 5,089.8 | 5,857.3 | 6,070.5 | 6,817.1 | 6,855.1 | 7,666.9 |
| – Personal Income Tax | n. a. | n. a. | n. a. | 3,946.1 | 3,525.4 | 4,656.0 | 5,284.2 | 5,459.2 | 5,875.1 | 6,440.2 |
| – Corporate Tax | n. a. | n. a. | n. a. | 1,637.2 | 1,564.4 | 1,200.4 | 786.3 | 1,357.9 | 980.0 | 1,226.7 |
| Real Estate Tax | n. a. | n. a. | 1,610.9 | 2,032.0 | 2,051.8 | 2,861.0 | 3,124.1 | 3,199.5 | 3,352.6 | 3,606.2 |
| 2. Non-Tax Revenues | 4,649.4 | 6,450.9 | 5,999.5 | 7,774.2 | 8,965.5 | 8,992.6 | 10,294.8 | 10,646.6 | 9,116.6 | 10,691.6 |
| 3. Grants (Subsidies) | 7,960.8 | 6,634.1 | 3,017.8 | 1,795.3 | 1,494.5 | 3,608.7 | 5,026.3 | 3,784.6 | 3,362.3 | 3,739.4 |
| – Current | 2,275.4 | 1,587.6 | 1,149.5 | 840.1 | 883.3 | 1,377.4 | 2,155.9 | 1,950.0 | 1,859.6 | 1,843.7 |
| – Capital | 5,685.4 | 5,046.5 | 1,868.3 | 955.2 | 611.2 | 2,231.3 | 2,870.4 | 1,834.6 | 1,502.6 | 1,895.7 |
| 4. Credits Received | 404.0 | n. a. | 1,003.7 | 926.8 | 3,231.0 | 2,565.7 | 2,733.2 | 2,942.7 | 3,162.9 | 6,302.8 |
| 5. Other Revenues | n. a. | 93.8 | 161.9 | 96.5 | 93.4 | 124.3 |
| Total Revenues | 16,578.7 | 20,626.8 | 20,966.0 | 20,072.6 | 22,236.0 | 25,423.9 | 28,785.5 | 28,872.6 | 27,343.5 | 33,657.4 |

SOURCE: Berčík 1999, State Financial Statement 1997, 1998, 1999 and 2000.

The portion of individual source revenues within the total revenues differs by the municipalities' size category (Table 3.7).

Table 3.7
Major Sources of Revenues in Municipalities in 2000 [%]

| | Under 500 | 501-1,000 | 1,001-2,000 | 2,001-3,000 | 3,001-4,000 | 4,001-5,000 | 5,001-10,000 | 10,001-20,000 | 20,001-50,000 | 50,001-100,000 | Over 100,001 |
|---------------------------------------|-----------|-----------|-------------|-------------|-------------|-------------|--------------|---------------|---------------|----------------|--------------|
| Income Tax and Corporate Tax Revenues | 26.9 | 29.1 | 30.2 | 31.9 | 32.2 | 28.0 | 29.9 | 27.3 | 28.8 | 22.8 | 11.3 |
| Real Estate Tax Revenues | 13.5 | 12.3 | 13.6 | 13.1 | 12.3 | 23.3 | 12.1 | 11.5 | 14.4 | 11.3 | 5.5 |
| Non-Tax Revenues | 36.2 | 36.1 | 34.2 | 31.8 | 39.5 | 33.2 | 31.6 | 35.7 | 41.0 | 44.5 | 19.0 |
| Transfers | 17.7 | 15.5 | 14.8 | 14.4 | 7.1 | 8.8 | 12.5 | 6.9 | 3.9 | 9.1 | 12.3 |
| Loans | 1.3 | 2.2 | 1.9 | 3.3 | 4.1 | 1.3 | 6.9 | 9.5 | 5.7 | 7.9 | 48.6 |

SOURCE: Ministry of Finance of the SR 2001; note: data for local fees by the size category were not available.

In Slovakia, municipalities' tax revenues are formed primarily by *state taxes* (personal income tax, corporate tax and road tax). Local self-governments have no direct impact on the revenues from these taxes. Distribution of the income tax revenues among the local budgets shows that the revenues of municipalities above 5,001 inhabitants and primarily of towns above 100,001 inhabitants began increasing in 1996. This increase resulted from the change of rules for corporate tax revenue distribution within the current system. Since companies are primarily registered in the towns, the towns receive a higher portion of the corporate tax revenues. The 2000 figures show the municipalities over 100,001 inhabitants, Bratislava and Košice had the largest revenues per capita. The smallest municipalities, under 500 inhabitants, received only 73% of the revenues per capita of these two municipalities in 2000.

Real estate tax is solely a municipal tax. Since 1993, it has become a stable element of the revenues side of local budgets. In 1993, it accounted for 14.7% of tax revenues, corresponding to 7.7% of total revenues. Starting from 1996, it has permanently accounted for about 28% of local self-governments' tax revenues (about 11% of total revenues). Differentiation of real estate tax revenues in individual size categories of municipalities is larger than in the case of personal income tax and corporate tax revenues (Table 3.14). Municipalities with 4,001-5,000 inhabitants have permanently had their highest revenues from this tax. Even the two largest cities in Slovakia collected only 78% of their revenues per capita in 2000. High real estate tax revenues in municipalities with

4,001–5,000 inhabitants stem from the fact there are prevailing family houses and production facilities located here. In 2000, this size category comprised of 37 municipalities, with 161,313 inhabitants. There are several reasons why municipalities over 5,001 inhabitants collect fewer taxes. In the 1990s, the municipal privatization of apartments had taken place. The real estate tax on these apartments was waived for five years for the new owners. Next, there are large plots and numbers of buildings that are not taxed because they are the location of schools, hospitals, parks, state administration institutions, and spas in renovated areas of towns. Further, there are small pockets of agricultural land inside the townships' territories for which land ownership has not yet been settled. The most significant feature influencing revenue differentiation is the fact that real estate tax rates do not reflect the market value of real estate. Due to a coefficient respecting the soil quality in the territory of given municipality, real estate tax revenues in smallest municipalities are comparable, in some cases even higher, to revenues collected in larger villages or towns. In 2000, only municipalities over 20,001 inhabitants (besides municipalities with 4,001–5,000 inhabitants) collected higher revenues per capita than the smallest municipalities. Small municipalities have a low portion of tax-waived land in the investment areas and there are large plots of agricultural land in their territory.

Table 3.8
Real Estate Tax Revenues Per Capita [SKK]

| Size Category | Under 500 | 501–1,000 | 1,001–2,000 | 2,001–3,000 | 3,001–4,000 | 4,001–5,000 | Over 5,001 | 5,001–10,000 | 10,001–20,000 | 20,001–50,000 | 50,001–100,000 | Over 100,001 |
|---------------|-----------|-----------|-------------|-------------|-------------|-------------|------------|--------------|---------------|---------------|----------------|--------------|
| 1993 | 448 | 451 | 439 | 442 | 407 | 607 | 322 | | | | | |
| 1995 | 509 | 472 | 463 | 429 | 417 | 642 | 314 | | | | | |
| 1996 | 549 | 483 | 506 | 511 | 462 | 750 | 505 | | | | | |
| 1997 | 515 | 447 | 506 | 442 | 430 | 947 | 535 | | | | | |
| 2000 | 507 | 428 | 462 | 417 | 403 | 855 | 531 | 417 | 440 | 526 | 520 | 671 |

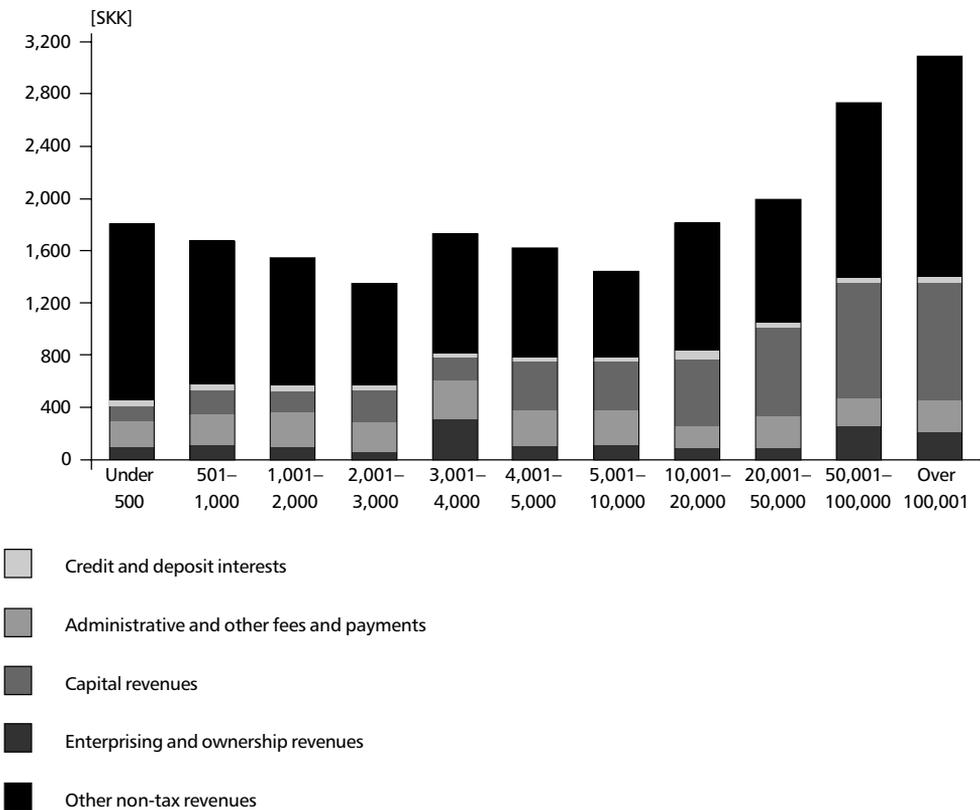
SOURCE: Berčík 1999, Ministry of Finance of the SR 2001; note: figures in 1995 constant prices, calculated through the gross domestic product prices deflators, as published by the Statistical Office of the SR 2001.

During the last decade, *non-tax revenues* have reached 28–41% of total revenues annually. Municipalities over 5,001 inhabitants collect the highest non-tax revenues. The 2000 figures show that municipalities over 50,001 inhabitants account for a majority of non-tax revenues in the category of municipalities over 5,001 inhabitants (Figure 3.7).

The transfers from budgetary and contributory organizations, transfers of funds from previous year, and building renting revenues are major sources of non-tax revenues for all size categories of municipalities. Non-tax revenues contain also capital assets revenues. Local self-governments that cannot cover their investment plans due to their insufficient tax revenues try to counter this with the sale of their property.

Revenues coming from the sale of municipal property increase with the size of the municipality. The smallest municipalities reach the lowest revenues because they do not have suitable property to sell. Contrary to this, municipalities over 10,001 and especially those over 20,001 use the sale of property for the sake of improvement of the local budget revenues.

Figure 3.7
Non-Tax Revenues Per Capita in 2000 [SKK]



SOURCE: Ministry of Finance of the SR 2001.

Transfers from state budget accounted for a significant portion of local budget revenues primarily in the first years of the local budget’s existence. In 1995, they accounted

for 6.7% of total revenues, the lowest portion ever. After their increase to 17.5% in 1997, they dropped to 11.1% of total revenues in 2000. Capital (investment) transfers clearly prevailed in 1991 and 1992. In the following years, however, investment and current transfers were approximately balanced. Municipalities over 100,001 inhabitants recorded the highest revenues per capita (Table 3.9), mainly due to subsidies for the operation of mass public transportation in selected cities accounting for SKK 1,325 million in 2000 (3.9% of total revenues). Fairly high municipal revenues, for those up to 3,000 inhabitants, stemmed from the subsidy for provision of self-governmental services (SKK 450 million in 2000). Further sources of these revenues were contributions by the state funds to investment activities in these municipalities (utilities construction).

Table 3.9
Transfers Per Capita in 2000 [SKK million]

| Size Category | Under 500 | 501–1,000 | 1,001–2,000 | 2,001–3,000 | 3,001–4,000 | 4,001–5,000 | 5,001–10,000 | 10,001–20,000 | 20,001–50,000 | 50,001–100,000 | Over 100,001 |
|---------------------|-----------|-----------|-------------|-------------|-------------|-------------|--------------|---------------|---------------|----------------|--------------|
| – Current Transfers | 593.5 | 418.8 | 292.9 | 222.8 | 166.8 | 123.1 | 140.6 | 37.7 | 33.5 | 241.3 | 1230.1 |
| – Capital Transfers | 289.9 | 297.2 | 375.1 | 385.9 | 144.3 | 303.1 | 429.5 | 313.5 | 154.3 | 315.6 | 769.1 |
| Total Transfers | 883.4 | 716.0 | 668.0 | 608.7 | 311.0 | 426.1 | 570.1 | 351.2 | 187.8 | 556.9 | 1999.2 |

SOURCE: Ministry of Finance of the SR, 2001.

State subsidies for local public transportation have been provided since 1991. The objective of this subsidy is to partially cover the building of technical facilities for local public transportation and its operation in selected cities—Bratislava, Košice, Prešov, Žilina and Banská Bystrica.

Subsidies for provision of self-governmental services and subsidies for local public transportation are two principal elements of this chapter of local budgets. The primary objective of the subsidy for provision of self-governmental services is to support the provision of basic administrative services in small municipalities. Especially for those not able to cover elementary operation of the municipality with their tax and non-tax revenues. These subsidies have strict distribution rules and cannot be used for construction projects.

Continuous shortage of tax and non-tax revenue funds and the acute need for local self-governments to finance their municipal investment projects (mostly construction of the infrastructure) force them to look for additional financial sources that might be used immediately, i.e. loans and municipal bonds. If credit burdens for municipalities

had increased only moderately in 1996–1999, the volume of received credits was almost two times higher in 2000 by comparison (Table 3.10).

Until 1998, the revenues from credits and municipal bonds accounted permanently for about 10% of the total revenues for local budgets. This portion has risen since 1999. It reached 18.7% in 2000. This increase was primarily due to the loan provided by the Deutsche Bank Luxemburg S.A. to Bratislava in the amount of SKK 4.7 billion. Differences among the size categories of municipalities and the volume of received credits per capita are shown in Table 3.11.

Table 3.10
Credit Burdens of Municipalities [SKK Million]

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Revenues | 26,172 | 22,026 | 22,236 | 24,325 | 25,840 | 24,655 | 21,910 | 25,331 |
| Received Credits | 1,253 | 1,017 | 3,231 | 2,455 | 2,453 | 2,513 | 2,534 | 4,744 |
| % Total Revenues | 4.8 | 4.6 | 14.5 | 10.1 | 9.5 | 10.2 | 11.6 | 18.7 |

SOURCE: State financial statement 1993–2000; note: figures in constant prices of 1995.

Table 3.11
Received Credits Per Capita [SKK]

| | Under 500 | 501–1,000 | 1,001–2,000 | 2,001–3,000 | 3,001–4,000 | 4,001–5,000 | Over 5,001 | 5,001–10,000 | 10,001–20,000 | 20,001–50,000 | 50,001–100,000 | Over 100,001 |
|--|-----------|-----------|-------------|-------------|-------------|-------------|------------|--------------|---------------|---------------|----------------|--------------|
| 1995 | 63 | 139 | 178 | 243 | 134 | 55 | 368 | | | | | |
| 1996 | 101 | 166 | 194 | 321 | 295 | 124 | 665 | | | | | |
| 1997 | 64 | 164 | 178 | 244 | 206 | 167 | 686 | | | | | |
| 2000 | 50 | 76 | 64 | 105 | 135 | 47 | 1,521 | 238 | 362 | 208 | 367 | 5,931 |
| % of Total Revenues Per Capita in 2000 | 1.3 | 2.2 | 1.9 | 3.3 | 4.1 | 1.3 | 26.5 | 6.9 | 9.5 | 5.7 | 7.9 | 48.6 |

SOURCE: Berčík, 1999, Ministry of Finance of the SR 2001; note: figures in constant prices of 1995

The largest debts are recorded in the largest cities. In 2000, the overall debt owed by municipalities in Slovakia was SKK 12,965 million (4.4% of the total public sector debt). The three most indebted cities accounted for 67% (Bratislava SKK 5 billion, Košice—SKK 2.2 billion and Banská Bystrica—SKK 1.5 billion). Table 3.10 shows

that small municipalities, up to 500 inhabitants and municipalities with 4,001–5,000 inhabitants, engage in loan taking least often. This relates to the capacity of a given municipality to be accepted for a loan as well as from the fact large cities are the seats of state administration facilities and other important institutions and naturally appear to be more “good looking”. Local self-governments do not perform favorable financial (credit) policies that are sure not to jeopardize the municipal finances for the next election term. Many local politicians do not think past the time period of their term in office. In 2000, credit revenues accounted for over a quarter of total revenues in municipalities over 5,001 inhabitants. The majority of this debt was created by the aforementioned cities. In municipalities over 100,001 inhabitants, credits revenues accounted for as much as 48.6% of total revenues of local budgets.

The often unreasonable creation of debt by some municipalities finally resulted in the legislative action of 2001. The resulting amendment to Act no. 303/1995, on budgeting rules, specifies that the Slovakian Ministry of Finance must authorize all credits given to municipalities over SKK 75 million. At the same time, further provisions preventing excessive creation of debt will come into effect January 1, 2005. Certain municipalities can use returnable funds or credits in order to provide their services. They may do so only if the total debt of municipality at the end of the budgetary year does not exceed 60% of the current real revenues for the previous year. Another condition is that annual repayment installments (including interest) for the debt cannot exceed 25% of the real current revenues for the previous budgetary year. Overall, debts incurred by local self-governments equaled about SKK 12,965 million in 2000. This year, it was 56.6% of current revenues (SKK 22,909.1 million). Total expenditures related to indebtedness were SKK 6,204.9 million in 2000, corresponding to 27.1% of current revenues of municipalities in 2000.

3.1.2 Structure of Local Self-Governments' Expenditures

Budgetary expenditures may be broken into current (operational) and capital expenditures. Provision of loans, property shares, and debt installments are registered separately. The ratio of current expenditures (plus debt related expenditures⁸), and capital expenditures, oscillated from 58.6%: 41.4% to 76.7%: 23.3% during the last ten years. Starting in 1997, the ratio had increased, in favor of operational expenditures, to 76.7%: 23.3% in 2000.

In 2000, the overall ratio of current and capital expenditures was more or less identical for all municipal size categories (Table 3.12). Municipalities with 2,001 to 3,000 inhabitants achieved the lowest ratio. Capital expenditures accounted for 29% of total expenditures. Municipalities over 100,001 inhabitants experienced a different ratio. Capital expenditures were only 19%. We have to point out that this percentage

also originated from high debt related expenditures (Bratislava municipal bonds were due in 2000). The increase of operational expenditures at the expense of capital expenditures results in a shortage of funds for municipal economic development and other capital expenditures related to the provision of municipal services. The increasing operational expenditures force municipalities to borrow funds to realize their development projects.

Table 3.12
Structure of Local Budget Expenditures in 2000

| | Under 500 | 501-1,000 | 1,001-2,000 | 2,001-3,000 | 3,001-4,000 | 4,001-5,000 | 5,001-10,000 | 10,001-20,000 | 20,001-50,000 | 50,001-100,000 | Over 100,000 |
|--|-----------|-----------|-------------|-------------|-------------|-------------|--------------|---------------|---------------|----------------|--------------|
| Operational Expenditures + Credit Related Expenditures [%] | 79.0 | 75.5 | 71.6 | 71.0 | 73.7 | 74.5 | 73.3 | 74.0 | 76.1 | 75.3 | 81.0 |
| Capital Expenditures [%] | 21.0 | 24.5 | 28.4 | 29.0 | 26.3 | 25.5 | 26.7 | 26.0 | 23.9 | 24.7 | 19.0 |

SOURCE: Ministry of Finance of the SR, 2001.

Personnel expenditures within local budgets are the second most significant item of operational expenditures (after expenditures on procurement of goods and services). Local self-governments employ about 50,000 people.

Table 3.13
Personnel Expenditures of Local Self-Governments Per Capita [SKK]

| | Under 500 | 501-1,000 | 1,001-2,000 | 2,001-3,000 | 3,001-4,000 | 4,001-5,000 | Over 5,001 | 5,001-10,000 | 10,001-20,000 | 20,001-50,000 | 50,001-100,000 | Over 100,000 |
|------|-----------|-----------|-------------|-------------|-------------|-------------|------------|--------------|---------------|---------------|----------------|--------------|
| 1996 | 1,028 | 868 | 700 | 634 | 697 | 731 | 575 | | | | | |
| 1997 | 1,015 | 879 | 715 | 638 | 700 | 690 | 612 | | | | | |
| 2000 | 1,245 | 993 | 805 | 681 | 792 | 728 | 624 | 714 | 599 | 539 | 483 | 848 |

SOURCE: Berčík 1999, Ministry of Finance of the SR, 2001; note: figures in constant prices of 1995.

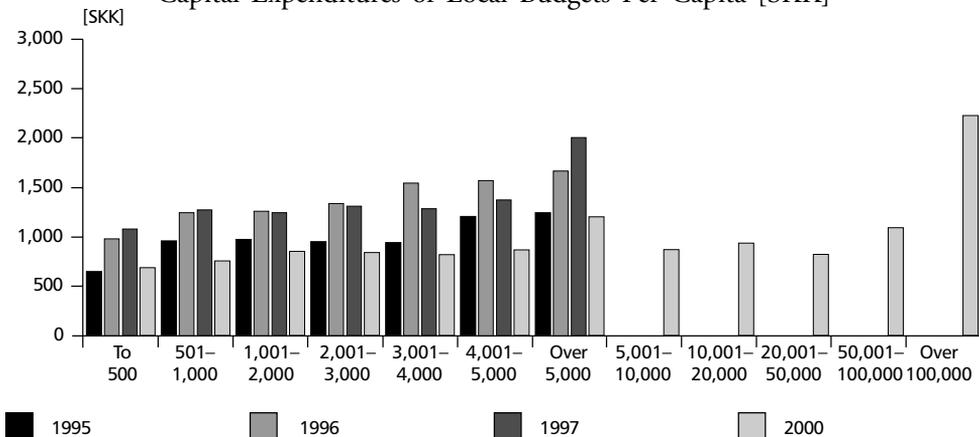
Smaller municipalities, under 500 or 1,000 inhabitants, have the highest expenditures per capita for salaries and social security payments (Table 3.13). These expenditures

decrease with increasing size of municipality. Expenditures in municipalities over 5,001 inhabitants are lowest. This fact is often used as an argument for amalgamation of municipalities. Breaking up the category over 5,001 inhabitants, we can see the personnel expenditures decrease up to 100,001 inhabitants. In two largest municipalities, expenditures rapidly increase to almost double the figure for the previous size category. The wages are highest in these two cities, Bratislava and Košice, in general. The wages for the self-governments only reflect them. The number of employees in local self-government is also much higher in these cities than in other cities due to the two-level organization of local self-government.

The share of *capital expenditures* decreased from 37.6%, in 1997, to 23.3%, in 2000. This decrease was due to the decay of investment activities by local self-governments in the last few years. The decrease of capital expenditures was recorded by all size categories of municipalities (Figure 3.8). The smallest municipalities registered the lowest capital expenditures mainly due to their financial capacity.

Capital expenditures were highest in municipalities over 5,001 inhabitants. We can see the differentiation within this broad group of municipalities. The highest expenditures per capita were achieved in municipalities over 100,001 inhabitants: Bratislava and Košice. Bratislava accounted for the majority of these expenditures because Košice struggled with its debts during 2000. Investment activities in 1996, and mostly in 1997, probably resulted from the construction of a technical infrastructure. The local self-governments wanted to carry out as many investment plans as possible before the end of their term. By the end of their term, 1997–1998, the local self-governments had renovated the central squares in their cities. Slovakia witnessed the unveiling of many renewed squares, just before the parliamentary and municipal elections of 1998.

Figure 3.8
Capital Expenditures of Local Budgets Per Capita [SKK]



SOURCE: Berčík 1999, Ministry of Finance of the SR, 2001. Note: figures in constant prices of 1995.

We have already pointed out the increase in municipal debts. Comparing the received credits in 1993–2000 (Table 3.10) and expenditures related to debts during this period (Table 3.14), we see that debt related expenditures in 1994 and 1999 exceeded the revenues from received credits and issued municipal bonds.

Table 3.14
Debt Related Expenditures for Local Budgets

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|-------|---------|---------|---------|---------|---------|---------|---------|
| Credit related expenditures [SKK million] | 829.4 | 1,018.8 | 1,136.4 | 1,717.5 | 1,809.4 | 2,148.3 | 2,560.7 | 4,710.2 |
| % Total expenditures | 3.4 | 4.9 | 6.0 | 7.8 | 7.6 | 9.2 | 12.3 | 19.8 |
| % Operational expenditures | 5.2 | 7.2 | 8.8 | 12.2 | 12.1 | 14.2 | 16.8 | 25.8 |

SOURCE: Berčík 1999, State financial statement 1997–2000. Note: figures in constant prices of 1995.

In 2000, expenditures increased to 25.8% of operational expenditures. Such a high share of debt related expenditure is dangerous for a local self-government. The share is differentiated also according to the size of the municipality. In 2000, the largest financial funds for debt settlement per capita were spent in municipalities over 100,001 (Table 3.15). The aforementioned municipal bonds for Bratislava, due in 2000, accounted for a majority of these expenditures.

Contrarily, the lowest expenditures were achieved in smallest municipalities. Low expenditures related to debt were due to the fact these municipalities were simply not getting into as much debt as large municipalities. Small municipalities do not have a suitable property to be used as collateral for bank loans.

Table 3.15
Debt Related Expenditures Per Capita in 2000 [SKK]

| | Under 500 | 501–1,000 | 1,001–2,000 | 2,001–3,000 | 3,001–4,000 | 4,001–5,000 | 5,001–10,000 | 10,001–20,000 | 20,001–50,000 | 50,001–100,000 | Over 100,000 |
|---------------------------|-----------|-----------|-------------|-------------|-------------|-------------|--------------|---------------|---------------|----------------|--------------|
| Debt Related Expenditures | 102.6 | 211.6 | 128.4 | 284.1 | 262.1 | 208.2 | 421.7 | 781.8 | 544.9 | 1,232.9 | 6,071.3 |
| [%] Total Expenditures | 2.3 | 5.2 | 3.2 | 7.4 | 6.4 | 4.6 | 9.8 | 16.4 | 12.0 | 21.0 | 39.0 |

SOURCE: Ministry of Finance of the SR, 2001.

3.2 Economy of Services Delivered

In 2000, the highest expenditures were in the category of municipal administration. Operation of municipal offices and wages for the elected local representatives accounted for 21.4% of local expenditures (Table 3.16). The situation was similar in 1999, when they accounted for 25.7%. In 1996 and 1997, the share was about the same as in 2000 but the expenditures for housing and construction were higher for these two years. These expenditures accounted for the second largest portion of total expenditures for local budgets also in 1999 and 2000.⁹

Further significant types of expenditures in 2000 were for transportation and the local economy. The first type, transportation, comprises of such services as local public transportation and construction and maintenance of local roads. Services for the local economy contains mainly public lighting, funeral services, and public services. In 2000, the next rank of expenditure is filled by protection of the environment. This group of expenditures consists of such services as public green care, cleaning and winter maintenance of local roads and waste management.

Table 3.16
Expenditures for Services Delivered in 2000

| [SKK] | [%] | Per Capita |
|----------------------------------|-------|------------|
| Water Management | 2.57 | 150.6 |
| Transportation | 10.13 | 594.0 |
| Bank Operation | 20.06 | 1,176.1 |
| Physical Activities and Sport | 1.87 | 109.4 |
| Culture | 4.18 | 244.9 |
| Social Care | 1.45 | 84.9 |
| Housing | 13.74 | 805.5 |
| Services of Local Economy | 9.74 | 570.9 |
| Protection of Environment | 6.52 | 382.4 |
| Security | 1.92 | 112.4 |
| Administration of Municipalities | 21.38 | 1,253.7 |
| Other Financial Measures | 2.98 | 174.9 |
| TOTAL | 100 | 5,863.6 |

NOTE: Only areas accounting for over 1% of total expenditures are included. Source: Ministry of Finance of the SR, 2001.

All the aforementioned services, together with water management services (water supply and sewage), which accounted for 2.6%, fall under the basic responsibilities of local self-governments. Culture, social welfare, physical education, healthcare, schooling and education accounted for a portion of local budget expenditures proportional to the scope of competencies given to local self-governments in these areas.¹⁰

The following section deals with select examples of services delivery by local self-governments, diverging by size category.

3.2.1 Road Management

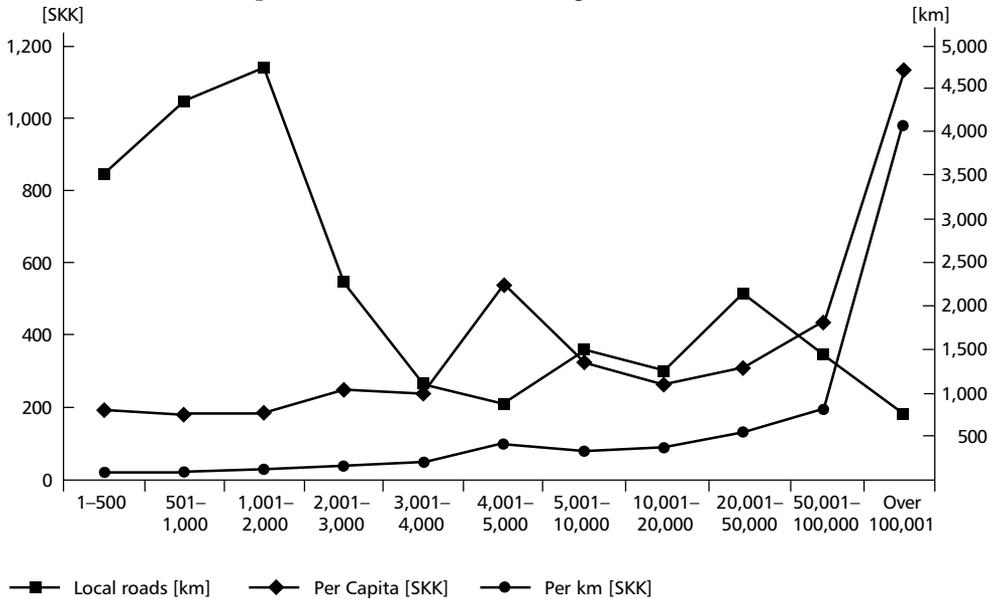
The municipality is the owner of the local roads. It is obliged to provide for their maintenance and function. The municipality carries out construction of local roads as well. In 1997, a total of 24,978.7 km of roadways were under municipal ownership. Besides these, municipalities owned 11,347 km of sidewalks, 1,022 city squares, 9,172 parking lots, 127 transportation-training playgrounds, 9,080 bridges, 3,490 pedestrian bridges, 1,094 railroad crossings and 258 traffic lights.

Local self-governments provide these services differently, depending on the size of the municipality. The cities have their municipal organizations to take care of road management. Such organization is called the *Technické služby* (technical services) and it often also provides waste management, public green care, management of cemeteries, etc. If the municipality does not have such an organization, it contracts either the state company taking care of state roads or another private provider. This is usually the case in small towns and villages.

In 1997, expenditures for road management reached SKK 1,640.9 million (excluding winter maintenance) corresponding to 6.2% of the total expenditures for the local budget. It then increased to SKK 1,993.5 million (7.6%) in 1999 and to SKK 2,063.9 million (6.6%) in 2000. Differentiation among the different size categories of municipalities can be observed (Figure 3.9).

The largest expenditures per capita were made in municipalities with 4,001 to 5,000 inhabitants. These municipalities have fairly large territories and a respective length of local roads. Road management expenditures accounted for 11.9% of total expenditures in these municipalities (2000). High expenditures in this category were reached also in municipalities over 100,001 inhabitants (the highest per capita expenditures). The expenditures for local roads' winter maintenance played a substantial role in these municipalities (52%). In 2000, this accounted for more expenditures than for construction and maintenance of local roads (42%). In the other size categories, the expenditures for construction and repairs of local roads prevailed. The highest expenditures of this nature were reached in municipalities with 4,001 to 5,000 inhabitants and over 100,001 inhabitants.

Figure 3.9
Expenditures for Road Management in 2000



SOURCE: Ministry of Finance of the SR, 2001, Statistical Office of the SR 2002.

Per capita expenditures show the capacity of municipalities to deliver road management. The expenditures per one km of served roads, however, indicate a similar situation as with expenditures per capita. The expenditures increase with the increasing size of a municipality. Contrary, the length of local roads decreases with the increasing size category of municipalities. This fact primarily stems from the rules of distribution of road tax revenues to individual municipalities. These revenues are distributed proportionally to the population. Figure 3.5 shows small municipalities up to 2,000 inhabitants account for only 30.4% of total population of Slovakia. At the same time, these municipalities account for 53% of local roads length (Figure 3.9). Therefore, the current system of road tax revenues distribution, as the primary funds for road management at municipal level, is not correct and does not reflect the needs of municipalities in this area.

3.2.2 Municipal Waste Management

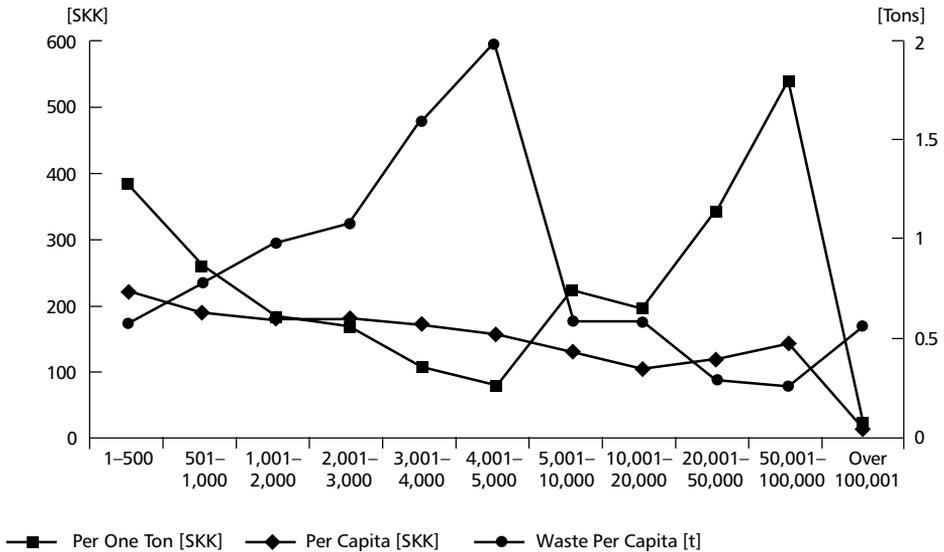
During socialism, the state did not pay proper attention to the issues of the environment and disposal of municipal waste. The towns and larger villages had collection and disposal systems; however, the monitoring of landfills did not exist. In smaller villages, an organized system of waste collection did not exist and the citizens disposed of their

waste individually in so-called “illegal” landfills. After 1989, the law delegated that environmental care, including collection and disposal of municipal waste, were service responsibilities of the local self-government. In accordance with Act no. 238/1991 on waste, municipalities are the producers of waste and, therefore, responsible for its disposal.¹¹

In 2000, municipalities produced 3.7 million tons of waste, 690 kilograms of waste, per capita, per year. Only 10% of municipal waste in Slovakia was recycled (1999). The rest of municipal waste was land filled or burned. All municipalities in Slovakia use landfills for disposal. Municipalities either dispose the waste in their cadastre or in the territory of other municipalities, upon contract. Waste disposal in the territory of another municipality can be considered a certain form of inter-municipal cooperation. The expanding trend toward such cooperation can be supported by the fact that only 612 municipalities had a landfill in their cadastre. The rest of the municipalities (78.7%) used the landfills of other municipalities.

Waste management expenditures within local budgets have been increasing, they reached SKK 619.7 million in 1997 (SKK 304.8 million in 1992, SKK 569.3 million in 1996). In 1999, these expenditures were SKK 664.7 million and SKK 748 million in 2000. Municipalities under 500 inhabitants recorded the highest expenditures per capita, as well as per one ton of municipal waste (Figure 3.10).

Figure 3.10
Expenditures for Waste Management in 2000



SOURCE: Ministry of Finance of the SR 2001, Statistical Office of the SR 2002.

Even though this size category maintained a low volume of municipal waste production in comparison to the other size categories, the expenditures are higher than in other categories. The expenditures of local self-governments per capita decreased with increasing population. The expenditures per one ton feature almost U-shape distribution throughout the size categories. This distribution pattern is interrupted only by the largest cities (above 100,001 people). Contrary to expenditures distribution per ton of waste, the volume of waste per capita reached inverse distribution with a maximum in the 4,001–5,000 inhabitants size category. In the largest municipalities, which contract special companies to carry out waste management, the transfers to such companies to cover potential losses account for a majority of the total municipal expenditures for waste management (analyzed here). Further targets of municipal spending in this area are the expenditures for construction of monitored landfills and to support progressive methods of separation.

3.2.3 Municipal Office Administration

Municipalities' administration expenditures are the major item on local budgets' expenditure agenda. These expenditures comprise of the expenditure on elected local self-government representatives and for administration of the municipal offices.

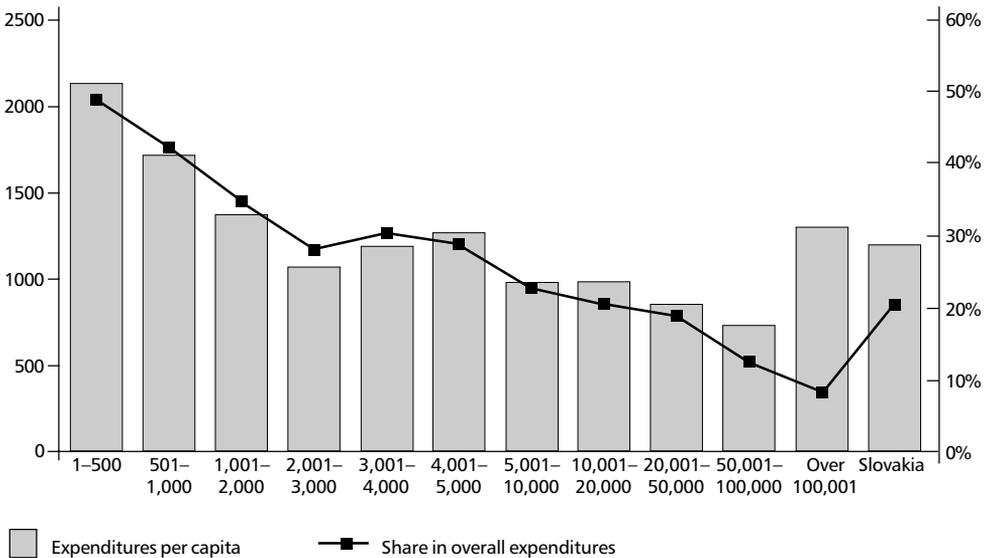
The mayor's financial allowances are provided by Act no. 253/1994. The minimum wage for the mayor is a multiple of the average monthly wage within the economy for the previous year. The multiple differentiates according to the population of the municipality. For example, in municipalities up to 500 inhabitants the multiple equals 1.35 and in municipalities with 50,001–100,000 inhabitants the multiple equals 3.06. The municipal council can grant the mayor bonuses up to 50% of his/her minimum wage. The municipal councilors receive small financial rewards (as approved by the council) for every meeting.

In 2000, the expenditures for municipal offices operation totaled SKK 6.4 billion, what accounted for 20.5% of local self-governments' total expenditures. In 1999, the amount was the same, but it accounted for 24.6% of total expenditures. The expenditures were SKK 4.8 billion in 1996 (20.7%) and SKK 5.4 billion in 1997 (20.3%). Personnel expenditures (wages and social security) accounted for a majority of these expenditures. As for the size categories of municipalities, the expenditures per capita are highest in municipalities up to 2,000 inhabitants. In 1999, the expenditures were also comparably high in the two largest Slovakian cities.

Information on the expenditures of individual size categories of municipalities for administration of municipal offices is provided in Figure 3.11. Municipalities under 500 inhabitants had the highest expenditures in 2000. These expenditures accounted for almost 50% of the total expenditures for these municipalities. If we consider that

municipality administration (municipal office administration and expenditures of the municipal council) spends over a half of the local budget, the funds for delivery of other services assigned to municipalities are not big. Similar situations occur in the next few size categories of municipalities (up to 2,000 inhabitants). However, none of their municipality administration expenditures exceeded 50% of their total expenditures. In the size categories of 1,001 to 2,000 inhabitants, range 4,001 to 5,000 inhabitants, and ranging over 100,001 inhabitants, the expenditures have comparable levels. However, in the last two size categories, they account for only 28.9% and 8.4% of total expenditures respectively.

Figure 3.11
Municipal Office Administration Expenditures in 2000



SOURCE: Ministry of Finance of the SR 2000; graph and calculations: M.E.S.A. 10.

Differentiation in the municipal offices administration expenditures shows the administrative costs of local self-governments in smaller municipalities are high. These expenditures stem from the fragmentation of settlement structure in Slovakia. There is a large number of municipalities in the smallest size categories, and the same number of municipal offices. In many cases, the municipal office has only one full time employee besides the mayor. Respecting these facts, the current size of the self-governmental unit should be questioned. Can such small units spend over a half their funds for the municipal office operation and still deliver all the services assigned to local self-governments properly? With all due respect to the personal qualities of the mayors in these

small municipalities, one person cannot manage delivery of all those services. Concerning expertise, as well as the mere physical potential, it is just not possible for one person to do. Establishment of joint municipal offices or defining the minimum size of an administrative unit of local self-government by the law can be solutions to this problem (see section 6). Both alternatives, however, bring some negatives that are discussed in settlement structure chapter and the inter-municipal cooperation chapter.

3.2.4 Economic Development

Municipal law no. 369/1990 obliges a municipality to administer and appreciate its property and form suitable conditions for living in the municipality. Municipalities in Slovakia are also allowed to carry out entrepreneurial activities. The revenues of such activities can be used for development of the municipality.

Local self-governments are allowed to support economic development in their territory indirectly through creation of appropriate environments for development of enterprise activity. The only direct support they can provide for potential enterprise is the provision of waivers or reduction of real estate taxes or other local fees. Municipalities use this option quite often and we can see this from the municipal revenues of real estate taxes in municipalities over 5,000 inhabitants. These municipalities have the largest concentrations of business activities (section 3.1.1). A further tool for directly supporting economic development is favorable fees for rental of municipal property for the sake of performing some economic activity in it. Municipalities can enhance economic development through direct participation in a commercial company. Local self-governments often participate by putting its property (building, land) forth to such companies.

The municipalities create conditions for economic activities in their territory through physical planning activities, investment into building of water works and sewage systems, assisting in building of energy distribution lines. Since 2001, municipalities can use the creation of industrial parks to attract economic activities to their territory. However, the construction of industrial parks is not funded solely by municipal sources. The state budget can grant a subsidy worth up to 70% of the expenditures for construction of an industrial park. The subsidized investments are mainly for construction of the technical infrastructure in areas appointed for industrial parks.

The capacity of individual municipalities to engage in activities towards economic development differs according to their size. Small municipalities have smaller budgets. We have already shown before that these municipalities spent substantial portions of their budget for delivery of basic administrative tasks and for financing the operation of municipal offices. Small municipalities have consequently little funds left for investment into economically enhancing development in their territory. Small municipalities

do not even have an updated Master Plan, since there are no funds left for it. The Master Plans of many small villages have not been elaborated since Socialist days. Large portions of municipalities use amendments to still existing (yet outdated) Master Plans instead of elaborating new ones. The development of municipalities is therefore, to a large extent, not systemic. Large municipalities, and larger villages and towns, have lower expenditures for municipal offices operation and their capacity to gain returnable funds is much higher than in the case of small municipalities. These municipalities can focus on almost any kind of plan supporting economic development in their territory.

4. INTER-MUNICIPAL COOPERATION AND SERVICES PROVISION

4.1 Legal Settings for Inter-Municipal Cooperation

In Slovakia, municipalities can associate with other municipalities for the sake of providing services of common interest. The framework contained in the Constitution of the Slovak Republic is further elaborated in the Municipal Law.

There are three basic groups of inter-municipal cooperation:

- 1) Provision of administrative tasks—there are several legal forms for executing administrative competencies of local self-governments through inter-municipal cooperation:
 - Joint municipal offices—Art. 16a of the Municipal law namely allows creation of joint municipal offices. This provision was added in 1992. The municipalities have not often used this option given by the law. They argue the law did not set up details for creation and operation of the joint municipal offices.¹² According to the law, joint municipal offices are established upon voluntary principles. Individual municipalities participate financially in the operation of the joint office in accordance to their agreement. The control of the tasks' fulfillment and the funds' use can be carried out via individual municipal councils or in the joint meeting of all founders of the joint office;
 - Delegation of delivery to the bodies of other municipalities;
 - Delegation of delivery to other public entities.
- 2) Provision of social and economic development and services—inter-municipal cooperation that carries out social and economic development, utilities and entrepreneurial activities can be realized, in accordance to the Slovak legislation and practice, via several legal forms such as interest associations, private enterprise with the municipal share, non-profit organization and cross-border cooperation.

- 3) Other cooperation—there are other forms of inter-municipal cooperation, which do not fit into the previous two groups such as country, regional, and municipal interest associations, municipal conferences and cooperation of the partner cities and villages.

The legal system in Slovakia enables all entities (except the bodies of state administration) to carry out any activity the law does not forbid and does not collide with good manners. Based upon this specification within Slovak legislation, municipalities willing to engage in inter-municipal cooperation have found legal support in laws other than the Municipal law. The existing examples of inter-municipal cooperation are the best proof of such a statement. The following sections provide some examples of inter-municipal cooperation in Slovakia.

4.2 Areas of Inter-Municipal Cooperation

Local self-governments' limited financial sources and limited personnel capacity, as well as the scope of services they have to provide within the public administration in Slovakia, are the main reasons municipalities associate their funds and provide some services together. Basically, there are two main groups of local self-government competencies: administrative and economic-social. So far, the municipalities have used inter-municipal cooperation prevalingly for provision of their economic-social competencies. These competencies expect fairly high investments and a number of municipalities, mostly small ones, do not have them.

In the section about local self-government financing, we pointed out the increase of operational expenditures of local self-governments as an expense of investment expenditures. This fact is the main reason for municipalities to engage in inter-municipal cooperation. Further reasons are the fact that provision of economic-social services is more economically efficient as the joint activity of more municipalities and the lack of qualified personnel to provide administrative competencies for local self-governments.

Out of the forms of inter-municipal cooperation allowed by Slovak legislation, the following two are the most common:

- 1) *Regional associations of universal character.* In Slovakia, an Association of Cities and Villages in Slovakia (ZMOS) exists. It associates 2,719 cities and villages in order to articulate the joint interest of local self-governments.¹³ There are 57 regional associations operating within ZMOS. The scope of their activities is very universal. They focus on the creation of conditions for the different forms of above-mentioned municipal relations, formulation of joint comments and organization of joint steps in issues concerning local self-government. ZMOS transfers information within local self-governments; it negotiates needed laws

with ministries and deputies of Parliament; it is the commenting body within the law-approving process; it organizes the education of the elected representatives and employees of local self-governments.

The Union of Cities of Slovakia, the interest association for Slovak cities, follows a similar goal. It comprises of 43 member cities and 8 rural municipalities. This association was created due to specific city problems resulting from the structure of local self-governments. According to the founders, these specificities were not sufficiently articulated via ZMOS.

- 2) *Specific purpose associations of municipalities* are being created in order to provide greater competencies in economic and social development. The majority of such cooperation is a one-purpose cooperation of municipalities. Complex research into such cooperative activities has not yet been done in Slovakia. Even ZMOS, as an association of local self-governments, does not follow such activities by its member municipalities.

Inter-municipal cooperation in Slovakia is developed mostly in the areas of: municipal waste management; waste water treatment, tourism, protection of the environment, regional education, culture, education, social issues, coordination and planning of development activities, joint projects of technical infrastructure (gas and water supply), organization of regional advisory and information centers, regional development agencies, healthcare and joint enterprise (in cooperation with the private sector).

Act no. 416/2001 covers the transfer of some competencies from the bodies of state administration to municipalities and self-governmental regions. It also sets up potential areas of inter-municipal cooperation: social help, local and regional culture, elementary and specialized education and retraining, primary and secondary contact healthcare, Construction Act implementations, and water management.

4.3 Examples of Inter-Municipal Cooperation

4.3.1 Economic and Social Services

Municipal Waste Management

Inter-municipal cooperation mostly focuses on finding solutions to the issues of municipal waste management. Perhaps the best-elaborated scheme is offered through the example of the Komplex association of Sered'. In this association, the city of Sered' and ten surrounding rural municipalities joined together to address the issue of localization of a landfill and organization of waste management. Similar associations exist among surrounding municipalities of Malacky. Six municipalities, including the city of Malacky, and four private companies joined to address the waste management issue. The

association of 48 municipalities, and the city of Sobrance, focuses on construction and management of landfills too. There is cooperation between 15 municipalities in the regional association of Podunajsko on a project of municipal waste, including its separation and use. The landfill issues are the purpose of the regional association of municipalities for the 23 municipalities of the Laborec area. There are several associations of municipalities for the separation of waste in Slovakia, for example, the Association of municipalities for the waste separation—SPIS—and the Association of Municipalities for Waste Separation in Javorina-Bezovec.

Komplex-Lobbe s.r.o., Sered'

In 1992, the interest association Komplex was established in Sered'. Its main objective was the preparatory works for, and operation of, the landfill in Pusté Sady. The membership comprises of ten neighboring villages of Sered' and the city of Sered'. Basic capital for the association consists of financial contributions by the founders, subsidies, credits and operational profits. The founders funded the association with financial assets totaling Sk 5.56 million, proportional to their population. Pusté Sady did not have to contribute financially since the landfill was to be built on its territory. New members must be approved by 3/5 of the members and have to pay a fee in the amount of Sk 40 per capita. At the same time, every member shares the obligations of the association proportional to the volume of contribution made to the association. The bodies of the association are: general assembly, board of directors and supervisory board. Every participating village has a representative in the general assembly (the mayor or an appointed person). The general assembly elects the members of the board of directors and supervisory board for four year terms. The membership in these two bodies cannot be combined. In 1994, Komplex-Lobbe s.r.o. was founded to carry out collection and disposal of waste and operation of the landfill in Pusté Sady. The Komplex association contributed to the landfill in Pusté Sady. Lobbe Slovakia s.r.o., a private company, contributed by financial deposit. Both parts have a representative in the general assembly of the company that secures they have to come to an agreement on every issue. The catchment area for the operating landfills is about 105,000 people. The contractors of the company are: 29 villages, 3 towns and 215 private enterprises. Three of the contract towns, Šála, Sered' and Hlohovec, contribute the largest shares to the landfill disposal. The members of the Komplex association pay special, discounted fees for the municipal waste disposal. The landfill complies with the European ecological standards and it should be in operation for 30–40 years.

Lobbe Slovakia engages in five more similar companies projects (in cooperation with other municipalities) dealing with municipal waste, special waste management, and landfill disposal.

Water Supply and Sewage Management

Based on the Civil Code, there are seven municipalities associated in order to construct the sewage collection via Varín—Terchová. Five member municipalities, of the regional association Podunajsko, cooperate in the sewage and water treatment facility issue in Hamuliakovo. Since 1997, Trenčianske vodárne a kanalizácie (Trenčín water supply

and sewage system company) has operated a joint action by 48 municipalities in the Trenčín district. Two municipalities, Studienka and Lakšárska Nová Ves, joined their funds for the construction of a mutual drinking water reservoir.

Tourism

Development of tourism is the third area of frequent inter-municipal cooperation. Such activities are primarily connected to development of rural municipalities, ecology, and protection of the environment. The interest association of nine municipalities, Slovenský raj, is one example of such cooperation. The main mission of the association is to coordinate tourism development activities and to provide maintenance and repair for technological facilities located in the national park belonging to the municipalities. The funds for its activities are provided by the contributions of the participating municipalities, the State environmental fund, and other commercial entities. There are associations similar to this one, such as the association of municipalities in the Detvianska Huta area (joint development of agritourism), the association of ten municipalities in the Nitra area, the garden of Europe, the association of municipalities in the Maríková valley for rural tourism and agritourism Zomda (five municipalities), Ivamoza (three municipalities by Ivánka pri Dunaji), etc.

Agency for Development of Tourism in the Tatras Region

The Regional Association of the Tatras and by-Tatras Municipalities has been operating since 1993, when the Association of Historical Tatras and by-Tatras Municipalities changed its name. This Association founded several companies as a direct outcome of the inter-municipal cooperation. In 1993, four towns and 11 villages, together with further private companies, established a publishing company called Marmota Press. This publishing company deals with the publication of periodicals and non-periodicals, promotion materials and promotional activities. Even though Marmota Press's connection to tourism is more than obvious, the original idea was actually to rescue the publisher of regional weekly. The municipalities' share in Marmota Press is 29%.

Marmota Press deals only partially with the tourism issue. More complex cooperation in the area of tourism is dealt with in the region through the Agency for Development of Tourism in the Tatras Region, established in 1996. The founders consisted of 18 municipalities, 34 private companies and five non-governmental organizations. The Agency registered as a non-profit organization and later on changed its legal status into association of legal and physical entities.

The bodies of the Agency are: the general assembly, board of directors and supervisory board. Every member has one vote in the general assembly with no relation to the volume of its contribution. The board of directors consists of nine members. Four members represent public sector (municipalities), three members represent private sector and two, non-governmental organizations. The supervisory board consists of three members. One member represents the public sector and two, the private sector. In 1998, the Association had 130 members, when new members from the Liptov and Orava regions joined the Agency.

Originally, the funding was intended to be multi-source funding. Besides regional sources (members' contributions), they also intended to finance from the existing tourism projects taking place in the region. Since these projects ended in 1998, members' contributions became the primary financial source. Municipalities contribute Sk 3 per capita. Private companies contribute proportional to their turnover. The annual member fee for individual private person (not as a citizen of municipality or enterprise) is about Sk 300.

The main purpose of the Agency is marketing and promotion of tourism products within the territory of member municipalities; collection, analysis and provision of information for the members and contractors; organization of trainings and conferences oriented to exchange experiences within the Agency; special consultancies; search for financial sources for the regional tourism development funds; and strategic planning for sustainable development of tourism within the territory of member municipalities.

Healthcare

Inter-municipal cooperation has also developed in less traditional areas, such as healthcare. This is especially the case if healthcare is not the responsibility of the local self-government and is fully provided by the state administration.¹⁴ The accumulation of funds in four municipalities by Šárovce, to be able to purchase special medical equipment for the local doctor, is an example of short-term inter-municipal cooperation. The cooperation of seven municipalities on the left bank of the Váh River is an example of long-term inter-municipal cooperation. These municipalities accumulated their funds to build a dental clinic for their citizens to be located in one of the municipalities, Trenčianska Turná. The 23 municipal members of the Laborecký regional association of towns and villages established a foundation to finish one section of the hospital in Medzilaborce. Six municipalities near Gemerská Poloma worked in partnership with the local doctor in providing healthcare services for the citizens.

Social Welfare

Partially, social welfare belongs among the responsibilities of local self-government. For example, the Social care center Podhorie, and the Service center of social care in Krásna Ves, created by the regional association of municipalities located in upper Bebrava River Valley. Another example is the social taxi for the five municipalities of the Pridunajsko region by Dunajská Lužná.

Podhorie

The distance to the district seat (Bánovce nad Bebravou) and location in the upper Bebrava River Valley inspired several citizens in the area to establish the civic association Podhorie. Initiation and support of developmental programs and realization of this, in the territory, were the main objectives of the association. Its activities developed in the areas of development of

local self-government, economy, ecology, social welfare, spiritual activities, culture, tourism, education, and publishing activities.

Based upon this civic activity, the local self-governments in this micro-region joined the Association of Municipalities for the Podhorie micro-region. The main goal of the association is the unification of efforts towards development of micro-region, and the strengthening of democratic governance and public administration. The eight participating municipalities total only something above 3,000 inhabitants. Individual municipalities delegated some responsibilities to Association and rationalized the operation of their administration.

The joint project in the area of social welfare is being realized in Krásna Vés. The former fire station was renovated and a facility for 15 citizens was created. The Center of Social Welfare, Podhorie, provides care for elderly citizens, including immobile citizens. The facility also provides care for citizens who need only part-time assistance, regular health care from a specialist, rehabilitation and catering for non-residents. It serves as a spiritual and cultural center for elderly citizens as well. The Agency of Domestic Nursing Services operates via the center as well. It provides nursing and rehabilitation, doctor's examinations and transportation by ambulance.

The financing of such facilities is a problem for municipalities. There are limited funds in municipal budgets and the individual patients' relatives are not willing to participate financially in social care.

Regional Development—Local Economy

Regional development agencies and information centers are an interesting area of inter-municipal cooperation. The municipalities engage in such cooperation directly or through the regional associations. The regional innovation center, Rovinka, is an example of a development agency. It aims at development of entrepreneurial activities in the Podunajsko region. It comprises of 24 municipalities. The society of the topolčiansko-duchonsky micro-region municipalities is a similar form of cooperation. Its primary goal is development and maintenance of tourism, activation of enterprising and overall development of the micro-region. It comprises of eight rural municipalities and the city of Topolčany. Workshops for entrepreneurs is just one of its activities. The association also built a bike trail and educational trail near the historical mountain railway and succeeded in getting its member, Podhradie municipality, ownership rights to the medieval castle, Topolčany. The regional advisory and information center established by the Regional association of the Tatry region municipalities in 1992 is another example of the second type of cooperation in this area.

4.3.2 Administrative Services

Although Slovak legislation enables local self-governments to create joint municipal offices, this form of inter-municipal cooperation is not common. Primarily, provision

of administrative competencies is the main area of such cooperation. Cooperation will probably develop more after 2002, when local self-governments start getting more competencies and small municipalities will no longer be able to carry them out (financial and personnel reasons). Despite the previous statement, it is not uncommon in Slovakia that the municipal offices of larger municipalities carry out payroll agendas or entire financial agendas for their smaller neighboring municipalities. The financial and payroll offices of the association of municipalities of Humenné, are such an example. The municipal office in Humenné provides these services for 68 municipalities. Individual municipalities proportionally contribute to the operation of the financial and payroll office in Humenne.

4.4 Evaluation of Existing Examples of Inter-Municipal Cooperation

Although, after 1989, identity of the municipality, its independence, autonomy and accountability for management of local affairs (see settlement structure analysis) are considered to be the basic spirit of the local community, there are some reasons for inter-municipal cooperation:

- Similar issues can be addressed more economically effective without losing autonomy;
- Resources necessary, for addressing existing issues sufficiently, exceed the expert and material availabilities of any of the individual municipalities;
- The nature of the provided service—drinking water supply, wastewater treatment facility, waste collection and waste disposal, etc.;
- Cultural, social or economic orientation of several municipalities creates the need for specific articulation of joint manifestations and joint activities;
- Communication and brainstorming support creative ideas, an atmosphere of solidarity and cohesion creates a good base for political and social stability in the given territories.

Examples offered suggest that service area for inter-municipal cooperation differs depending on the services provided. These service areas are most different in the provision of the economic-social services. Drawing a universal service area is easier in the area of administrative services. Mainly, regional and historical relations among participating municipalities influence the size of service area for joint municipal offices. Natural landscape is an important factor as well. Municipalities all located in one valley are more willing to join. However, they are willing to join, merely for provision of certain administrative tasks, without losing their law status.¹⁵

In some cases, inter-municipal cooperation is the only viable option for public service provision at the local level. Otherwise, it can be absent from a particular territory,

the municipality will have to merge with other municipalities, or a higher level of local self-government will provide the service.

Municipalities engage in inter-municipal cooperation mainly because they are short on the financial funds and personnel to carry out their tasks, as well as general inefficiency of their execution. Inter-municipal cooperation enables municipalities to accumulate financial and human resources. However, such accumulation can be insufficient too. Therefore, it is favorable to involve the private sector in cooperation (see Marmota Press and Komplex Lobbe examples).

Based upon inter-municipal cooperation in waste management, we can determine that the provision of economic tasks of local self-governments is more favorable through creation of a commercial company (Komplex–Lobbe). Participation in such a company can take various forms. Respecting the fact it provides public services, municipalities should have sufficient control rights included in the contract. Municipalities should be able to direct the activities of the company through their representatives in its bodies. Commercial companies not only allow private enterprises to participate in inter-municipal cooperation, but also foreign enterprises. The easing financial burden, otherwise put solely on municipalities, is the advantage to inter-municipal cooperation via commercial companies. Commercial companies enable production of new resources, for the further operation of the inter-municipal cooperation, without burdening municipal budgets.

Inter-municipal cooperation in tourism needs greater funds.¹⁶ Solution to this problem is often to engage more private companies in the tourism business. Then, these companies bear a significant share of financial costs for the operation of inter-municipal cooperation.

The results of existing projects in inter-municipal cooperation suggest that establishing simple and uncomplicated structures for inter-municipal cooperation is the best. Management, financial, and control (including accountability) relations must be highly transparent and spending on newly created administration and material needs cannot be inadequate. The one-task orientation of inter-municipal cooperation should be sustained, because associations for more general orientation (orientation to provision of more tasks) can disrupt the nature of territorial self-government itself.

The provision of services delegated by state administration bodies to the local self-governmental bodies is a significant influencing factor concerning the lack of funds for fulfillment of local self-governments' original tasks. Local self-governments are often delegated to provide state administration tasks and delegations that are not followed by the respective funds, however. In compliance to Slovak legislation, municipalities cannot refuse to provide any of the tasks delegated to them by the law approved by the National Council of the Slovak Republic. At the same time, the Constitution of the Slovak Republic and the Municipal law state that a municipality must carry out the task only if the funds to cover it are delegated by the law too. Therefore, if municipal-

ities do finance the tasks of state administration, provided by them from the municipal budgets, they act in conflict with the rules of the municipal property management, financing of municipalities, and creation and respect for the municipal budget. The ambiguity of the legal provisions, and various interpretations of the respective laws, has resulted in illegality of some municipal activities. Local self-government contributes to provision of tasks assigned by state administration under public pressure. Such activities occur mainly in the areas of education, healthcare, public transportation, culture, gas supply construction and energy facility construction. Through such activities, municipalities break their duty to exclusively appreciate the property of municipality [Nížňanský, 1998].

4.5 The Willingness of Municipalities to Engage in Inter-Municipal Cooperation

Self-government representatives' attitudes towards participation in inter-municipal cooperation can be derived only from partial surveys. In Slovakia, general surveys on this issue do not exist. The Ministry of Interior for the Slovak Republic carried out a survey on the willingness of municipalities to provide services in the area of education and social care after decentralization from state administration (Ministry of Interior of the SR 2000). In the sample municipalities under 5,000 inhabitants³, 76% of the municipalities intended to provide administrative tasks for these services after their decentralization, individually through their municipal office. Only 17% of municipalities intended to use inter-municipal cooperation. The largest support for inter-municipal cooperation was expressed in the smallest municipalities, up to 200 inhabitants (61%), and in municipalities with 200–499 inhabitants (30%). This fact supports our argument about fragmentation of settlement structure in Slovakia and the consequent inability of smaller municipalities to provide all the services assigned to local self-government. The intentions differ according to the type of facility as well. Only a slight majority of municipalities, up to 200 inhabitants (53%), intended to use inter-municipal cooperation in the area of daycare. As for elementary schools and facilities of social care, a clear majority of smallest municipalities (77–88%) intended to use inter-municipal cooperation. As for elementary schools, support for inter-municipal cooperation prevailed also in municipalities with 500–999 inhabitants.

Mayors in the Podhorie micro region municipalities support our argument about the greater willingness of small municipalities to engage in inter-municipal cooperation [PHARE, 1998]. While the mayors of smaller municipal members of the Association of municipalities of the Podhorie microregion praised existing inter-municipal cooperation, the mayors of larger municipalities were more reserved. Basically, the mayors who did not have any social case in their municipality did not see any reason to engage

in inter-municipal cooperation in the area of social services. From this, we can derive that municipalities engage in inter-municipal cooperation only after they get into problems with public services delivery themselves.

As for legal forms of inter-municipal cooperation for provision of these services, the mayors preferred the legal entity upon the agreement of public character (38.1%). Two further forms favored by the mayors were inter-municipal cooperation upon agreement for the taking over of competencies and tasks by one of the participating municipalities and creation of a specific association of municipalities for the sake of joint provision of tasks.

The way the mayors expected the tasks, decentralized to municipalities and provided through inter-municipal cooperation, to be financed suggests a strong sense of autonomy amongst local self-governments' representatives and distrust in other municipalities. Over a half of the mayors preferred the transfer of state funds to the budget of the municipality, where the facility is located. Basically, it is the way it works now. Today, the funds are transferred to a particular facility and not to an individual receiver of a given service. Only a quarter of municipalities favored the transfer of funds to each participating municipality and these municipalities would, consequently, contribute proportionally to the joint delivery of service (Ministry of Interior of the SR 2000).

4.6 Conclusion

There are basically two ways for territorial self-government to provide public services under the financial limitations of local self-governments:

a) Through mandatory cooperation.

The minimal size and service area for a basic unit of local self-government is defined by the law. Such cooperation is inevitable, mainly for service provision delegated to local self-governments by the state administration.

For example, a local self-government carries out the tasks of state administration in the area of Construction Act provisions. Not every municipality has the personnel capacities to do so. Therefore, the municipality that would carry out these tasks for other municipalities must be appointed to the defined criteria. Similar situations also exist in other areas. Designation of service areas can be the basis for defining the lowest administrative units of local self-government.

b) Through voluntary cooperation.

This type of cooperation can mainly be developed with the provision of original competencies of municipalities (economic-social competencies). Inter-municipal cooperation creates respective service areas for individual services provided by local self-governments. Historical development of the settlement structure in Slovakia, popular attitudes and local self-governments'

attitudes suggest that the voluntary nature of service provision through inter-municipal cooperation should persist. Recognizing fragmentation of settlement structure (as one of the main causes of municipalities' inability to carry out their tasks), the system of economic motivation of municipalities leading towards inter-municipal cooperation must then be thoroughly elaborated. In compliance with democratic principals, it is more appropriate to let citizens decide (through their elected representatives—local self-government), which way of service provision they would prefer. The first way of inter-municipal cooperation makes public services provision in municipality more effective. The second path is an individual provision of public services and citizens may have to bear the negative side effects, like local self-governments' financial shortage and consequent inability to properly address the problems of the municipality. This decision should not be left for bureaucrats in state administration. There are several problems connected to their decision-making, mostly reflecting the level of their responsibility and the level of their knowledge about the particular local problems.

Mayors' opinions suggest that they are apprehensive about loss of municipal identity and independence when some forms of inter-municipal cooperation are used [Ministry of Interior of the SR, 2000]. At the same time, the fear of small municipalities lagging in the system of central municipalities can be noted. Another source of fear is belief that the deficit, of financial funds for provision of economic and administrative tasks, would increase. Municipalities, therefore, prefer looser forms of cooperation and put emphasize on the voluntary principle of cooperation (in the selection of the type of cooperation as well). Based upon their opinions, the joint municipal offices should be created within micro regions, territories smaller than the former sub districts or recent districts.

5. SERVICES DELIVERED AND LOCAL DEMOCRACY

5.1 Citizens Participation in Local Self-Government

Creation of local self-government in 1990 restituted citizens' options for direct participation in development and management of municipalities. The Municipal Law provides the following options:

- Municipal elections;
- Local referendum;
- Participation in public citizen meetings;

- Participation in the municipal council meetings;
- Submission of petitions, proposals or complaints to the local self-government;
- Questioning the representative of the local self-government.

Through these initiatives, the citizenry can control the local self-government. Local self-government has to inform citizens about the municipal budget proposal as well as the municipal financial statement. It must allow the public to comment on the changes of physical plan of municipality.

Municipal elections are generally considered the most important right citizens have to participate in local self-government. A public survey undertaken by FOCUS agency in March 1997 demonstrated that popular engagement in public affairs mainly begins and ends with their participation in the elections [Nižňanský, 1998]. In November 1990, 64% of eligible voters participated in the first municipal elections. Turnout in another municipal election, in November 1994, was only 52.2%. Four years later, in 1998, the turnout slightly increased to 53.9%. Contrary to this development of turnout in municipal elections, the turnout in parliamentary elections permanently exceeds 75% (1994–75.6% and 1998–84.2%). Fairly low turnout in the 1998 municipal elections does not correspond to polls that indicated about 75% of eligible population intended to vote in municipal elections [FOCUS, 2000].¹⁸ Intended participation in elections was highest in municipalities up to 1,000 inhabitants (84.4%). This decreased according to the size of municipality. In two largest cities of Slovakia, Bratislava and Košice, only 64% of eligible voters intended to vote in January 2000.

Citizens' participation in municipal elections is derived from the interest of citizens in solving the problems of their municipality. From 1997 to 2000, only 26.1–28.7% of population in Slovakia attempted to solve the problems of their municipality [FOCUS, 2000]. In 2001, it was only 19% [IVO, 2001]. Similar to the election turnout, the citizens of smaller municipalities, under 2,000 inhabitants, were engaged the most by trying to solve the problems of their municipality (35.9%). The greatest rate of citizen passivity was recorded among the people living in municipalities between 50,000–100,000 inhabitants (only 14.4% attempted to participate in addressing the municipal problems). Out of those who attempted to address the problems, 60% have experience the problem solved. This suggests that municipal problems can be solved when the public questions the local self-government. It also increases the perception of a meaningful existence for self-government. Even though self-government is fairly successful in addressing the issues after dialogue with the citizenry, citizens do not engage in solving municipal problems. The main reason for this is that citizens do not know how to contribute to addressing municipal problems (26.1%). Another reason is the lack of time the citizens are willing to spend in order to help the municipality (20.1%). The third reason, identified by the survey, is that citizens are not interested in helping to solve municipal problems (12.6%) [FOCUS, 2000].

The use of particular forms of citizen involvement on local issues depends on the size of municipality (Table 3.17). In smaller municipalities, under 2,000 inhabitants, the people use mainly personal contact with representatives of the local self-government and public presentation of opinions during public meetings. Influence through indirect contact with the local self-government through influential acquaintances, non-governmental organizations, political parties or letters are more often used in larger municipalities. The public does not use the church when attempting to question local self-government, even though the church is one of three poles of power in municipalities, as identified by citizens [IVO, 2000].

Table 3.17
The Forms Citizens Use to Make Local Self-Government
Solve Local Problems [%]

| | Under 2,000 | 2,000 – 5,000 | 5,000 – 20,000 | 20,000 – 50,000 | 50,000 – 100,000 | Bratislava, Košice | Slovakia Total |
|--|----------------|------------------|-------------------|--------------------|---------------------|-----------------------|-------------------|
| Addressing the Mayor or the Municipal Councilor in Person | 96.3 | 92.9 | 86.5 | 88.8 | 75.7 | 76.0 | 90.3 |
| Presentation During Public Meeting | 46.8 | 49.4 | 30.5 | 40.3 | 42.8 | 40.8 | 43.1 |
| Influential Acquaintances | 30.8 | 28.9 | 39.6 | 57.6 | 42.6 | 40.8 | 36.9 |
| Letter to a Representative of the Local Self-Government | 26.2 | 42.5 | 37.3 | 42.6 | 55.4 | 46.9 | 36.1 |
| Presentation During the Municipal Council Meeting | 27.0 | 29.5 | 27.0 | 19.1 | 39.8 | 16.1 | 26.4 |
| Community Organization, NGO, Social Club | 21.2 | 34.8 | 27.1 | 22.4 | 47.1 | 28.1 | 26.6 |
| Political Party | 13.9 | 16.6 | 27.6 | 30.3 | 22.0 | 10.6 | 18.8 |
| Church | 9.6 | 9.6 | 10.9 | 2.6 | 3.3 | 0.0 | 7.7 |

SOURCE: FOCUS, 2000.

5.2 Public Attitudes Towards Local Self-Government

When the citizens of Slovakia were asked to express which territorial unit they have the closest relationship to, they identified the municipality they lived in [Tiburg University, 2000]. Two thirds of Slovakian inhabitants are proud of their municipality [IVO, 2000]. Local self-government has also been continually evaluated as one of the institutions with the highest level of public trust. In 1998, local self-governments had the trust of 59% of inhabitants. In 1999, the trust increased to 62%. In 2000, 56% of inhabitants

trusted local self-government [UVVM, 1999; FOCUS, 2000]. The highest level of trust is in the smallest municipalities, under 2,000 inhabitants. As many as 70% of their citizens trust in the activities of their local self-governments. The level of trust decreases with the increasing size of municipalities. The lowest level of trust is among the citizens of the two largest cities, Bratislava and Košice, at only 47.8%. As for distrust, the highest level of distrust can be found among the citizens of municipalities between 20,000–50,000 inhabitants, at 47% [FOCUS, 2000].

The amount of information available to the public about the activities and decisions of local self-government is an important factor in the trust/distrust issue. Citizens, who have sufficient information about these, express the highest levels of confidence in the local self-government (78%). The people with no information equally trust and distrust in activities of local self-government. The survey shows an interesting situation. Amongst people who are not at all interested in the activities of local self-government, more trust in it than distrust it (45% vs. 38%) [FOCUS, 2000]. Overall, fairly low levels of public information about local self-government activities exist. In 1997–2000, only 26–31% of citizens were informed sufficiently. Contrarily, about 42% of people did not have information about local self-government activities. About the same portion of people who are sufficiently informed, are not interested in any information about the activities of local self-government. The previous statement supports the argument about low citizen interest in the municipal life. Again, citizens living in the municipalities under 2,000 inhabitants are the best informed. In contrast, the citizens of municipalities with 20,000–50,000 inhabitants had the lowest level of information about local self-government activities. The percentage of uninformed citizens exceeds the percentage of informed citizens in all municipal size categories. As for sources of information, they rely mainly on neighbors and family (59%), local/regional radio stations and local/regional newspapers (39%). The following methods are used for getting information as well: announcements in the public places, various materials from municipal offices and public meetings with representatives of the local self-government.

Citizens perceive the mayor as the most influential person in the municipality (63%) [IVO, 2000]. On one hand, this finding can support the credentials of local self-government. On the other hand, it can also reflect the existence of the extreme authority of one person and the passivity of citizens (identified in previous analysis). The primacy of mayor is highlighted by the fact that the second most influential institution in municipalities, are the municipal councils, identified by only half of those who identified the mayor (31%). Further groups, according to their influence, are: local entrepreneur/s (26%), local state administration (23%) and church (18%). The perception of importance of local state administration in municipalities is often overestimated. The influence of the political parties is at about the same level as perceived by the mayors (14% vs. 10%). The distribution of power, according to individual poles, differs upon the size of municipality (Table 3.18).

Table 3.18
Poles of Power/Influence in Municipalities in the Slovak Republic

| Size of Municipality | Major Poles of Influence/Power in Municipalities | | |
|----------------------|--|------------------------|--------------------------------|
| Under 1,000 | Mayor | Local council deputies | Church, church representatives |
| 1,000–2,000 | Mayor | Local council deputies | Church, church representatives |
| 2,000–5,000 | Mayor | Local council deputies | Church, church representatives |
| 5,000–20,000 | Mayor | Local council deputies | Local businessmen |
| 20,000–50,000 | Mayor | Local businessmen | State administration |
| 50,000–100,000 | Mayor | State administration | Local businessmen |
| Bratislava, Košice | Mayor | State administration | Local council deputies |

SOURCE: IVO, 2001.

From this table, the basic division of Slovakia is visible. In villages (generally up to 5,000 inhabitants), the mayor, the municipal councilors and the church are the major poles of power. In towns, the poles of power are distributed among the mayor, the entrepreneurs and state administration. The perceived influence of the mayor decreases with the increasing size of municipality. In contrast, the power of entrepreneurs and the state administration increases with the increase of the size of municipality.

These facts confirm all the previous findings. The level of local democracy and the citizens' participation decreases with increasing size of municipality. The differences in the poles of power between rural and urban areas are related to rural areas remaining more traditional while urban areas are more modern. The question deriving from our analysis pops up: What is the proper size of a municipality? In regards to citizens' participation in local self-government, and their participation in addressing the municipal issues, a small size municipality is certainly more favorable. As the size of municipality increases, the interest of citizens in municipal issues, and local self-government as such, decreases.

5.3 Satisfaction with Local Self-Government Operation¹⁹

We have already mentioned there was a 56% confidence vote in favor of the local self-government in 2000. The percentage of people trusting in local self-government results from its success in addressing municipal problems and citizens satisfaction with its operation. The municipal problems, as identified by citizens, tightly correlate with the overall economic situation in Slovakia in 2000. When breaking down the sample by the size of municipality, there are differences in the prioritized problems. A shortage of jobs is the most important local issue in all the size categories, except for the two largest

cities, Bratislava and Košice. In these cities, employment ranked fourth in the order of importance behind crime, housing, and corruption in local self-government. In some regions, the unemployment rate exceeds 30% and, not surprisingly, employment was problem number one. The municipalities, however, have almost no tools for influencing employment in their territory because they do not have power over the necessary competencies to boost local economy. In municipalities under 2,000 inhabitants, the order of problems was as follows: sewage, access to sport and cultural activities, health-care and social welfare, transportation and road management, and education. Out of these areas, the local self-government has some competencies, but only in the areas of technical infrastructure. Even though municipalities have no competencies for delivery of healthcare, and broad range of social services, they engage in addressing these problems anyway and participate in addressing the problems with local elementary schools too. Following these issues, crime and corruption in local self-government were identified as the other problems. In municipalities between 2,000 to 5,000 inhabitants, the order of the issues were very similar. In these municipalities, housing was perceived as more important problem than sewage, and transportation and road management was identified as less important issue than crime and corruption in local self-government. The order of problems in the rest of the size categories was almost identical. This analysis suggests the inhabitants of smaller municipalities see more problems in the area of infrastructure (technical and social). While citizens living in large municipalities see more problems rather in the areas related to ethics (crime and corruption).

Satisfaction with the local self-government activities in addressing local issues is an inversed function of the importance of individual problems. Citizens are most satisfied with addressing the technical and social infrastructure. Contrarily, they are unsatisfied with addressing the issues of job shortage, housing, and crime. When looking at satisfaction in individual municipal size categories, the relationship between satisfaction and importance, outlined above, is preserved. The most important issues are addressed least successfully and vice versa.

Generally, the main reasons of why municipalities cannot address local problems are: the lack of funds, lack of competencies, and the lack of quality in the local self-government operation. Citizens of all size categories identified financial shortage being their reason for failure. For the rest of the reasons, we can see the differentiation. In municipalities under 2,000 inhabitants, lack of competencies was identified as a primary reason. Then, it was low quality of local self-governmental operation, insufficient participation by citizens, and political differences amongst the representatives of the local self-government. In municipalities above 2,000 inhabitants, low quality of local self-governmental operation was the major reason. Lack of competencies was one of the least influential reasons. Fairly high importance was attributed to the unwillingness of citizens to participate in the local issues addressed in municipalities between 2,000 to 5,000 inhabitants and 50,000 to 100,000 inhabitants (50% and 52.7% respectively).

6. CONCLUSIONS AND POSSIBLE POLITICAL RECOMMENDATIONS

6.1 Conclusions

Territorial Self-Government

Until 2002, territorial self-government operated only at a municipal level. The Slovak Constitution treats all municipalities as equal, with no differentiation based upon size. The size of municipalities ranges from population 2 (Príkra) to 447,345 (Bratislava). The scope of services delivered by any given municipality is the same, except for Bratislava and Košice. These two cities also provide some services, which in other cases would be provided by state administration (road network management, firefighters). By 2002, a majority of services was delivered by the state administration. In 2002, regional level of territorial self-government was established and a gradual transfer of competencies to territorial self-government had begun.

Settlement Structure

The settlement structure in Slovakia features high fragmentation (2883 municipalities) and a large portion of small municipalities (municipalities up to 1,000 people account for 69% of all municipalities and 16% of the total population of Slovakia). Such a fragmented structure stems from two major processes taking place in Slovakia in the second half of the 20th century. During state socialism, integration of municipalities reduced their numbers from 3,344 in 1950 to 2,694 in 1989. After 1990, rapid fragmentation started and continued on up to 2001 when the law began regulating the minimum size for newly created/separated municipality. Expert discussions on optimum size of municipality took place in Slovakia throughout the 1990s. Minimum sizes of municipalities between 3,000 and 5,000 inhabitants resulted from these discussions. The experiences in the small villages, during the period of state socialism system of central villages, restrained their higher amalgamation.

Economic Performance

The financial stance of local budgets is better than the financial situation of the public sector as a whole. In total, local budgets have been permanently in surplus throughout the last decade. Major sources of local budgets' revenues are shared in state taxes revenues, real estate tax, local fees, municipality property ownership and enterprise revenues, transfers from public budgets and loans. State tax revenues are distributed proportionally by the population, therefore, the revenues of municipalities do not differ by the size (per capita revenues). Real estate tax revenues account for 5.5% (over 100,001 people) to 23.3% (4,001–5,000 people) of local budget revenues. It peaks in the 4,001–5,000 inhabitants size category of municipalities. Non-tax revenues account for more than the

revenues from state taxes. They range from 19% (over 100,001 inhabitants) to 44.5% (50,001–100,000 inhabitants). Smaller municipalities depend on transfers from public budgets more than larger municipalities. These transfers consist primarily of subsidies to support provision of self-governmental functions in municipalities fewer than 3,000 inhabitants. Contrarily, smaller municipalities do not gain funds from loans to the extent larger municipalities do. Bratislava is the most indebted municipality in Slovakia.

As for expenditures, operational expenditures increase on expense of capital expenditures and credits related expenditures. The personnel expenditures are primary items of the operational expenditures of local budgets. They account for 25.2% of the operational expenditures and 16.1% of total expenditures. The highest expenditures are in municipalities with under 1,000 inhabitants and over 100,001 inhabitants. In the two largest cities, Bratislava and Košice, the expenditures stem from a two-level organization of local self-government in these cities. Capital expenditures per capita decrease with the increasing size of municipality. Debt related expenditures rise with the size of municipalities, culminating at 39% of total expenditures for municipalities over 100,001 inhabitants (2000).

Economy of Services Delivery

Administration of municipalities, the operation of municipal offices, and costs for the accounts of the elected local representatives total 21.4% of local expenditures. Expenditures for housing and construction account for 13.7% of total expenditures. Further significant categories of expenditures are transportation expenditures (10.7%) and local economy expenditures (9.7%). In 2000, ranking just after was protection of environment (6.5%). These expenditures consist of such services as public green care, cleaning and winter maintenance of local roads, and waste management. Analysis of local budgets expenditures in selected areas shows that smaller municipalities (up to 1,000 people) have significantly higher expenditures per service unit than municipalities with higher populations. Road transportation is an exemption from this statement. The expenditures of local roads per km increase with increasing size of municipality mainly due to the system of road tax revenue distribution as a primary source of funds in this area. The administration of municipal offices clearly shows the lack of economical sustainability, for municipalities with less than 1,000 people, when the operation of municipal offices accounts for as much as 42–49 percent of their total expenditures. Municipal activities towards economic development in their territory are limited to planning, construction of technical infrastructure, participation in commercial projects, and competencies in the area of real estate tax rates.

Inter-Municipal Cooperation

Legal settings for inter-municipal cooperation have existed in Slovakia since 1990. Major areas of inter-municipal cooperation are: municipal waste management; waste

water treatment, tourism, environmental protection, regional education, culture, education, social issues, coordination and planning of development activities, joint projects for technical infrastructure (gas and water supply), organization of regional advisory and information centers, regional development agencies, healthcare and joint enterprise (in cooperation with the private sector). The provided examples confirm these are reasonable ways to address the problems related to the size vs. capacity issue in delivery of some services. The municipalities are willing to engage in cooperation for delivery of economic and social services, but less willing in the area of administrative services. Geographical location, tradition of cooperation and size of municipalities are major factors that make municipalities conditioned to engage in inter-municipal cooperation.

Citizens Participation and Satisfaction

The options for citizen's participation in local self-government are defined in the Municipal law. The level of popular interest is best reflected in the local election turnout (about 54% in 1998). The public interest in local matters declines with the increasing size of municipalities. Active participation has a similar trend. Local self-governments enjoy quite a high level of public trust in comparison to other public institutes in Slovakia. The mayors are major poles of power and influence in municipalities of all sizes. In cities over 50,001 people, the influence of local council and church decreases in favor of state administration and the local business community. Local problems identified by citizens differ from the problems often publicized by the representatives of local self-governments. The public identified insufficient funds and competencies of local self-governments as being the major reasons for municipalities' failure to address the issues.

6.2 Recommendations

Due to the transfer of further competencies to local self-governments, the Slovak Republic must deal in more precise manner with the relationship between efficient size of local self-governmental administrative units and the impact of citizens on the scope and structure of provided services. It is impossible that all 2,883 municipalities would provide newly transferred tasks individually without respecting their different size and capacity (Příkra vs. Bratislava).

A document that deals with this issue does exist. It is the Concept of Decentralization (2001) and it has already been approved by the Government. It addressed the issue of the relationship between the size of administrative unit, the scope of delivered services and the influence of citizenry in deciding on the structure and quality of delivered services.

This document and our analysis of services delivery through inter-municipal cooperation (section 4) show the type of provided service does influence the decisions on the size of administrative units. The criteria, for defining an administrative unit's optimal size, differ by the type of service. Creating maximum efficiency and reflecting the influence of citizens on the service delivery are generally valid criteria, mainly for delivery of economic and social services. Further criteria must be included when delivering administrative services (decision making in personal areas), such as accessibility and number of decisions. Until recently, accessibility was measured through conventional means of transportation. Development of IT and electronic signature will decrease the importance of distance. At the same time, however, the necessity of knowing the specifics of a local environment by the public service provider will persist. Particularly, the administrative tasks that require knowledge of the local environment are those most requested (construction permits, social help, cadastral office, enterprises registering, etc.).

Our analyses showed small municipalities operated with financial severity and personnel, as well as a low overall capacity to carry out the necessary tasks. Based upon the recent experiences of local state administration offices operation, the financial and personnel severity of operation of the given services providers (current departments of district offices) becomes efficient at the size of 40,000 inhabitants. The financial analysis of municipal expenditures shows expenditures per capita decrease with the increasing size of the municipality (section 3.1.2).

For provision of administrative tasks of local self-governments, the Concept of Decentralization (2001) suggested that 169 municipalities should be administrative centers. In this network, the distance of citizens to the administrative office would not exceed 15 km and the size of unit would not be less than 5,000 inhabitants (extreme cases). The average size of the administrative unit for provision of administrative tasks of local self-government would be 32,000 inhabitants. The legal status of every municipality would be preserved and, consequently, the impact of citizens on the service delivery through elected representatives and through contracts between municipalities included in administrative unit.

However, the reform of public administration proposed by the Concept of Decentralization is not to be carried out after the Parliament's decision on self-governmental regions. The solution used today defines inter-municipal cooperation as the exclusively voluntary activity of municipalities. Municipalities can freely decide to provide services individually or in cooperation with other municipalities. However, all mandatory tasks of local self-governments must be delivered, with no exceptions for small municipalities with limited capacities.

The current size differentiation of local self-governments and the way it is addressed by law is not optimal for several reasons:

- It will not enable further significant decentralization of competencies to municipalities, mainly due to their fragmentation and the low capacities of the smaller ones;

- Direct connection between public service provision and the citizen's influence on it directly, or through elected representatives, will not exist in several areas;
- Fragmentation of local levels complicates territorial economic development;
- Fragmented local levels make administration more expensive (see 3.2.3).

Even though, in recent phases of public administration reform, the voluntary principle in inter-municipal cooperation rules, and our analysis of the municipalities' will engage in the inter-municipal cooperation confirmed by this, territorial reform of local self-government at municipal level must be prepared. The reason is basic and it is shown in our analyses. Small municipalities have no sufficient capacity to carry out their tasks while they must spend almost half their budgets on operation. Despite the fact that municipalities do not like mandatory cooperation, the increase of efficiency of local self-governmental operation is impossible if it is left to free will of the municipalities. Certain regulations must be implemented (mainly the small municipalities, with a few hundreds of inhabitants, that greatly value their separate existence above their financial severity).

Territorial reform of local self-government at the municipal level should be phased out. The settlement structure in Slovakia, and the requested quality of services, require a compromising solution between amalgamation (absolutely mandatory act) and inter-municipal cooperation (voluntary cooperation) as well as differentiation between these in individual regions. The compromise for the first phase could be based on the following:

- Mandatory amalgamation of municipalities under 200 inhabitants (about 382 municipalities with 49,000 inhabitants) or their mergers to larger municipalities. Their identity would be preserved through their status of local section; they would still have their councilors in the municipal council.
- Voluntary unification of municipalities into administrative units through amalgamation or inter-municipal cooperation associations to provide administrative tasks so that they create administrative units of more than 5,000 inhabitants.
- State administration bodies would oblige the municipalities that did not join the aforementioned associations, whose size is less than 5,000 inhabitants, to join it (then voluntary unification from previous item becomes voluntary only until it is realized by municipalities themselves).

Even though a 5,000 inhabitant threshold is not sufficient for establishing full administrative and financial capacity for local self-governments, it was selected as the first phase because this size enables creation of local government's own administrative capacities with different expertise, as well as their financial coverage. The process of amalgamation or association would affect about 96% of municipalities. The aforementioned steps would reduce the number of municipalities by 382 (from 2,883 to 2,501), reduce the number of administrative units, reduce the number of elect-

ed bodies while preserving democratic control over public service delivery. We can also assume that service delivery quality would improve.

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NOTES

- ¹ For a more detailed account of public administration development in Slovakia, see Horváth 2000.
- ² The adopted acts (302/2001 and 303/2001) changed the drafts, approved by the Government, for the number of self-governmental regions. Through this decision, the socio-spatial organization of Slovakia was broken. The borders of natural regions were not respected. The original proposal considered 12 regions ranging from 266,332 to 725,018 inhabitants. Such a division also respected the results of a public survey, that stated 66% of population in Slovakia identified a natural region with the territorial unit with the closest relation. Such an attitude by the population does have an impact on their participation in public affairs.
- ³ A municipality is called, in Slovak terminology, *obec*. Every municipality is a local self-government. Municipalities in Slovakia can be towns (*mesto*) or villages (*dedina*). Towns and villages can consist of several settlement units. In this study, towns/cities and villages are used as local self-governments. When the term municipality is used, both types are the subject.
- ⁴ A more detailed list of the local self-government competencies can be found in Horvath 1999, Municipal Law no. 369/1990 and Act no. 416/2001.
- ⁵ Even though under state socialism there was no local self-government, today's municipalities existed as statistical units of settlement structure. Therefore, when referring to municipalities in this subsection, we are referring to similar units as recent municipalities.
- ⁶ This is the personal experience of the authors taken from city council meetings, attitudes of representatives of its rural sections, as well as experience drawn during public meetings undertaken during work on the Concept of Decentralization and Modernization of Public Administration in 1999–2001.
- ⁷ ZMOS—the Association of towns and villages of Slovakia, an association representing the interests of local self-governments.
- ⁸ Debt related expenditures comprise of credit interest and principal payment and fees for credit administration.
- ⁹ We excluded bank operation expenditures that accounted for 20% of expenditures in 2000. These expenditures included mainly debt related expenditures—the aforementioned redemption of municipal bonds for Bratislava.
- ¹⁰ Until 2001. The scope of competencies of local self-governments expanded after 2002.

- ¹¹ The New Act on waste no. 223/2001 was approved in 2001. Starting January 1, 2002, every individual inhabitant of a municipality became the personal producer of municipal waste, not the municipality as a whole. Municipalities specify the fee for waste management per capita in compliance with local conditions.
- ¹² These provisions were incorporated by an amendment to Act no. 369/1990, Fall 2001.
- ¹³ The overall number of municipalities in Slovakia was 2,883 in 2001. ZMOS associates 94.3% of them.
- ¹⁴ Act no. 416/2001, concerning the transfer of some competencies from state administration bodies to municipalities and regional self-governments, changed this situation. Effective July 1, 2002, more tasks in healthcare and social care will become the responsibility of municipalities and regional self-government.
- ¹⁵ In 2001, the Open Society Foundation provided support funds for creation of joint municipal offices and these conclusions drew upon the submitted projects.
- ¹⁶ In 2001, the draft law on creation and financing of the tourism association was elaborated upon.
- ¹⁷ Only municipalities which had daycare, elementary school or social welfare facilities within its territory have been taken into account.
- ¹⁸ In February 1998, 69% of eligible population intended to vote in municipal elections [FOCUS, 2000].
- ¹⁹ This section elaborated upon the surveys undertaken by the FOCUS agency in 1997–2000.

Does Larger
Mean More Effective?
Size and the Function of
Local Governments in Bulgaria

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Does Larger Mean More Effective? Size and the Functioning of Local Governments in Bulgaria

Stefan Ivanov, Guinka Tchavdarova, Emil Savov, Hristo Stanev

1. INTRODUCTION

During the years of transition, the administrative and territorial structure in Bulgaria was characterized by relative stability of the lowest (decentralized) level of local government—the municipalities. The preserved size of local government here is in contrast with the relative fragmentation occurring in some of the other Central and East European countries. At the same time, a slight trend towards formation of new municipalities, through division of some settlements, has also been monitored in the recent years.

The fragmentation of municipalities strengthens the link between the population and the local government and is a manifestation of the democratic process rising forth after the collapse of communism. On the other hand, large size municipalities enable the provision of more and higher quality local services while other things remain the same. That is why, in the last 20 years, a trend towards aggregation of municipalities is being monitored in West Europe (for example the Scandinavian countries). Meanwhile, there are also examples of very fragmented structure and conservative attitude towards any administrative changes (France).

Fragmentation or aggregation—two approaches, each of them with advantages and disadvantages. Which of them is more adequate for the conditions, and for practice, in Bulgaria? How is the link between the population and the local government in the municipalities of different sizes established? How does this influence the democratic process of election, local representation, citizen satisfaction and citizen participation in decision making? Are large municipalities able to conduct more independent local policy and to provide more and higher quality services to citizens and businesses?

The goal of this paper is to answer to these questions by analyzing Bulgarian practice, evaluating the influence of the size of local government on the coverage and quality of the provided local services, and local democracy.

All municipalities in Bulgaria are placed in one of 5 groups for the purpose of the analysis:

- Group 1—Sofia (capital city of Bulgaria);
- Group 2—the municipalities with a population above 75,000 people;
- Group 3—the municipalities with a population between 30,000—75,000 people;
- Group 4—the municipalities with a population between 10,000—30,000 people;
- Group 5—the municipalities with a population below 10,000 people.

The paper has the following structure:

- Main macroeconomic indicators, characterizing the share of the local governments in the public sector;
- Presentation of the administrative and territorial structure of the country and the main characteristics of the municipalities;
- Analysis of the relationship between the size of local governments and their operation and the manifestation of local democracy;
- Presentation of national debates on the size of municipalities;
- Conclusions and recommendations for changes in the size of local governments and their operation.

1.1 Background Information

The share of local budget expenditures within the consolidated state budget and GDP in the '90s was characterized by strong changes. Several periods can be identified:

Period One—up to 1992. In this period, reforms in the country began (1991) leading to a strong decline in the share of consolidated state budget in the GDP. The share of central institutional expenditure declined, while the share of local budget expenditures increased in relative terms;

Period Two, from 1993 to the crisis of 1996–1997. The local finance reform practically started in the beginning of 1993 with the introduction of the intergovernmental transfer formula. A rapid decline of the share of local expenditures in GDP and in the consolidated state budget was monitored during the entire period. The total public expenditures were also declining, but their rate of decline was smaller than that of the local budgets;

Period Three, from 1998 to the Present. This period is characterized by a second stage of legal changes within local government activities and beginning of large structural changes in local budgets. In 1998, both the share allocated to local budgets from the consolidated state budget and the GDP increased as a result of the

introduction of the Local Taxes and Fees Act and the Local Budgets Act. A stable share of the local budgets in GDP ensued, while central government expenditures increased, leading to a relative decline in the share of local expenditures allocated by the consolidated state budget.

Since the beginning of the reforms in the country (1991–2000), the share of public expenditures in the GDP has declined by 13% during the entire period. This is the result of a 9% decline in the central government expenditures and 28% decline in the local government expenditures. This indicates that, during the entire period, the financial problems connected with the reform have been transferred from the central to the local governments.

Table 4.1
Share of Central and Local Government Expenditures
in the Consolidated State Budget (CSB) and GDP [%]

| Indicators | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| CSB/GDP | 67.48 | 51.11 | 53.66 | 56.09 | 54.41 | 49.09 | 43.65 | 39.50 | 40.27 | 43.52 | 44.53 |
| CG/GDP | 55.14 | 40.16 | 40.63 | 44.78 | 45.17 | 41.38 | 37.32 | 33.71 | 32.57 | 35.38 | 36.65 |
| LG/GDP | 12.34 | 10.95 | 13.04 | 11.30 | 9.24 | 7.71 | 6.34 | 5.79 | 7.70 | 8.14 | 7.88 |
| LG/CSB | 18.28 | 21.43 | 24.29 | 20.15 | 16.98 | 15.70 | 14.52 | 16.31 | 19.12 | 18.71 | 17.70 |

The relative contraction in the public institutions' budgets is logically explained and justified following a period of total state domination in economic and social relations. Meanwhile, local governments financial resources decline faster compared to those of the central government. The decline in local government financial resources is also greater than the decline in the public goods and services produced and provided by municipalities. The foremost reason for the present financial situation of municipalities is due to this lack of correspondence.

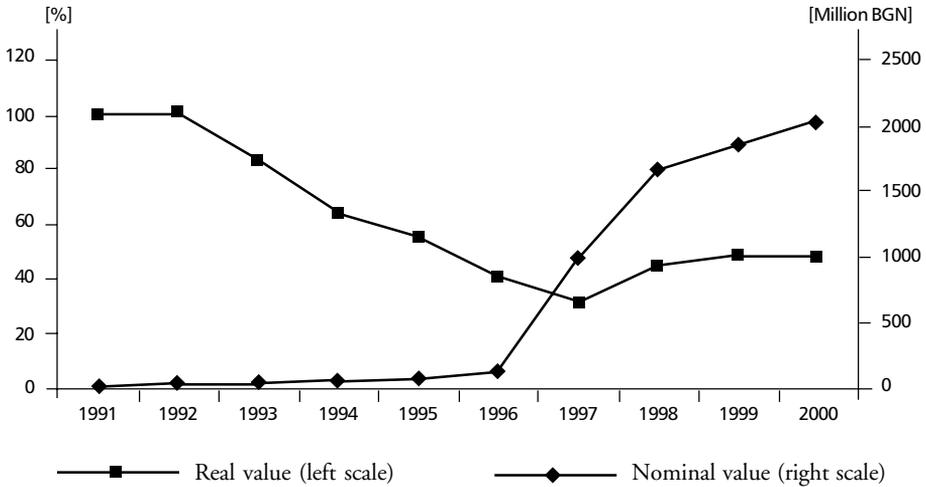
During the period studied, local revenues have also been influenced by inflation. The great nominal increase is accompanied with a strong decline in real purchasing power. The local budgets lost over 50% of their real purchasing power in the period between 1991–2000¹ (See Figure 4.1). This decline occurred entirely in the second period, between 1993–1997, when the municipal financial resources depreciated by almost 3 times. An increase in the real value of the local budgets was observed in 1998, followed by a period of stabilization and slight growth.

The non-elastic revenues from taxes and fees were the reason for the decline in the purchasing power of municipal financial resources. So, for example, tax bases and fees are fixed by law, it also determines the relative decline in the revenues resulting

from them. The wage increases are smaller than the growth of inflation, which, in turn, decreases the PIT revenues. Only the revenues from CIT are closer to the inflation rate, and only they can be defined as elastic.

Thus, inflation turns out to be the second factor in the declining financial power of local governments.

Figure 4.1
Influence of Inflation on Municipal Budget Revenues



Other characteristic features of local budgets are their total dependence on the state transfers (subsidies and shared taxes) and local governments’ growing budgetary deficits.

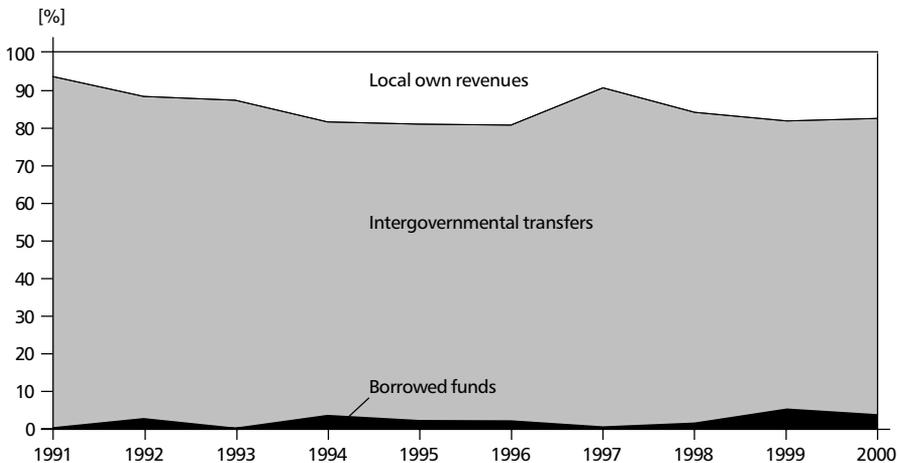
Intergovernmental transfers form between 80–90% of all local budget revenues during the period studied (See Figure 4.2). The structure of local budget revenues is practically formed under the definite influence of changes in the mechanism in allocation of the intergovernmental transfers. Centralization of the local revenues from shared taxes was observed throughout the first two periods (up to 1996). This increased the relative share of local revenues (local taxes, fees, revenues from local activities). Then, in the beginning of 1997, high inflation depreciated the local revenues by returning to the structure of the local budget revenues to where it had been during the first year of economic reforms in the country—1991. The new Local Taxes and Fees Act contributed significantly to the increase of local revenues in 1998. The revenue from borrowed funds had marginal importance for the local budgets. The country’s financial situation had been generally deteriorating within recent years and, in particular, the conditions for borrowing and issue of bonds. This led to a gradual decline in the number of

borrowed funds, which had almost reached zero by 1997. The few attempts in this sphere since 1998 are not likely to become a trend because this is all related to Sofia and the State Budget Acts for 2000 which imposed legal restrictions for local investment.

The crisis years between 1996–1997 were the origin of the local budget deficit. In 1996, the budget deficit amounted to 9.5% of local budget expenditures. Then, in 1997, the government tried to combat the local deficit by providing a significant amount of extraordinary subsidies—2.6% from all local expenditures. As a result of this, the deficit declined to 2.35%. The deficit has been growing ever since that moment, although the amounts provided during the certain years of extraordinary subsidies has continued to grow.

The centralization of municipal financial resources is the third reason for municipalities' current financial situation.

Figure 4.2
Structure of Local Budgets (1991–2000) [%]



1.2 Administrative and Territorial Divisions in Bulgaria

1.2.1 Brief History of the Changes in the Territorial Division of Bulgaria

Size of municipalities is very important for the formation of strong and democratic local governments. In relation to this, administrative reform that began in the early '90s, introduced laws that guaranteed the participation of the population in the formation of municipalities and their size.

The territorial division and the government tiers resulted from the guidelines provided by the Constitution, but two special laws concretely regulate them.

Five administrative reforms have been conducted in the last 50 years. These reforms included changes and transformations in the administrative units at the different government levels and they are illustrated by Table 4.2.

Table 4.2
Dynamics of the Administrative Reforms

| Year of the Reform | Administrative Units [Number] | | | Average Population in One Administrative Unit [Thousand People] | | |
|--------------------|-------------------------------|-------------------|---------|---|-------------------|---------|
| | Okrug | Intermediate Tier | Obstina | Okrug | Intermediate Tier | Obstina |
| 1947–1950 | 14 | 102 | 2,178 | 516.3 | 61.8 | 3.3 |
| 1959–1961 | 28 | — | 979 | 261.0 | | 8.0 |
| 1979 | 28 | — | 291 | 315.9 | | 30.4 |
| 1987 | 9 | — | 273 | 997.4 | | 32.9 |
| 2000 | 28 | — | 262 | 284.8 | | 30.3 |

Based on the analysis of the administrative reforms carried out during this period, the following conclusions can be drawn:

- The Bulgarian municipality (obstina) has become the main component in the structure of the Bulgarian state and is permanently present in Bulgarian society. The daily lives of the Bulgarian people are closely linked with their municipality, where important issues are resolved. The disadvantages of local government have been caused by the aspirations of the central government to subordinate it both administratively and financially. The strong positions and traditions of the municipalities within the vicinity of local government have been restored after the 1989 changes. Since 1991, local government has become constitutionally and legally regulated.
- Bulgaria maintains a two-tier administrative division, with the exception of the period between 1947–1959.

The administrative units existing on the regional tier are called okrug and oblast. They perform main central government functions. An intermediate unit, called *okolia*, has existed for a short period of time between the regional and the local (municipal) tier.

1.2.2 Situation of the Present Administrative Divisions in Bulgaria

According to the present Act on Administrative and Territorial Division of the Republic of Bulgaria, the country has a two-tier administrative structure, including two types of administrative units—*oblast*², and a municipality system.

The region (oblast) is an administrative unit of the central government. It comprises of one³ or several neighboring municipalities. The regions can be created and liquidated only under certain laws. A regional governor, appointed by the Council of Ministers⁴, governs the regions. Presently 28 regions exist. These were established by splitting the 9 regions that existed before 1999.

The regions are defined by the following parameters:

- Population: average population—285,000 people; minimum population—131,000 people (Vidin Region); maximum population—1,174,000 people (Sofia City Region);
- Territory: average territory—4,000 sq.km.; minimum territory—1,300 sq.km. (Sofia City Region); maximum territory—7,700 sq.km. (Bourgas Region);
- Number of municipalities: average number—9 municipalities; minimum number—1 municipality (Sofia City Region); maximum number—22 municipalities (Sofia Region);
- Number of settlements: average number—191 settlements; minimum number 38 (Sofia City Region); maximum number—478 municipalities (Kardjali Region);

According to the Constitution, *the municipality (obstina)* is the main (and by now the only) tier of local government in the country. A municipality is comprised of one or more settlements and its territory comprises of the territories of the component settlements. The municipality is then named after the administrative center. The municipality is a legal entity. It has own independent budget and property that it can use to serve its interests. The bodies of local government—the municipal council and mayor—are elected directly by the population within the whole municipality. The municipalities can still have their own structural units—districts and mayoralties. *Districts (raioni)* can be established in larger cities, with populations over 100,000 people, based on the decision of the municipal council or, within the large cities with population over 300,000 people themselves, based on the law. Presently, only the capital city of Sofia and the second and third largest cities have districts. The number of these districts is as follows: Sofia—24 districts, Plovdiv—6 districts, and Varna—5 districts. The *mayoralties (kmetstva)* can be established with the permission of the municipal council and they comprise of one or more neighboring settlements. Presently 1,696 mayoralties exist in Bulgaria. The number of mayoralties varies depending on the policies of the municipal councils. The mayoralty is a diluted municipal administration (located in a settlement) governed by an elected person.

Table 4.3
 Characteristic Features of the Regions in Bulgaria

| Regions | Territory (2000) | | Population | | Municipalities | | Settlements | |
|----------------|------------------|-------|------------|-------|----------------|-------|-------------|-------|
| | [sq.km] | [%] | [Number] | [%] | [Number] | [%] | [Number] | [%] |
| Blagoevgrad | 6,449.5 | 5.8 | 343,370 | 4.3 | 14 | 5.3 | 280 | 5.2 |
| Bourgas | 7,748.1 | 7.0 | 426,028 | 5.3 | 13 | 4.9 | 257 | 4.8 |
| Varna | 3,819.5 | 3.4 | 465,012 | 5.8 | 12 | 4.6 | 158 | 3.0 |
| Veliko Turnovo | 4,661.6 | 4.2 | 294,790 | 3.7 | 10 | 3.8 | 336 | 6.3 |
| Vidin | 3,032.9 | 2.7 | 131,215 | 1.6 | 11 | 4.2 | 142 | 2.7 |
| Vratza | 3,619.8 | 3.2 | 227,766 | 2.9 | 10 | 3.8 | 123 | 2.3 |
| Gabrovo | 2,023.0 | 1.8 | 144,849 | 1.8 | 4 | 1.5 | 356 | 6.7 |
| Dobrich | 4,719.7 | 4.3 | 217,012 | 2.7 | 8 | 3.0 | 215 | 4.0 |
| Kardjali | 3,209.1 | 2.9 | 164,958 | 2.1 | 7 | 2.7 | 471 | 8.8 |
| Kjustendil | 3,051.5 | 2.7 | 163,388 | 2.0 | 9 | 3.4 | 182 | 3.4 |
| Lovech | 4,128.8 | 3.7 | 171,236 | 2.1 | 8 | 3.0 | 150 | 2.8 |
| Montana | 3,635.6 | 3.3 | 183,353 | 2.3 | 11 | 4.2 | 130 | 2.4 |
| Pazardjik | 4,456.9 | 4.0 | 313,059 | 3.9 | 11 | 4.2 | 117 | 2.2 |
| Pernik | 2,394.2 | 2.2 | 150,318 | 1.9 | 6 | 2.3 | 171 | 3.2 |
| Pleven | 4,653.3 | 4.2 | 330,745 | 4.1 | 11 | 4.2 | 123 | 2.3 |
| Plovdiv | 5,972.9 | 5.4 | 721,905 | 9.1 | 17 | 6.5 | 215 | 4.0 |
| Razgrad | 2,413.9 | 2.2 | 146,444 | 1.8 | 7 | 2.7 | 101 | 1.9 |
| Russe | 2,877.4 | 2.6 | 270,161 | 3.4 | 8 | 3.0 | 84 | 1.6 |
| Silistra | 2,846.3 | 2.6 | 142,815 | 1.8 | 7 | 2.7 | 118 | 2.2 |
| Sliven | 3,544.1 | 3.2 | 220,273 | 2.8 | 4 | 1.5 | 120 | 2.2 |
| Smolian | 3,192.9 | 2.9 | 140,664 | 1.8 | 10 | 3.8 | 242 | 4.5 |
| Sofia City | 1,344.4 | 1.2 | 1,173,811 | 14.7 | 1 | 0.4 | 38 | 0.7 |
| Sofia Region | 7,062.3 | 6.4 | 273,882 | 3.4 | 22 | 8.4 | 284 | 5.3 |
| Stara Zagora | 5,151.1 | 4.6 | 372,849 | 4.7 | 11 | 4.2 | 206 | 3.9 |
| Targoviste | 2,710.4 | 2.4 | 142,872 | 1.8 | 5 | 1.9 | 199 | 3.7 |
| Haskovo | 5,533.3 | 5.0 | 279,067 | 3.5 | 11 | 4.2 | 261 | 4.9 |
| Shumen | 3,389.7 | 3.1 | 205,198 | 2.6 | 10 | 3.8 | 151 | 2.8 |
| Yambol | 3,355.5 | 3.0 | 156,631 | 2.0 | 5 | 1.9 | 109 | 2.0 |
| Total | 111,002.2 | 100.0 | 2,973,671 | 100.0 | 263 | 100.0 | 5,339 | 100.0 |
| Average | 3,964.4 | 3.6 | 284,774 | 3.6 | 9 | | 191 | |

Presently, 263 municipalities exist in Bulgaria. One new municipality has recently been established. Although legal possibilities for the splitting and merging of municipalities exist, their numbers are not very dynamic. Seven new municipalities have been established in the last five years. More intensive changes have been observed on the borders of the municipalities because populations within certain settlements may have actually requested that settlement locate within the borders of another municipality.

The municipalities are defined by the following parameters:

- Territory: average territory—422 sq.km.; minimum territory—44.4 sq.km.; maximum territory—1,367 sq.km.
- Population: average population—30,000 people; minimum population—1,300 people; maximum population—1,134,000 people.
- Number of settlements: average number of settlements—20; minimum number of settlements—1; maximum number of settlements—134.

Table 4.4
Distribution of Municipalities in Bulgaria
Based on Population in 2001⁵

| Groups | Number | % of Total | Population | % of Total |
|------------------------|--------|------------|------------|------------|
| 1,000–5,000 people | 28 | 10.65 | 94,582 | 1.19 |
| 5,001–10,000 people | 71 | 27.00 | 529,954 | 6.65 |
| 10,001–20,000 people | 77 | 29.28 | 1,124,143 | 14.10 |
| 20,001–30,000 people | 30 | 11.41 | 736,231 | 9.23 |
| 30,001–50,000 people | 24 | 9.13 | 872,738 | 10.95 |
| 50,001–75,000 people | 13 | 4.94 | 819,563 | 10.28 |
| 75,001–100,000 people | 8 | 3.04 | 673,633 | 8.45 |
| 100,001–160,000 people | 6 | 2.28 | 725,332 | 9.10 |
| Over 160,001 people | 6 | 2.28 | 2,397,495 | 30.07 |
| Total | 263 | 100.00 | 7,973,671 | 100.00 |

What is evident from the data is that the group of municipalities with populations of 10,000–20,000 people dominates with a total of 77 (or 29.28%) of the municipalities. They are followed by the population group with 5,000–10,000 people, with a total 71 municipalities.

1.2.2.1 Nature of Administration by Government Tiers

It has already been pointed out that the regional administration is part of the central government administration. The total number of employees in the regional administrations is small—about 1,100 people, 80% of whom have university degrees. Women prevail among the regional administrations at 64% of all employees.

The municipal administrations perform local government functions. The municipal councils have the legal powers to determine the structure and the number of employees in the municipal administration. However, many centrally determined legal requirements as well as restrictions, also exist. The number of municipal administrators is 18,000 people, over 40% have university degrees. The municipal administration is mainly localized in the settlement, which is the administrative center of the municipality. This houses 65% of the municipal servants. The rest of the municipal servants work within the mayoralties and the districts.

1.2.2.2 Legislation Regulating Changes in the Country's Territorial Organization

The Act on Administrative and Territorial Division of the Republic of Bulgaria, adopted in 1995, determines the way and the conditions for establishing and changing administrative units. The adoption of this law determined a new meaning for the term “administrative and territorial structure”. It means; “a continuous process for creation of administrative and territorial units in the country, for development of local government and conducting administrative changes according to the will of the population and the state interests”. The law is based on a number of principles, the most important of which are: the principle of territorial neighborhood; compliance between the size of the administrative units and their competencies and resources; the subsidiarity principle; the principle of succession and territorial stability of the administrative structure and democratic choice in decisions that effect particular administrative and territorial changes.

The law determines the following conditions necessary for creation of a new municipality:

- The total combined population of the settlements, to be included in the municipality, should be over 6,000 people.
- There should exist a settlement that can serve as the center, with established social and technical infrastructure and ensuring the servicing of the population.
- The maximum distance between the center of the municipality and the settlements should not exceed 40 km.
- The new municipality may include those neighboring settlements that can neither become a separate municipality nor join another neighboring municipality.
- The new municipality should be able to finance its expenditures with own source revenues, which should be equal to at least half of its average own

source revenues for the municipalities as approved by the state budget act for that respective year. For example, if the municipalities in the country support 50% of their expenditures with own source revenues on the average, then the newly established municipality should have the ability to cover at least 25% of its expenditures with own source revenues.

The new municipalities are created through:

- Separation of one or several neighboring settlements from an existing municipality and establishment of a new municipality;
- Merging of two or more municipalities within one municipality, or one municipality annexing another one;
- Splitting of one existing municipality into two or more municipalities.

The procedure for the establishment or liquidation of a municipality requires the enactment of a local referendum and a positive vote from the population. A decision by the Council of Ministers and a decree from the President should follow this. In cases of a positive vote from the population, it is possible for the government to decide not to establish a new municipality. However, the opposite is impossible: to create/liquidate a municipality following a negative vote from the population.

The establishment of districts (as components of the municipality) is based on some conditions for the number of population (over 25,000 people). Districts can be established in cities with populations over 100,000 people. The mayor proposes, and the municipal council approves, the establishment of districts. This procedure is not applied in the case of districts established in the capital city and in cities with populations over 300,000 people because their territorial division is subject to special laws.

The establishment of a mayoralty (as a component of municipality) requires a population over 500 people and capacity for the performance of functions assigned by the municipality. The procedure also includes a referendum. The municipal council can only make a decision after a positive vote from the population of the new mayoralty.

The country's main changes in the administrative and territorial structure can be performed through mergers, divisions, annexing, separation and liquidation. The legislation oversees when each of these procedures is performed. Referendums are always required for the municipalities and the mayoralties. No such requirement is needed for the districts.

The legislation also regulates the procedures for changing the center of the administrative unit, the name of the settlement, creation of a new or liquidation of an existing settlement, giving "city" status to a village, etc.

The main features of the present legislation concerning administrative and territorial structure can be summarized as follows:

- Legal criteria are used to establish each category within the administrative unit. These criteria are objective and easily determined;
- All changes in the administrative and territorial division are done based on clear procedures and taking the will of the population into consideration;
- Continuous change, pending the will of the population, is guaranteed but only permissible two years after passing similar legislation;
- The authorized bodies cannot impose authoritarian decisions when the population has voted negatively against it;
- Each act can be claimed in court.

Special legal codes are needed for the establishment of regions and changes in their borders. The general procedure for such changes does not envisage a referendum. A decision of the Council of Ministers is needed to separate one or several settlements from one municipality and include them in another municipality on the territory of another region.

1.2.3 Local Government Disparities

1.2.3.1 Demographic and Settlement Structures

As it has been noted in the present paper’s introduction, the municipalities are placed in 5 groups based on population.

Table 4.5
Distribution of Municipalities by Groups Based on Population

| Groups | Population | Number of Municipalities | % of Municipalities | % of Population | Average Population per Municipality |
|---------|---------------|--------------------------|---------------------|-----------------|-------------------------------------|
| Group 1 | Sofia | 1 | 0.38 | 14.79 | 1,211,531 |
| Group 2 | Above 75,000 | 20 | 7.63 | 33.21 | 136,011 |
| Group 3 | 30,000–75,000 | 39 | 14.89 | 21.42 | 44,990 |
| Group 4 | 10,000–30,000 | 110 | 41.98 | 23.40 | 17,426 |
| Group 5 | Below 10,000 | 92 | 35.11 | 7.17 | 6,387 |
| Total | | 262 | 100.00 | 100.00 | 31,263 |

The municipalities differ not only based on population but also based on their major demographic characteristics. The data on Table 4.6 indicates that decline in the size of municipalities is accompanied by:

- Decline in the share of urban population. The amount of urban population within the country averages about 68%. However, the rural population dominates in most municipalities.
- Deterioration of the demographic structure of the population. This is manifested mainly through the decline in the working age population and the increase of the elderly population. The integral evaluation is represented by the coefficient of demographic structure⁶. The table indicates that the most favorable population structure is observable in the larger municipalities while the most deteriorated population structure is observable in the smaller municipalities.
- Intensifying depopulation process. The reasons for this are both negative natural growth and migration abroad. The last column of the table indicates that depopulation affects the municipalities in all groups, except Sofia.

Table 4.6
Main Demographic Characteristics of Municipalities

| Groups | Share of Population | | | Coefficient of Demographic Structure | Share of Urban Population | Changes in Population (1999/98) |
|---------|---------------------|-------------|-------------------|--------------------------------------|---------------------------|---------------------------------|
| | Below Working Age | Working Age | Above Working Age | | | |
| Group 1 | 15.49 | 61.97 | 22.54 | 101.52 | 95.69 | 100.99 |
| Group 2 | 17.84 | 62.09 | 20.07 | 110.50 | 87.05 | 99.59 |
| Group 3 | 18.23 | 56.70 | 25.07 | 99.99 | 55.98 | 99.12 |
| Group 4 | 18.59 | 52.95 | 28.46 | 94.59 | 44.90 | 99.17 |
| Group 5 | 16.14 | 47.60 | 36.26 | 80.67 | 35.46 | 98.59 |
| Average | 17.63 | 57.72 | 24.65 | 100.00 | 68.09 | 99.52 |

SOURCE: Data from the National Statistical Institute, 31 December 1998 and 31 December 1999

Table 4.7
Territory and Settlement Structure

| Groups | Territory [sq.km] | Average Number of Settlements | [Sq.km/Settlement] |
|---------|-------------------|-------------------------------|--------------------|
| Group 1 | 1,344 | 38 | 35 |
| Group 2 | 583 | 36 | 16 |
| Group 3 | 677 | 32 | 21 |
| Group 4 | 423 | 20 | 21 |
| Group 5 | 272 | 12 | 22 |
| Average | 424 | 20 | 21 |

The country’s unfavorable demographic processes still has not significantly affected the settlement structure. Settlements are relatively evenly distributed across the country. Data indicates that larger municipalities have larger territory and include more settlements. The splitting of municipalities in the 1990s affected the group of smallest municipalities and contributed to their small territory and the few settlements within them.

1.2.3.2 Socio-Economic Disparities

According to data from the Year 2000 Annual Report⁷, the level of socio-economic development within the municipalities is evaluated based on 10 indicators represented by an integral indicator. The average level of these indicators for the groups is presented in Table 4.8.

Table 4.8
Level of Socio-Economic Development of the Municipality Groups for 2000
(Average for the country=100)

| Groups | Integral Indicator for Socio-Economic Development |
|---------|---|
| Group 1 | 195.53 |
| Group 2 | 105.19 |
| Group 3 | 84.98 |
| Group 4 | 80.54 |
| Group 5 | 75.48 |

The data indicates a relationship between the size of municipalities and the integral evaluation of their socio-economic situation. Evaluations for groups 4 and 5 would rank even lower if about 10 municipalities, those with territory where large industrial companies are located, were excluded. These 10 municipalities are among the most developed municipalities in the country, according to the per capita value of the indicator.

This fact distorts the concrete economic indicators even more. Table 4.9 indicates that the municipalities from group 4 emerged ahead of the municipalities from group 3 based on the indicators created by corporate profit and monetary incomes per capita. So, for example, only 6 highly developed municipalities (out of the total 110) from group 4 made 32% of the profit and had 46% of the income of the entire group. Using the same logic, 6 developed municipalities from group 5 (out of a total of 92) formed, respectively, 31% and 32% of the total profit and the income of their group. That is why the influence of these municipalities should be taken into account when interpreting the results.

The size of municipalities and the social indicators are in reverse relation. The problem with the distorting influence of the small and highly developed municipalities does not exist here yet. Relatively high unemployment and large groups of population receiving social benefits are what has been noted here.

Table 4.9

Main Socio-Economic Indicators by Municipality Groups in 2000
(Average weighted values, average for the country=100)

| Group | Corporate Profit | Monetary Incomes | Social Benefits | Unemployment Rate | |
|---------|------------------|------------------|-----------------|-------------------|------------|
| | | | | 31.12.1999 | 31.12.2000 |
| Group 1 | 250.74 | 226.72 | 32.77 | 26.31 | 25.01 |
| Group 2 | 92.94 | 101.85 | 80.87 | 81.51 | 81.21 |
| Group 3 | 52.03 | 64.24 | 107.39 | 111.68 | 112.54 |
| Group 4 | 76.37 | 64.71 | 142.71 | 145.53 | 146.13 |
| Group 5 | 42.24 | 52.06 | 165.76 | 156.73 | 157.12 |
| Average | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

The data from the table indicates significant disparities between Sofia and the rest of the municipalities based on all the presented indicators. In fact, Sofia occupies 5th place in the ranking of municipalities based on the level of socio-economic development. The difference between Sofia and the small, highly industrialized municipalities is that the social and economic indicators for Sofia are relatively evenly distributed. In contrast, some indicators for the small-industrialized municipalities have very high values and others have very low values.

Such even distribution of the values of the socio-economic indicators is also noted for the large municipalities in Group 2. The larger municipalities have values lower than the average for the country as a result of the shut down of major industrial enterprises and decreasing incomes. Such municipalities are Vidin, Pernik, Sliven, Yambol, Pazardjik, etc.

1.2.4 Political Mechanisms and Political Representation

The main municipal bodies entitled by law to make governmental decisions are the municipal council and the mayor. The municipal council is the representative body for the local government that determines the policies for development of the municipality, adopts the budget, and ensures the management of municipal property. The

mayor performs executive functions. The mayor directly manages the municipal administration as well as ensures the performance of the municipal budget and the decisions of the municipal council.

The *municipal council* comprises of the elected municipal councilors. The Local Government and Local Administration Act determines the number of municipal councilors based on the population of the specific municipality. The number of municipal councilors varies from 11 to 61 people. The procedure for electing municipal councilors is determined by the Local Elections Act. Municipal councilors are elected on the basis of proportionate representation. The registered political parties, or coalitions, register their candidates on independent lists. These are blocked lists, they cannot be changed during the vote. Independent candidates not linked with any party may also participate. A committee, comprising of a certain minimum number of voters that have signed the nomination petition, submits their nomination. The distribution of the positions depends on the votes and is based on the d'Hondt method. The mandate of the municipal council is 4 years.

The local elections held at the end of 1999, elected 262 municipal councils with 5,249 municipal councilors. Men prevailed among the municipal councilor seat takers (79.1%).

The *mayor* of the municipality and the mayor of mayoralty, for settlements with population over 500 people, are elected directly by the population of the municipality for a 4-year mandate. This procedure is outlined in the Local Elections Act. The elections for mayor take place in two rounds, based on the majority system. The leadership of political parties and coalitions propose the candidates for mayors. Independent candidates can also run for mayor. The candidate who gains the absolute majority of votes in the first round, becomes mayor. A second round is organized if none of the candidates has been elected. The second round takes place a week after the first round and only the first two candidates may participate. The candidate who gains the most votes becomes mayor.

The mayor nominates and the municipal council elects, in a secret election, one or more deputy mayors for the municipality. The municipal council is based on the nomination of the mayor elect, by the secret vote of the mayors' representatives. The mayor's representatives are elected by the municipal council to represent the mayor in settlements with populations below 500 people. Legislation says that the powers of the mayor's representatives should be determined by the Regulations for the operation of the municipal council and the municipal administration, adopted by the municipal council.

In the local elections that took place at the end of 1999, 262 municipal mayors and 1,696 mayors of mayoralties were elected. Over 40 political parties and coalitions participated in the elections and over 20 of them are represented through the elected mayors and municipal councilors. The independent municipal councilors nominated

by committees form about 4% of the total number of municipal councilors. Over 15% of the elected mayors, were independent candidates.

The election rules in the country are valid for all municipalities, regardless of size. The only exceptions to this rule are the numerous mandates within the municipal councils, depending on the population size of the municipalities.

Role of the Political Parties

Political parties can participate directly or indirectly in the political life of the municipalities. The *direct participation* of political parties occurs during the election process, in which the political parties form election lists and perform election campaigns. The *indirect participation* of political parties in the municipal policy is enacted through: the municipal councilors; groups of municipal councilors united on party principles; the chairperson of the municipal council (who is usually the representative of the party with most members in the municipal council); the statutory committees in the municipal council (if the party has a majority in them); the mayor of the municipality (if he/she has been nominated by a certain political party). The participation of political parties is more active in large and medium size municipalities.

The relationship between the mayor and the local leaders of political parties is mainly connected with the executive activities. Problems may occur when the mayor belongs to one political party and the majority of municipal councilors come from another party. Legal prerequisites exist that state the mayor should resign when 2/3 of the municipal councilors vote against him. The law forbids the mayor, the deputy mayors and the mayor's representatives to participate in the leadership of political parties and/or to participate in any commercial activities.

1.2.5 Allocation of Functions Among Tiers of Administration. Reforms Affecting Allocation of Functions. Inter-Municipal Disparities in the Scope of Local Services

The public sector in Bulgaria consists of three government tiers: central, regional and local. The regional level comprises of 28 administrative diluted units of the central government that do not provide public services. Their main responsibilities consist of managing state property in the respective region, coordination of regional units of the line ministries, preparation and execution of the National Plan for Regional Development, etc. They do not have revenue raising authority, nor their own budget. So, in terms of service provision responsibilities, they cannot be included into the study.

Public services are organized in nine major functions, each of them containing a number of activities. The central and the local governments provide services in each of these functions, as the ratio of their shares in the consolidated public expenditures varies for the different functions. Local governments spent around 18% of total public expen-

ditures (i.e. 70–55% of the public expenditures) in education for years 1990–2000, 75–42% in health, 5–8% or above in social assistance, 40–65% in housing, etc.

The main public services have three functional features:

- 1) Prevailing state services—administration, defense, public order and security, social insurance and social care, economic activities, etc.
- 2) Prevailing municipal services—housing and public utilities.
- 3) Mixed services—education, health and culture.

Serious changes in the amount, and the share of, municipal expenditures have been documented in two functions—education and health. In the first half of the 90s, the municipalities financed about 70% of the educational expenditures. In the recent years, this share dropped to 55–57%. The change was caused by the fact that the expenditures for the secondary professional schools and the schools for disabled children began to be financed by the state.

There is a similar trend in health care. The reason in this case was the gradual introduction of the health insurance system, which begun in 1999. By the end of the health care system reforms in 2003, municipal expenditures are expected to be about 15% of total public expenditures.

The state and the municipalities share the expenditures for cultural affairs and the municipalities have a relative level of independence in decision-making.

The municipalities presently perform 56 main types of activities through which they provide local services for each of the nine function areas. There is no municipality engaged in all 56 of the activities. Table 4.10 presents the number of activities provided by the various municipality groups.

Table 4.10

Number of Local Services Provided Based on the Size of Municipalities

| Municipality Groups | Municipalities [Number] | Services [Number] | Share from All Services [%] |
|---------------------|-------------------------|-------------------|-----------------------------|
| Group 1 | 1 | 48 | 85.71 |
| Group 2 | 20 | 34 | 61.07 |
| Group 3 | 39 | 25 | 44.60 |
| Group 4 | 110 | 18 | 32.81 |
| Group 5 | 92 | 13 | 23.80 |
| Average | 262 | 19 | 33.76 |
| Total | 262 | 56 | 100.00 |

The greatest number of public services—48—is provided in Sofia. This number decreases with each group, extending down to a total of 13 services for the muni-

palties with populations below 10,000 people. Two factors most influence the number and scope of local services:

- The territorial distribution of public institutions with regional importance—schools, boarding houses, hospitals, etc.
- The specific features of the various types of municipalities and the specifics of their population—urban/rural, daily flow of passengers, main business, etc.

1.2.6 Financial Resource Structure

The main sections of revenue going to municipal budgets are:

A) Intergovernmental Transfers

These are formed by two main sources—subsidies and shared taxes. Table 4.11 presents the role of these sources in the formation of local budget revenues.

Table 4.11
Share of Intergovernmental Transfers within the Local Budget Revenues [%]
(Total Revenues=100%)

| Revenue items | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------------------------|-------|-------|-------|-------|-------|
| 1. Total intergovernmental transfers | 78.80 | 90.32 | 82.83 | 76.79 | 79.03 |
| of which: Subsidies (net) | 32.75 | 34.79 | 36.61 | 35.92 | 40.66 |
| Shared taxes | 46.05 | 55.52 | 46.22 | 40.87 | 38.37 |

The intergovernmental subsidies are general purpose and target subsidies. In recent years, they increased the share of the extraordinary subsidies allocated during the fiscal year. Most of these subsidies are accounted for as general purpose subsidies but, in practice, they are granted with detailed guidelines for utilization.

The municipalities receive part of their revenue from state (shared) taxes. The most important shared taxes are:

- the personal incomes tax (PIT), the revenue from this tax is allocated 50% for the local budgets and 50% for the central budget, and
- the corporate incomes tax (CIT), municipalities receive 10% of the taxable profit generated by companies.

B) Local Revenues

These are gathered from three main sources: local taxes, local fees and other local revenues (such as local activities—rents, sales, sanctions, interests, confiscation, leftovers, etc.). Table 4.12 presents the structure of these local revenues.

Table 4.12
Structure of Local Revenues [%]

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|----------------------|-------|------|-------|-------|-------|
| Total local revenues | 19.27 | 9.36 | 15.86 | 18.19 | 17.47 |
| Local taxes | 5.36 | 2.03 | 4.95 | 4.43 | 4.40 |
| Local fees | 4.85 | 3.16 | 6.21 | 6.13 | 6.69 |
| Other local revenues | 9.07 | 4.16 | 4.70 | 7.63 | 6.38 |

Since the 1998 local tax reforms, the share of local tax revenues has been decreasing (the municipalities have no power to determine their share); the share of local fees has slightly increased (the municipalities have limited powers to determine their share); the share of the rest local own revenues (in which the municipalities have full power to influence) has increased significantly.

C) Borrowed Funds

These are revenues from the issue of municipal bonds, loans from financial institutions, interest-free loans from the central budget, loans between the municipalities and loans from off-budget funds. Yet, they are not a significant source of revenues to the local budgets. In 2000, their share was 3.5%. In practice, 81% from the borrowed funds are used by Sofia and another 17% by the large municipalities in Group 2.

The distribution of local revenues by municipality groups in 2000, based on their size is presented in Table 4.13.

The data indicates:

- A U-form curve for distribution of all revenues per capita: with a significant disparity between the per capita revenues for Sofia and the rest municipalities; medium size municipalities having the lowest per capita revenues; and per capita revenue in the smaller municipalities higher in comparison to the larger municipalities;
- The levels of shared taxes, local revenues and borrowed funds decline with the size of municipalities;
- The intergovernmental subsidies increase when the size of municipalities decreases.

The data indicates that the high level of revenues in Sofia is mostly due to shared taxes. The small municipalities are ahead of the large municipalities in terms of revenues per capita, due to the large amounts of intergovernmental subsidies.

It is normal for small municipalities to receive more intergovernmental subsidies per capita. They must compensate for the shortage of funds caused by low fiscal potential and relatively low amounts of municipal property. However, the sky-rocketing

amount of total budget revenues per capita indicated for the municipalities from group 5, in comparison to the municipalities from groups 2–4, has no logical explanation. The municipalities from group 5, surely, finance fewer services compared to the other municipalities. The elevated amount of their necessary revenues could be due to: relatively higher municipal administrative expenditures compared to the large municipalities; services in these municipalities that are not so concentrated in the central settlement, used by less consumers, which makes them more expensive (calculated per capita); the unit costs for service production are higher—additional transport costs are needed, they have poor technical equipment, etc.

Table 4.13

Structure of Municipal Revenues in Municipality Groups for 2000 [%]
(Average for the Country=100)

| Groups | Total Revenues | Shared Taxes | Subsidies | Local Own Revenues | Borrowed Funds |
|---------|----------------|--------------|-----------|--------------------|----------------|
| Group 1 | 140.18 | 224.22 | 18.63 | 161.45 | 524.37 |
| Group 2 | 93.93 | 95.36 | 88.60 | 112.34 | 48.25 |
| Group 3 | 86.90 | 62.04 | 122.18 | 76.06 | 3.98 |
| Group 4 | 91.58 | 71.75 | 127.30 | 70.40 | 6.03 |
| Group 5 | 107.40 | 50.84 | 185.01 | 69.22 | 0.36 |
| Average | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

2. ANALYSIS OF THE RELATIONSHIP BETWEEN LOCAL GOVERNMENT SIZE AND THE FUNCTION OF LOCAL GOVERNMENTS AND LOCAL DEMOCRACY

2.1 Local Government Size and Citizens' Satisfaction. Citizen Participation

2.1.1 Citizen Participation

Citizens are able to resolve issues relating to the activity of the municipality and the public services it provides, but only within the competencies given to the municipalities. What is the scope of local competencies? According to one study⁸, all municipal

activity is divided in three groups based on the decision-making power of the local authorities—limited, shared, and full powers. “The data indicates that the municipalities actually manage slightly over 19% of their budget expenditures, as most of them (95%) are for current expenditures. It is alarming that the municipalities have little influence on labor expenditures, although they occupy over 45% of the total budgetary expenditures.”

The results from another study⁹ say “Our conservative methodology has reached the conclusion that the fiscal burden of the expenditures for the mandatory services, as assigned by the central government to the municipalities, amounts to approximately 60–70% of total municipal expenditures”. The municipal powers of expenditure management prevail only in the categories of public utilities, culture and economic activities.

In the conditions of financial shortage the municipalities are forced to reduce expenditures, which increases the relative share of the mandatory expenditures compared to the expenditures, which the municipalities can influence.

The municipalities have even more limited powers to influence revenues. They are free to influence the amount of the so-called “other local revenues” and, within certain legal limits, revenues from fees and loans. This makes about 12–15% of all revenues going toward the municipal budgets.

It is evident that legislation limits the local possibilities for taxing the population, accumulating financial resources and making decisions on major issues related to the provision of local services. The municipalities provide a certain set of municipal services because they are obliged by law to do so and the citizens pay taxes and fees because they are also obliged to do so. The population cannot trace the link between the taxes that it pays to the municipality and the quality of services. Nor do the local governments assist in resolving existing problems. All this remains an obstacle for the creation of links between citizens and local governments.

All these statements are supported by the results of a sociological survey¹⁰ conducted in three municipalities—a small municipality (Boichinovtzi), a medium size municipality (Berkovitzza) and a large municipality (Montana). The citizens there are rather uninterested in the workings of the local governments. They feel they are not, and are actually not, informed of the sources of local revenues and the local activities. The lack of interest and the unawareness increases with decreasing the size of municipality. So, for example, 30.2% of the population within the large municipality declared that they were not interested in the workings of the municipality. For the medium size and the small municipalities, these percentages were respectively 40.9% and 44.8%. In the large municipality, 4.7% of the interviewed people have attended a municipal council session. These percentages are, respectively, 2.6% and 0.9% in the medium size and small municipality.

Between 60% (large municipality) and 80% (small municipality) of the population do not have any view about the question: “What strategy for local services would you support if there were a shortage of financial resources?” The majority of the people prefer the scope of services to be diminished and that payment should not be increased.

The population is also not aware of the scope of municipal powers. However, it supports the opinion that the municipalities should have certain powers to set local taxes and fees, although limited under the law. Populations from larger municipalities are more likely to support increasing local powers in comparison to populations in the small municipalities.

2.1.2 Citizen Satisfaction

Two categories of issues are analyzed:

- The work of the municipal administration and the municipal council; and
- The quality of local services provided. Four groups of services are reviewed—technical,¹¹ social, waste collection, and maintenance of infrastructure. The quality of services provided and the fees paid are compared.

The work of the municipal administration is generally better regarded than the work of the municipal council (the positive evaluations are 21.7% against 3% and the negative evaluations—10.1% against 21.7%). The share of people who abstain from evaluation is great (31.6% against 49.5%). Citizens from small municipalities give relatively better marks for the work of municipal administration and the municipal council. For example, the positive evaluations for the municipal administration in the direction “big>small” municipality are respectively 13.2%, 23.5%, 29.8%.

It is common within the three municipalities that the people are satisfied with the quality of the technical and social services provided and they are not satisfied with the quality of sanitation.

The quality of technical services is better regarded in the small municipality. The best evaluations are given for the services related to the issue and certification of documents, and poorer evaluations are given to the services related to construction—issue of construction permits and permits for trade. Only these services receive mostly negative evaluations in the large municipality.

Child-related services—schools, nurseries, kindergartens and camps, receive the highest evaluations among the social services. Social assistance and health care receive the poorest evaluations. The citizens of the smaller municipalities give the highest marks (average evaluations: 4.77—small municipality; 4.22—medium size municipality; 4.03—large municipality).

Evaluations of the situation of sanitation are extremely negative in all three municipalities. There are no significant differences among the municipalities.

The services related to street maintenance, street lighting, water supply and sewage are evaluated in a different way by the certain municipalities. Evaluations of the streets are negative in the three municipalities. However, the share of the dissatisfied drops from 73% in the large municipality, to slightly over 50% in the smallest municipality. No correlation between the size of the municipality and the quality of service is monitored for the other two services. So, for example, the quality of street lighting in Montana receives mainly positive evaluation. The street lighting in the other two municipalities receives extremely negative evaluations and the citizens say that such services simply doesn't exist. The quality of water supply is positively evaluated in the largest and the smallest municipalities, and negatively in Berkovitz, which possibly encounters difficulties.

The rates of the fees are generally evaluated as normal, except for the solid waste fee, which is considered high. The attitude towards the rates of the fees becomes more negative with increasing size of the municipality.

The general conclusion is that the citizens of the small municipalities are more satisfied with the local services.

2.2 Catchment Areas

Some important municipal services cannot be provided by all municipalities due to a number of historical and economic reasons. Nevertheless, the citizens should have equal access to them. Health care is a typical example of this. The health establishments network consists of various types of hospitals and polyclinics. Often times, the citizens do not have any choice but to visit the regional hospitals because they are the only providers of specific health services. In smaller municipalities (groups 4 and 5), one can receive ordinary health services (regular check-ups, maternity consultations, etc.). The regional hospitals provide more sophisticated services for a number of reasons—equipment, qualified doctors, etc.

The municipalities continued to finance the pre-hospital and hospital medical assistance, despite the progress of the health reforms of 2000. The territorial distribution of the hospital network and its staff also determines the concentration of health services. Table 4.14 presents data for three types of health care institutions providing health services—regional hospitals, municipal hospitals and social care nurseries, for all municipalities in 2000.

Great disparities exist in the share of health expenditures within total budget expenditures—8.4% for the smallest municipalities and 30.5% for the big cities. The disparities in terms of health expenditures per capita are even greater.

The per capita expenditures for the regional hospitals providing unique services amounts to BGN 33 in the big cities. Part of these funds are spent for servicing neighboring municipalities from groups 4 and 5, which actually do not make these expenditures for their population.

The situation with the municipal hospitals is similar. The group 3 and 4 municipalities pay 3–4 times more per capita than the smallest municipalities, and they also service their population.

Social care nurseries are concentrated in the large cities and the smaller municipalities, again, do not pay anything for the use of their services.

The Local Government and Local Administration Act has envisaged mechanisms for the horizontal cooperation of municipalities in the provision of certain services and correct distribution of the expenditures. In practice, there are no such examples except for some capital improvement projects of regional importance. The main reason is related to the intergovernmental transfers system, which forms a major part of the budget revenues for the small municipalities. The general subsidies from the central government, by design, create several disincentives for better use of the funds—if one or more local governments achieve better results in terms of cost savings the subsidy will be reduced in the next year, by the amount of these savings. We need to add here, that the severe budget problems in the municipal sector, as a factor in general, did not contribute to horizontal cooperation.

There are many examples when specific groups of patients are transferred to neighboring municipalities due to break down of specific medical equipment. The compensation to the affected municipalities is directed towards the central budget to correct relations with the municipalities (subsidy/contribution).

The methodology for setting the annual intergovernmental transfers contains an element, which allocates funds to the municipalities in the form of objective criteria, as each of them has definite weight. All of the three types of health institutions should bring more funds to the municipalities, in whose territories they are located. The main problem to this approach is the residual approach¹² for determining the subsidies. Another problem is the inability to react to changes in the provision of the service during the fiscal year. In the best case scenario, the affected municipality may expect to receive part of the funds no earlier than the next fiscal year.

There are some examples of joint actions amongst municipalities for optimization of the expenditures and increasing service quality. For several years the municipalities worked under the guidance of the Ministry of Environment and Waters for the joint construction and made use of 14 regional solid waste landfills. With this approach, the municipalities using one regional modern landfill, received 100% of the capital construction costs and shared the operational maintenance costs on the basis of objective indicators, like amount of waste deposited, number of citizens, etc. This policy stimulates the local governments to reduce capital costs for the

Table 4.14
Municipal Expenditures for Major Health Services

| | Total Expenditures [BGN] | Health Expenditures [BGN] | Share of Health Expenditures in Total Expenditures | Health Expenditures per Capita [BGN] | Expenditures for Regional Hospitals [BGN] | Expenditures for Regional Hospitals per Capita [BGN] | Expenditures for Municipal Hospitals [BGN] | Expenditures for Municipal Hospitals per Capita [BGN] | Expenditures for Social Care Nurseries [BGN] | Expenditures for Social Care Nurseries per Capita [BGN] |
|---------|--------------------------|---------------------------|--|--------------------------------------|---|--|--|---|--|---|
| | 2,005,805,394 | 413,861,239 | 20.6% | 48 | 141,180,935 | 17 | 76,165,742 | 9 | 14,055,473 | 2 |
| Group 1 | 432,057,881 | 61,267,239 | 14.2% | 46 | 21,109,321 | 16 | 2,136,391 | 2 | 1,079,402 | 1 |
| Group 2 | 665,421,711 | 202,973,788 | 30.5% | 67 | 99,438,003 | 33 | 9,384,553 | 3 | 11,111,513 | 4 |
| Group 3 | 352,539,372 | 79,988,489 | 22.7% | 46 | 18,329,730 | 11 | 34,145,570 | 20 | 1,576,367 | 1 |
| Group 4 | 412,866,504 | 57,611,737 | 14.0% | 30 | 2,303,881 | 1 | 27,845,033 | 15 | 95,804 | 0 |
| Group 5 | 142,919,926 | 12,019,986 | 8.4% | 21 | 0 | 0 | 2,654,195 | 5 | 192,387 | 0 |

landfills and allocate more resources for improving the services within the city limits. They have a real interest in applying full-cost recovery with the solid waste fee and being more accountable to the taxpayers.

2.3 Relationship Between the Municipal Center and Individual Villages

On average, Bulgarian municipalities comprise of 20 settlements. The inter-municipal disparities vary from 134 settlements (Gabrovo municipality) to only 1 settlement (10 municipalities).

The municipal councilors are elected on the basis of the proportionate system. There are no electoral districts within the municipality that guarantee the representation of the certain settlements. This means that the representation of the certain settlements is not guaranteed by the local legislative assembly. For example, Razgrad municipality has a population of 71,000 people and 19 settlements—the city of Razgrad, the municipal center, and 18 villages. The municipal council of Razgrad municipality has 33 members—30 from the city of Razgrad and 3 from the villages. The population of the city of Razgrad constitutes 68% from the total population of the municipality, while its councilors total 91% of all municipal councilors. The other 3 councilors are from three, relatively large, villages within the territory of the municipality.

Mayors of the mayoralities are elected directly in the settlements with populations over 500 people. The municipal council then elects mayor's representatives for small settlements with populations below 500 people. These people are directly responsible for coordination with the municipal center.

The functions that the mayoralities perform, and their financial resources, are not clearly regulated by law. These issues are resolved by the municipal council, which means that different municipalities have different practices. However, observation confirms that the country's municipalities have very centralized structures. The municipality has a clearly outlined periphery (usually villages), whose problems are underestimated. If the example with Razgrad municipality is considered again—the municipal council makes all decisions concerning investment. The mayoralities have limited financial resources for operating needs. For example, 97% of the total municipal budget (13,131 thousand BGN for 2001) are managed centrally and go to the municipal center, while only 3% are allocated to mayoralities. The limited responsibilities and financial resources of the mayoralities cause certain pressures.

Some good practices are used for improving the interaction. For example, certain sessions of the municipal council and its committees can be conducted outside the municipal center. On specific days, the municipal administration may work in settlements outside the municipal center, etc. Nevertheless, there are certain problems

that can only be resolved by changing the Electoral system, i.e. the majority election of municipal councilors engaged with a certain election districts.

Legislation also envisaged another opportunity for ensuring better service to the population—the opening of municipal administration units, not only in certain settlements but also, in their neighborhoods. Due to the lack of funds and the extreme reduction in the number of municipal administrations, the municipalities do not implement this opportunity. The reduction of municipal administration staff is a result of requirements imposed by the central government.

The “municipality-mayoralty” relations were partially subject to two surveys of municipal decision-makers¹³ (mayors and deputy mayors). The first survey was conducted in September 1997, immediately after the adoption of the two major laws regulating local finance—the Local Budgets Act and the Local Taxes and Fees Act. The second survey was conducted after the enforcement of these two laws in the period of May–June 1998. Both of these surveys covered 25 municipalities. The main results are presented below.

Most of those interviewed (72%) shared the opinion that the mayoralties should not be separated into independent municipalities and 20% stated that this was appropriate only in some cases. About 52% of those interviewed stated that the separation of the mayoralties, into independent municipalities, would contribute to the more successful resolution of local problems, and 28% thought that this would increase financial and administrative independence. About 16% of the interviewees didn’t see any advantages in separation. The main disadvantages to this were lack of staff (84%) and the unnecessary expansion of the local administration (68%). Only 20% of interviewees stated that it was necessary to give more power to the mayoralties and 68% stated that the mayoralties should be given more power only in some particular spheres. About 32% of those interviewed agreed that the mayoralties should be provided with more power in the administration of the revenue, and 64% stated that the mayoralties should be given more rights in the administration of expenditures. Many of the interviewees gave more than one answer, with 24% agreeing that the mayoralties should be given more power for management of the municipal property located in its territory.

It is obvious that the majority of local authorities have a negative attitude towards the subdivision of the municipalities, but at least a relatively big number of them are willing to give greater competencies to the mayoralties in some spheres although.

The second survey indicates that the opinion of the interviewees, towards separating the mayoralties in independent municipalities, has not changed and has, in fact, become even more conservative in some aspects. For example, 52% of those interviewed in the second survey didn’t see any advantages in this (16% in the first survey). About 76% of the interviewees stated that this would increase administration,

and 32% gave a new answer—this would impede the relationship between the municipalities and the central authorities. The share of those who didn't wish to give more power to the mayoralties increased from 12% to 28%. The other 72% of interviewees admitted the granting of more powers, again emphasizing that these power should concern the management of municipal properties.

It is evident that the number of local government representatives, who are not likely to support the idea of fragmentation of municipalities, is growing. The number of those, likely to give more competencies to the mayoralties, is also significantly lower. This means that the tense conditions between the municipal center and the periphery are deteriorating. The process of fragmentation in Bulgarian municipalities is limited only by its complicated procedures and the minimal legal requirements for settlements separation into separate municipalities.

In the last five years, seven new municipalities have formed via separation of settlements. What do these settlements gain or lose? Table 4.15 presents the main parameters of their budget performance for 2000. The following conclusions can be drawn:

- The fragmentation process covers mainly small municipalities;
- All mother municipalities have a level of socio-economic development below average, and unemployment rates above the average, for the country (except Rhodopi municipality). Newly established municipalities have parameters, lower than those of the mother-municipalities. The only exception is Primorsko municipality;
- The mother municipalities have lower revenues per capita than the newly established municipalities. The main reason for this is that the newly established municipalities receive significantly higher intergovernmental subsidies. The latter have lower tax potential and accumulate lower local revenues per capita. The only exception is Primorsko municipality, which is in a relatively better financial situation than the mother municipality.

Thus, the socio-economic conditions, in the newly established municipalities and their influence on the revenue raising capacity, are worse compared to the mother-municipalities. However, this is compensated by a number of advantages, the most important of which are:

- Elimination of the dependence on former municipal centers. The newly established municipalities constitute an independent municipal council and decide independently (within their legislative powers) upon their local problems;
- Increase of financial resources, which are no longer centralized in the former municipal center. The newly established municipalities receive relatively higher intergovernmental subsidies;

Table 4.15

Major Indicators for the Mother Municipalities (in gray) and the Settlements, Which Have Separated From Them and Formed New Municipalities

| Code | Municipalities | Groups | Integral Indicator for Socio-Economic Situation | Rank | Unemployment Rate 31 Dec. 2000 | Budgetary Revenues per Capita | | | |
|-------------------|----------------|--------|---|------|--------------------------------|-------------------------------|--------------|-----------|----------------|
| | | | | | | Total | Shared Taxes | Subsidies | Local Revenues |
| 5213 | Tzarevo | 5 | 28.01 | 81 | 25.61 | 340.94 | 61.15 | 140.41 | 131.57 |
| 5208 | Primorsko | 5 | 41.33 | 16 | 14.43 | 598.34 | 132.36 | 249.75 | 210.04 |
| 6612 | Rhodopi | 3 | 29.72 | 67 | 13.82 | 183.88 | 70.35 | 79.49 | 28.51 |
| 6605 | Krichim | 5 | 22.86 | 133 | 30.29 | 241.81 | 40.30 | 147.41 | 35.83 |
| 6608 | Perustitza | 5 | 20.83 | 166 | 31.71 | 374.61 | 39.87 | 259.10 | 57.45 |
| 6614 | Stamboliyski | 4 | 24.61 | 104 | 25.72 | 207.30 | 44.97 | 109.49 | 36.50 |
| 7318 | Samokov | 3 | 24.59 | 106 | 22.70 | 190.58 | 41.71 | 104.34 | 28.28 |
| 7306 | Dolna Banya | 5 | 18.65 | 210 | 29.86 | 186.18 | 12.20 | 132.36 | 21.45 |
| 7405 | Maglizh | 4 | 20.34 | 175 | 26.76 | 192.02 | 29.12 | 127.14 | 25.31 |
| 7402 | Gurkovo | 5 | 17.75 | 229 | 29.42 | 230.90 | 24.85 | 176.60 | 15.00 |
| 7406 | Nikolaevo | 5 | 15.32 | 252 | 30.94 | 248.40 | 13.36 | 206.64 | 12.70 |
| Average- Bulgaria | | | 31.34 | 47 | 17.86 | 236.57 | 90.77 | 87.30 | 41.32 |

As a result, the population in the newly established municipality begins to receive relatively more public services, more investment in local infrastructure, etc. It is important to point out that local leaders receive greater opportunities to contribute and the constitution of the municipal administration offers new job opportunities.

2.4 The Impact of Size on Unit Costs of Service Delivery

The present section reviews the features of provision of a selection of typical municipal services based on the size of the municipalities. The analysis is based on standard financial and non-financial data reported for 2000, which all municipalities are obliged to provide.¹⁴

The most straightforward, and easily interpreted, analysis on the impact of size on unit costs may be constructed on administrative services (Table 4.16).

Table 4.16
Expenditures for Municipal Administration

| | Expenditures for Administration [BGN] | Share of Expenditures for Administration in Total Expenditures [%] | Expenditures for Administration per Capita [BGN] |
|---------|---------------------------------------|--|--|
| Total | 153,010,895 | 7.6 | 17.9 |
| Group 1 | 14,728,675 | 3.4 | 11.1 |
| Group 2 | 38,459,778 | 5.8 | 12.8 |
| Group 3 | 28,918,379 | 8.2 | 16.8 |
| Group 4 | 47,723,351 | 11.6 | 24.9 |
| Group 5 | 23,180,712 | 16.2 | 40.5 |

The table diagrams the municipal expenditures for administration, both executive (mayor's office) and for the city council. The share of these expenditures within the total municipal budget increases as the size of the local government decreases. There are mandated management functions that every local government must perform. So, in terms of budget effort, the smaller local governments pay more to share the resources available. This is partially due to the fact mentioned earlier that smaller local governments provide a smaller number of essential services and the composition of the municipal function area is different and size-sensitive. A similar pattern can be seen in the expenditures for administration per capita. Groups 4 and 5 spend more funds per inhabitant for the provision of similar services.

In the case of other services, interpretation of the data is much more difficult. The first reason is that not all municipalities provide all functions. For example, 10 municipalities do not provide sanitation services and nurseries are provided by barely over half (131) the municipalities. Secondly, real expenditures are often more dependent on the financial capacities of the local government than on unit costs differences. In the case of kindergartens, Sofia has above-average/per child spending, but it also provides more services to the children attending. On the other hand, the smallest municipalities group also has above-average/per child expenditures, but the main reason for this is the low number of children served (per institution) and the relatively constant operational costs of the institution.

In the case of secondary education expenditures/per student in Sofia, these are again above the national average. However, to interpret this fact, one needs to remember that Sofia is the only municipality which does not have arrears in payments. For example, it may turn out that the expenditures accounted in Sofia include salaries for 12 months, while in some other municipalities—it is for 11 months or even

less. Yet again, expenditures in the smallest municipalities are also above the national average, but this is due to the greater transport expenses for teachers and is necessary to ensure normal education process.

The per capita spending in big cities is also higher in the case of waste collection. The city of Sofia spends 5.5 times more funds per capita on waste collection than the smallest municipalities and 2.5 times more than the average for the whole country. This difference results from the combination of following factors: higher costs of waste transportation in big cities, wider scope of services provided (for example snow removal) and the quality of these services.

Available data does not allow precise measurement of the role of individual factors neither allow us to determine the real relationship between the size and unit cost using an assumption of the same scope and the quality of services. That is why we need to limit our firm conclusions in this section to basic administrative services.

2.5 Local Economic Development and Investment Policy

2.5.1 Local Economic Development

The Local Government and Local Administration Act does not contain explicit regulations for the municipal responsibilities regarding the local economic development. On the other hand, the municipalities are directly engaged in the provision of public utility services: water works, sewage, electrification, district heating, telephone service, maintenance of streets, squares, parks, gardens, correction of river beds, solid waste management, public transport, operation of municipal baths, laundries, hotels, garages and cemeteries (Article 11, point 6).

The National Regional Development Plan of Bulgaria was drafted in 2000. Every municipality participates in this plan, each with certain priority development areas that do not always coincide with the services listed above. The main disadvantage of the regional plan is that it is not supported with enough resources. Practice indicates that the municipality is a natural center and an active participant in initiatives promoting economic development, particularly in areas of local importance.

The transformation of property in the last decade created a significant amount of municipal property mainly by separating it from the state property. The newly acquired property became a major instrument for the municipalities for influencing the local economic environment. There are three major ways for using the property to stimulate economic activity:

- Privatization;

- Right to construction on municipal land;
- Management of municipal property.

The total revenue from property form slightly over 3% of the total budget revenues for the municipalities. This percentage varies from 3.5% in the smallest municipalities to 5% for Sofia. The small share of these revenues is mainly due to the fact that the municipalities are not able to finance investments with these revenues. Due to the lack of balance in the local budgets during the recent years, all budgetary revenues are used for financing current expenditures. This is a reason for decapitalization of municipal assets.

The revenues from concessions are insignificant—below BGN 1 million. In 1999, the state deprived municipalities of the right to concession of the waste collection and transportation, as well as activities such as gas supply. For activities like water works and sewage, the municipalities do not own the companies providing the service and, thus, the powers for giving concession cannot be used.

Table 4.17
Revenues from Municipal Property in 2000

| | Total Revenues | Revenues from Property | Share from the Total Revenues [%] | Sales | Share from the Total Revenues [%] | Concessions | Share from the Total Revenues [%] |
|---------|----------------|------------------------|-----------------------------------|------------|-----------------------------------|-------------|-----------------------------------|
| Total | 2,021,567,382 | 62,026,148 | 3.1 | 22,936,760 | 1.1 | 948,457 | 0.0 |
| Group 1 | 438,768,511 | 16,983,911 | 3.9 | 4,043,915 | 0.9 | | |
| Group 2 | 667,448,676 | 21,819,823 | 3.3 | 8,090,104 | 1.2 | 237,698 | 0.0 |
| Group 3 | 354,782,380 | 11,071,943 | 3.1 | 3,978,459 | 1.1 | 165,375 | 0.0 |
| Group 4 | 416,506,013 | 9,251,620 | 2.2 | 4,726,426 | 1.1 | 422,550 | 0.1 |
| Group 5 | 144,061,802 | 2,898,851 | 2.0 | 2,097,856 | 1.5 | 122,834 | 0.1 |

2.5.2 Investment Policy

Municipalities investment possibilities are restricted by law and their financial capacity has declined in the last 3–4 years. The annual state budget acts to limit the investment expenditures with which the municipalities can make their own revenues (up to 10% for 1998 and 1999, and up to 5% in 2000). The legal environ-

ment does not allow the implementation of successful bond issues. Commercial banks are unwilling to provide long-term financing to municipalities, due to their deteriorated financial state, the uncertain macroeconomic framework, and the impossibility to apply traditional bank instruments to the specifics of public finance.

Thus, the privatization revenues and the target subsidies for capital investment become major sources for financing municipal investments. Table 4.18 presents data for the budgetary capital expenditures for all municipalities in 2000 and the subsequent target subsidies.

Table 4.18
Local Budgetary Capital Expenditures and Target Subsidies
for Capital Investment

| | Total Expenditures [BGN] | Capital Expenditures [BGN] | Share of Capital Expenditures in the Total Expenditures [%] | Own Capital Expenditures per Capita [BGN] | Capital Expenditures per Capita [BGN] | Target Subsidy for Capital Investment [BGN] | Share of Capital Expenditures Financed with Target Subsidy [%] |
|---------|--------------------------|----------------------------|---|---|---------------------------------------|---|--|
| Total | 2,005,805,394 | 157,956,805 | 7.90 | 9.9 | 18.5 | 73,184,092 | 46.33 |
| Group 1 | 432,057,881 | 87,268,774 | 20.20 | 53.8 | 66 | 16,037,060 | 18.38 |
| Group 2 | 665,421,711 | 23,136,071 | 3.50 | 2.0 | 7.7 | 17,042,248 | 73.66 |
| Group 3 | 352,539,372 | 15,406,082 | 4.40 | 0.8 | 8.9 | 14,064,816 | 91.29 |
| Group 4 | 412,866,504 | 22,382,015 | 5.40 | 2.7 | 11.7 | 17,176,521 | 76.74 |
| Group 5 | 142,919,926 | 9,763,863 | 6.80 | 1.6 | 17.1 | 8,863,447 | 90.78 |

The municipalities allocated almost 8% of their budgets to capital investment. For Sofia, this share was over 20%. The capital expenditures mainly include rehabilitation and purchase of assets. The finance of capital investment is particularly low in the big cities, which allocate 3.5% of their expenditures for capital investment. This is over two times lower than the country's average. This is rather alarming because these municipalities hold over 35% of the population and concentrate mostly on urban infrastructure. Other analyses points out that most of the municipal financial problems are concentrated in this types of municipalities.

The smallest municipalities spend twice as much on investment per capita than the municipalities from group 2, but their investment is financed primarily with target subsidies from the central government—91%. Capital investment within medium

size municipalities from group 3 is financed in the same way. At least Sofia relies on target subsidies from the central budget—slightly over 18%.

The study clearly shows the link between the economic and financial potential of the municipalities, and their ability to invest. Sofia is the only city which issued euro bonds, to use as the main source of investment funds. The potential for municipalities to have their own investment, without relying on target subsidies, clearly distinguishes two groups of local governments—Sofia and all of the others. Municipalities from groups 2 and 3 take most of the financial burden of the reforms and, as an obvious result, their investment capabilities are close to zero. Most of the large and medium size cities mostly rely on privatization proceeds to fund their investment programs. The current financial strain makes the importance of the budget investment funds insignificant. Small cities only spend on investment resources that which they receive from the central government.

2.6 Inter-Governmental Relations—Does Number and Size of Local Governments Influence the Nature and Efficiency of Negotiations with Central Institutions?

The municipal structures have a positive influence on the negotiations between the central government and the local governments. The Bulgarian municipalities are relatively large and have the relevant internal potential for effective development and provision of public services. On the other hand, there exist institutionally strong organizations within the local governments. These are the National Association of Municipalities in the Republic of Bulgaria (NAMRB), 10 regional associations of municipalities, professional associations of municipal officials—legal experts, financial experts, chief architects, secretaries, environmental experts, etc.

The legal possibility for administrative and territorial changes did not produce significant fragmentation of municipalities. The size of local governments favors effective interaction with central government institutions, as well as the performance of the reforms for particular areas. The intensity of certain problems, mainly related to the financial link between revenue and expenditure responsibilities, additionally motivates the local governments to unite in their efforts to speed up reforms.

On national level, the dialogue between the central government and the local governments is carried out between NAMRB and the relevant executive and legislative bodies.

NAMRB, originally founded by 1/3 of Bulgarian municipalities, now unites all municipalities in the country and enables them to have a stronger “voice” in their negotiations with the central government.

Regional associations of municipalities are successfully used for considering the specifics of each municipality, from the views of different parts of the country. These

associations are established on a geographical principle—municipalities from the Danube region, from the Black Sea region, the Rhodopi mountain region, the Stara Planina mountain region, etc. The capacity of the municipal employees' professional associations is used in the preparation of important municipal proposals. The program that forms general NAMRB positions, guarantees that this position should only include proposals reached with consensus. Thus, the initial stage of discussions includes a variety of ideas, while the final stage of discussions is limited to summary proposals supported by all municipalities.

The specific interests of the different municipalities by size are ensured through the *representation mechanisms*. All executive and working bodies of NAMRB are formed based on the equal representation of large, medium and small municipalities, and the relevant geographical and political representation. Thus, the Executive Board of NAMRB (which is elected by the General Assembly) has 28% representatives from small municipalities, 33% representatives from medium size municipalities and 33% representatives from large municipalities. The mayor of Sofia's municipality is also a member of the Executive Board of NAMRB.

Coinciding principles are followed in the drafting of all key proposals.

Presently, the specialized committees of NAMRB are the main standing forums for reaching agreement on different interests. Better mechanisms for considering the specifics of the small municipalities are still sought. The relative share of population living in these municipalities is very small—1% in municipalities with populations below 5,000 people, and 7% in municipalities with populations below 10,000 people. Nevertheless, these municipalities are 38% of all municipalities in the country. The main problems with these municipalities, as discussed in the negotiations, concern their capacity rather than the specifics of their powers.

The eventual fragmentation of municipalities may impede the conduct of negotiations in the following directions:

- Finding acceptable solutions for some of the very smallest size municipalities;
- Delay in coordination among municipalities for formulation of common positions;
- Use of the municipal fragmentation for political purposes;
- Winning or losing influence among the political parties in power;
- Threats of new centralization due to the rationalization that the municipalities have insufficient capacity;

No tendency for increasing the number of municipalities is observed. The municipalities started to develop good and motivated positions in their on-going negotiations with the central government.

3. DESCRIPTION OF THE NATIONAL DEBATES ON THE SIZE OF LOCAL GOVERNMENTS

In Bulgaria, two public political debates regarding the size of local government have commenced in the past ten years.

The first political debate began in 1990–1991, when the Constitution and the Local Government and Local Administration Act were drafted. This debate continued, with several interruptions, until 1995. It includes two significant steps. The *first step* was made after the democratic changes by the first National Assembly with the participation of some of its statutory committees, many members of parliament, members of government, experts and academia. The discussions concerned the size of the administrative and territorial organization of the country—tiers; types of administrative and territorial units; number; optimal size; mayors' basis powers, functions and responsibilities; election of the executive bodies, and other specific parameters. The debate aimed to visualize and define a concrete position regarding the development of local government. Further to this, several options for territorial organization were reviewed, including three government tiers—oblast, okolia, and municipality.

The discussions of the regions aimed at their fragmentation, which contradicted the vision for a three-tier organization. That is why political consensus for preserving the existent 9 regions and their territories was so quickly reached. Thus, no debate on the regions was held. Various division options were discussed for the other two tiers. Despite the compromise, which was reached with difficulty, the passing of the Constitution and the Local Government and Local Administration Act did not include the concrete establishment of the okolia¹⁵. So, for example, the Constitution approved two main administrative and territorial units: *oblast (region) and municipality*, but it assumed the possibility that “other administrative and territorial self-government units in them can be established within the law.” The Local Government and Local Administration Act regulate the structure and the operation of the municipalities and the regions. The country's administrative and territorial division had to be enacted through a separate law. No administrative changes have been made in the recent years because the procedure is very complicated and contains many limitations.

The *second step* in the public debate for development of the country's administrative and territorial organization was made in the period between 1994–95, when the administrative reforms began. This step aimed at resolving several important issues related to development of the country's administrative division and the further improvement of local government regarding:

- Government tiers and major administrative units;
- Territorial division of the large cities;
- Procedures for establishing, transforming and shutting down administrative units;

- Spheres of activity and competency within particular administrative and territorial units;

As a result of the debate:

- Consensus was reached to eliminate the legal possibility of establishing intermediate tiers between the oblast and the municipality—okolia. The primary reason for this was the small size of the country and a willingness to preserve the size of the existing municipalities;
- The adoption of the Act on Administrative and Territorial Division of the Republic of Bulgaria created a legislative basis for the establishment of administrative and territorial units, considering it the will of the people. Agreement was reached for preserving the present status, number, scope and territorial coverage of the existent territorial structures. The performance of concrete administrative and territorial changes was based on “equal start” and uniform legal provisions for the creation of, and changes in, a particular territorial unit; and clear technological procedures for performance of necessary activities and democratic rules for participation of the population;
- Explicit conditions for creation of new municipalities were introduced, which strengthened the model of strong and stable units. Procedures for relatively limited changes in the size, coverage, and number of municipalities was created. Thus, 8 new municipalities have been created in the last six years. The need for legal and organizational measures led to the introduction of concrete principles and criteria in defining the conditions, procedures, and mechanisms for making changes, drafting of alternatives, discussing and evaluating these alternatives and selection of acceptable solutions. Opposition to concrete legal proposals and working assumptions came from various directions. The main opponents were specific central administration units, certain local elected representatives and citizen groups. Restricting the right of free choice, by raising the requirements for creation of new municipalities, was confronted with the argument that lower limits would assist individuals purely with leadership ambitions or ambitions caused by personal conflicts at the local level. The objections concerned the lower limit, minimum number of population for establishment of municipality, as well as the possible exceptions from the general procedure. The objections of the political parties were not so strong. In fact, the differences mainly had a technical character and the opposition actually concerned procedural and other issues. The adopted Act on Administrative and Territorial Division of the Republic of Bulgaria regulates not only the changes in the municipalities, but also the changes in their component units (mayoralties and districts) and the primary unit—the settlement.

- The territorial division of the capital city, Sofia, and the cities of Plovdiv and Varna were based on the special law. Regulations were created according to which the cities with population above 100,000 people can have internal division and that the municipal councils can decide upon this.
- The debate on the regional self-government tier did not take place.

The second debate was held between 1998–99. It was completely dedicated to the reorganization of the regional tier. Resolution of these issues required the re-evaluation of the existent number of regions and their territories, development of the regional governor’s powers, and its interaction with the established dilution of state administration units within the territories of the region. On the other hand, proposals for the introduction of self-government elements into the regional tier were not raised. The Local Government and Local Administration Act provides a general framework and concept for the organization and operation of regional tiers. It complies with the constitutional provisions which state that the regional governor is appointed by the Council of Ministers, not elected.

Public debate did not actually take place. The political debates on the number and size of new regions were conducted by the government with the participation of experts from the Council of Ministers, the National Assembly, and the Presidency. Although several options for changing the number and the size of the regions presently existed, the option was adopted by 28 regions (through fragmentation of the existent 9 regions), as it was considered “*flexible and responsible*” enough for making future changes. The main motives for fragmentation of the regions were related to the historical sustainability of the 28 units (long period of existence), larger operation in the interaction with the municipalities (the smaller regions comprise a smaller number of municipalities). Of course, political arguments also existed particularly regarding the control of the central government on the local level. Despite the shortcomings of this option like: fragmentation of resources; non-correspondence with the EU regions; significant increase of the current expenditures; etc., the National Assembly passed the relevant law in 1999. The strong opposition of some political parties represented within the parliament, many international and Bulgarian experts, and citizens did not influence this decision. The introduction of regional self-government tier was postponed for the future. Some attempts were made to limit the shortcomings of the adopted decision—e.g. the Regional Development Act provided the possibility for establishment of regional development council. The municipal councils of the component municipalities can appoint a section of the members in these councils. Six regions for planning (NUTS II, each including several present oblasti) were established to avoid fragmentation. These regions for planning can implement large regional projects.

Despite these attempts, the problems, related to the development and operation of the regions, remain without a permanent solution. The political powers did not reach any consensus regarding overall development, position, size and role of the regions. The issue of size and coverage of Bulgarian regions, and the model for their establishment and development as self-governing units, will have further development in the future. One reason for this is the new government's program (the Government of Prime Minister Simeon Saxcoburgotski, elected by the National Assembly in July 2001) and the parliamentary majority, which have declared their commitment to enhancing the decentralization processes, as well as their readiness for discussing the establishment of a regional self-government level.

The following summary conclusions can be made:

Firstly: The debate on the size, number, and territorial scope of municipalities and their component administrative structures has already concluded. Distinct legal regulations for the making administrative and territorial changes, corresponding to the will of the people, are being successfully implemented;

Secondly: The debate on the enhancement of decentralization and financial independence for local governments is now on the agenda. The proposals of the local governments, the NGOs, and the government programs all point in one direction. The discussion is more concentrated on creating concrete forms and phases of the local finance reform.

Thirdly: The creation of second, sub-national, government ties will be discussed in the next two or three years. The issues that should be discussed include; the number, the territorial scope, and the competencies of the regional level.

4. CONCLUSIONS AND POLICY RECOMMENDATIONS

4.1 Conclusions

The frequent changes in the regional tier and the relative stability of the municipal tier indicate that the central institutions are the active sector in conducting the administrative and territorial changes within the country. However, local initiatives have also manifested in the last five or six years, which have led to the fragmentation of four municipalities.

Significant disparities exist among the municipalities in terms of population. Certain relations between size, in terms of population, and the major characteristics of the municipalities are observed. So, for example, when the size of municipalities declines:

- The number of urban population declines, the demographic structure deteriorates and depopulation processes intensify;

- The territory of, and the number of, component settlements decline;
- The level of socio-economic development declines. Economic activity and incomes decline, unemployment grows, and social benefits per capita increase;
- The quantity of provided public services declines. This is mainly due to the services which are provided by the larger municipalities that serve the neighboring small municipalities;
- The municipal capacity for accumulation of its own revenues declines. Smaller municipalities become more dependent on intergovernmental subsidies;
- The amount of fees paid by the population, for the local services provided, declines.

Some local characteristics are in reverse relation to the size of local governments. So, for example:

- The satisfaction with the services is greater in the small municipalities;
- The per capita expenditures for the mass services—kindergartens and secondary education—increase when the size of municipalities decrease; the same is true for basic administrative services;
- The smaller municipalities have more investment expenditure/per capita. This is because targeted intergovernmental subsidies are mostly directed toward the smallest local governments. With some exceptions, the large municipalities' insufficient funds for covering current needs do not allow them to allocate significant own funds for investment, and the underdeveloped credit market does not yet allow the use of borrowed funds for investment. Nevertheless, the capacity to find capital projects with own resources increases with the increasing size of the local government.

Municipal councilors are elected on the basis of a proportionate system. No election districts exist in municipalities comprising of more than one settlement (these are 96% of all municipalities). This should guarantee the representation of particular settlements. This causes tension and center-periphery problems. This is also intensified by the centralized system of allocating the powers and the lack of powers in the settlements. Re-allocation of financial resources is performed within the municipality, which then deprives the peripheral settlements. The present local governments are also not willing to transfer more functions and financial resources to the mayoralties.

Fragmentation is observed in the small municipalities, where the center city is relatively equal to the rest of the settlements. This is a result of two factors: the legislative requirements for the establishment of a new municipality and the specific attitudes amongst populations in the certain settlements.

In the large municipalities, the municipal center is usually a big city whose gravitational impact on the peripheral settlements is relatively big. Most of the

population has migrated to the municipal center, making the neighboring villages relatively small in size. The populations, still within the villages, nevertheless use the city infrastructure and the services provided in the city. Thus, the villages become too dependent on the municipal center. Conversely, the peripheral villages are under-represented in the municipal council, based on their minute population. By adding their fragmentation, it is seen that the separation of villages and turning them into autonomous municipalities is less possible (in terms of local interests) and almost impossible (in terms of reaching the requirements for minimum number of separating settlements).

The conditions in municipalities with relatively smaller disparities in the size of settlements are absolutely different. The municipal center does not have the gravitational impact that a large city does on the rest settlements. They are all better represented in the municipal council and the centralistic policy meets greater opposition. The separation of settlements and formation of autonomous municipalities is a result of this opposition.

Presently, the complicated procedures and the legislative restrictions impede the stronger fragmentation of municipalities. The centralized system of relations between the central government institutions and the local governments also contributes to preserving the size of municipalities. The decentralization process would increase the scope of local powers. The advantages of settlements' separation in autonomous municipalities are expected to increase while other things hold equal. This would increase the centrifugal forces, particularly in municipalities, where the settlements are relatively equal to the municipal center. An eventual mass fragmentation of these municipalities would increase the inter-municipal disparities in national terms.

Legislation does not treat the municipalities differently in terms of their size and capacity to accumulate revenues and manage expenditures. All municipalities—large and small—have very limited power and influence on their revenues and expenditures.

The population cannot trace the link between taxes and fees, that which it pays to the municipality, and the quality of the services. The citizens are not informed of the workings of the local government. Meanwhile, increased activity by the local population is observed in several places where the local governments have the power to set fees and manage local activities. The critical attitude towards the sanitation, where the “solid waste fee—cleaning” link is direct and the population realizes it, is very indicative. It can be conditionally stated that the local governments in the small municipalities are closer to the citizens and consider their preferences more often.

The possibility for municipalities to conduct local economic policies is very limited. This is mainly done through municipal property, considering the present legislation. It is evident that larger municipalities have greater property revenues.

The relation between the size of local governments and their ability to conduct local economic policy is very controversial.

Small municipalities have small bureaucracies, which allows faster response time to the needs of businesses. Meanwhile, the property and territory of these municipalities are less attractive. Large municipalities have greater possibilities to provide favorable conditions, they have greater property and yet, sometimes, the complicated bureaucratic procedures will actually impede and even repel business.

4.2 Recommendations

Bulgarian municipalities are relatively large. This creates relative advantages, on which the social consensus for preserving their size is built. One municipality usually includes several settlements, one of which is its center. The internal contradictions in the municipality are provoked by the electoral system, which leaves some settlements un-represented in the local parliament and causes mayoralities to have reduced powers. Proposals for resolving these problems are:

- Change of the electoral system. Moving from the proportionate system towards a majority system for the election of municipal councilors;
- Increasing the village mayors' powers. Fairer allocation of financial resources and transfer of the responsibilities for municipal property management. This does not require any legislative changes because the municipal council performs the allocation of powers and responsibilities among the settlements within one municipality.

There is also something to be done for the better representation of the various sized municipalities and the protection of their interests within the central institutions. Conditions should be created for considering the interests of the small municipalities. A special committee, under NAMRB, could be created for this purpose or quotas for small municipalities in the present committees could be provided. The establishment of a small municipalities' association could be another alternative.

The other issue worth considering is a change in the country's administrative and territorial division and the possible establishment of a second self-government tier on the level of the present administrative regions (28). The delegated state units are suitable to be concentrated on the level of the present regions for planning (6).

There are arguments which suggest that the intergovernmental subsidy mechanism for 2003 will be based on separation of power and the responsibility of municipalities for the provision of public services, financed from the municipal budgets. The amount of intergovernmental subsidies should add to the shared tax revenues and, thus,

finance the delegated municipal services. The new formula should also include equalizing subsidies for poor municipalities, formed in reverse relation to their tax capacity. Such a solution would help fill the shortage of local revenues in the smallest municipalities and compensate their higher costs of local services.

Elimination of legislative restrictions for local fee rates would, to large extent, resolve the problem of a catchment area, for those services consumed by the population of neighboring municipalities. The eventual establishment of a second tier of local self-government will create opportunities for delegating the provision of these services by the new tier of government.

The significant disparities in the capacity of local governments suggest differential treatment of the municipalities by the reforms aimed at fiscal decentralization and independence of local governments. The rational approach to this relationship is the transfer of power and responsibility towards the municipalities in a manner so that the differential disparities in government and resource capacity are considered. For example, the large municipalities are better prepared to undertake the responsibilities for administration (setting the amount and collection) of local fees and set the local tax rates. Access to greater financial resources, which they have, enables them to service relatively bigger investment loans. In this sense, the raising of the legal limit of investment from own source, and borrowed funds, will enable them to use their financial resources effectively. Later on, the small municipalities can also receive such powers when their capacity increases.

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NOTES

- ¹ The CPI published by the National Statistical Institute is used as deflator.
- ² Further on, it is referred to as region.
- ³ The capital city, Sofia.
- ⁴ The Government.
- ⁵ This is the latest data from the national census, March 2001. The other sections of the paper use data for the number of population from 31 December 1999.
- ⁶ $[(P_{\text{below}}^{-i}/P_{\text{below}}^{-\text{av}}) + (P_{\text{in}}^{-i}/P_{\text{in}}^{-\text{av}}) + (P_{\text{above}}^{-\text{av}}/P_{\text{above}}^{-i})]/3$, where:
 P_{below}^{-i} — % of the population below working age in municipality i ;
 $P_{\text{below}}^{-\text{av}}$ — % of the population below working age average for all municipalities;
 P_{in}^{-i} — % of the population in working age in municipality i ;
 $P_{\text{in}}^{-\text{av}}$ — % of the population in working age average for all municipalities;
 P_{above}^{-i} — % of the population above working age in municipality i ;
 $P_{\text{above}}^{-\text{av}}$ — % of the population above working age average for all municipalities.
- ⁷ Analysis, evaluation and ranking of Bulgarian municipalities based on the level of socio-economic development in 2000, Annual Report of Club “Economika 2000”, 2001.
- ⁸ *Comparative analysis of the municipal powers and responsibilities, Report of LGI/USAID, page 57, 1999.*
- ⁹ *Burden of the expenditures for ensuring mandatory services assigned by the central government to the municipalities in Bulgaria, Report of LGI/USAID, page 6, 2000.*
- ¹⁰ *Enhancing the capacity of the local governments, through effective and accountable management, by improving the budget process, Club Economika 2000, 2000-2001*
- ¹¹ *Services relating to the urban planing, the construction and other economic activities.*
- ¹² The legal budget framework requires the central government to determine the amount of the general subsidy on the basis of the draft budgets of local governments for the coming year in order to substitute for the lack of own resources. Practice shows that the total volume of the subsidy is being determined according the current possibilities of the central budget and on the basis of generally underestimated tax revenues. As result, the municipalities receive portions of what they have requested.

¹³ Ivanov St., *Local budgets in Bulgaria*, FLGR, 1998.

¹⁴ We need to note that the data used does not reflect the fact that some expenditure for 2000 is not paid by local governments and, thus, are not reflected in the financial reports. On the other hand, these expenditures refer to the overall operation of the services monitored in the report. The way the unpaid bills are reported (by function area) does not allow for the necessary activity breakdown and usage in the recent study.

The impact of the unpaid bills on the financial situations of the five groups is different. The unpaid bills in the end of FY 2000 for Sofia represent 0.25% of the budget expenditures reported, which means that all of the municipal expenditures made are included into the financial statements.

For the municipalities from group 2 this ratio is 13%, for group 3–10%, for group 4–8% and for group 5–6%.

¹⁵ Okolia—an intermediate tier between oblast and municipality.

Economies and Diseconomies of Scale in Polish Local Governments

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Mikołaj Herbst

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Economies and Diseconomies of Scale in Polish Local Governments

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1. INTRODUCTION—LOCAL GOVERNMENT IN POLAND

Before 1990, the highly centralist doctrine of real-socialism left no space for a local self-government system. Local administration was hierarchically dependent upon the upper tiers of administration and central government branch ministries. Consequently, local discretion to act upon any financial issues or forms of service delivery was next to none. The constitutionally dominant position of the communist party limited any reforms aimed at real democratization of the local political process. Nevertheless, the inefficiency of the centralist system had been commonly observed for many years. The Polish Communist Party then tried to introduce some forms of decentralization and local government (see Acts of 1983 and 1988). But these limited reforms could not change the doctrinal base of the centralist state and they were unable to create more democratic or effective local government results.

The turning point was the round-table negotiation (between the “Solidarity” opposition and the ruling communist party) in 1989. Local government reform was one of topics of discussion. It is worth emphasizing that it was the only topic on which a final agreement was not reached and a “statement of disagreement” was signed. Nevertheless, the main directions of the future reform had been already drawn by the “Solidarity” opposition.

Local government reform was one of the main priorities for the first post-communist government, formed in September 1989. Reformers from the Solidarity movement assumed that it was not enough to change the government in Warsaw in order to launch the transformation towards a democratic country and free-market economy. They were afraid that “old-style” local administration could block the practical implementation of actual reforms for the countryside. Quick, but intensive, preparation allowed for the passing of the new Local Government Act in March 1990. This was followed by general local elections in May 1990 and radical decentralization of financial regulations in January 1991. The 1990 reform introduced elected local government on the municipal (*gmina*) level only, while upper tiers of territorial divisions remained in the control of the state administration. This solution was treated as provisional one. It was argued that the existence of 49 small regions (*województwa*) introduced by the

communist administration in the mid-seventies was dysfunctional and required modification. It was assumed that newly elected regional governments should be introduced along with reforms in territorial division. However, for a number of reasons which will not be discussed here in depth, the introduction of upper tiers of local governments had been postponed for several years, until the end of 1998.

There are some striking similarities between the implementation of the 1990 and 1998 reforms. Like in 1990, the 1998 reform were prepared very quickly. The specific directions of the government proposal were formulated at the beginning of 1998, the elections for county and regional councils were held in October, and new tiers of government started operation by January 1, 1999. Again, similarly to 1990, many important legal regulations were approved at the last minute (or even later). The Act on Revenues of Territorial Self-Government was voted on after the October 1998 elections. Moreover, the Act was only temporary-limitations of its validity, as specified in the original title of the Act, were between the years 1999 and 2000. The government and the parliament agreed that substantial revisions would be necessary after a couple years of the new system's operation. Also precise regulations on division of competencies between tiers of government and between local government and state administration were discussed by the Parliament, even after the 1998 county and regional elections. In both cases (i.e. the municipal and the regional reform), the validity of temporary financial regulations was extended beyond the intended period (i.e. in the case of municipal governments—beyond 1991, when the more stable law was voted at the end of 1993, in the case of county and regional reform—beyond 2000. Currently, there are many signs that validity of this temporary solution will be extended for 2002 as well).

As a result of this process, there are currently three tiers of territorial governments: almost 2,500 *gminy* (municipalities), 308 *powiats* (counties), plus 65 cities with a county status (i.e. performing both tasks allocated to municipal and county level of governments) and 16 *województwa* (regions) which replaced earlier 49 smaller units. On both a municipal and a county level, self-government is the only form of public administration. On a regional level, there is a dual structure—on the one hand—elected self-government, and on the other—a governor (*wojewoda*) nominated by the Prime Minister with his/her own administrative apparatus. However, functions of regional state and self-government administrations are clearly separated and there is no hierarchical subordination between them.

The goal of the reform was to clearly separate functions and policy areas between tiers of government and to eliminate vertical (hierarchical) dependency of the lower tier upon the higher. This has been achieved in regards to the three levels of sub-national self-governments. Obviously municipal, county and regional levels co-operate, for example in economic development policies, but in terms of specific service delivery, the separation is close to perfect. The situation is much more complicated in regards to the relationship between central and local government level. In some cases (such as education

or some of social welfare benefits), nation-wide regulations are so strict that local government's role is reduced to a large extent to the central government agents and implementation of central policies.

The set of reforms granted a wider range of functions to municipal governments while the list of county's functions is much shorter. The aggregate county budget is only a small fraction (about a quarter) of the aggregate municipal budgets. Such a division of functions is possible because of a relatively large size of municipal units in Poland.² This issue is discussed in following sections of this chapter.

As it is presented briefly in Table 5.1, the widest scope of services is delivered on a municipal level, county responsibilities are more limited and the role of regional self-government in direct service delivery is very limited (although there are also some examples of such roles, higher education and main road maintenance) but they are mostly focused on strategic planning and regional development programs.

Table 5.1
Allocation of Functions Among Tiers of Local
and Regional Self-Government in Poland

| | Municipality | County | Region |
|-----------------------------------|--|---|---|
| Strategic and Physical Planning | <ul style="list-style-type: none"> • Plans for local development • Local physical master plans • Granting building permits | <ul style="list-style-type: none"> • Plans for county's development • Building inspection | <ul style="list-style-type: none"> • Strategic regional planning (including international economic relations and regional promotion) • Regional development contracts with central government |
| Roads and Communal Infrastructure | <ul style="list-style-type: none"> • Water supply and sewerage • Waste collection and disposal • Street cleaning • Street lighting • Parks and green areas conservation • Central heating • Local roads • City public transportation | <ul style="list-style-type: none"> • County road network | <ul style="list-style-type: none"> • Regional work network • Water management (flood protection) |

Table 5.1 (Continued)
 Allocation of Functions Among Tiers of Local
 and Regional Self-Government in Poland

| | Municipality | County | Region |
|----------------------------|--|--|--|
| Public Order and Safety | <ul style="list-style-type: none"> • City guards • Voluntary fire brigades | <ul style="list-style-type: none"> • Public order and security (police) • Civil defense | |
| Education | <ul style="list-style-type: none"> • Kindergartens and primary schools | <ul style="list-style-type: none"> • Secondary school education | <ul style="list-style-type: none"> • Some higher education facilities |
| Health | | <ul style="list-style-type: none"> • Public health and sanitary services | <ul style="list-style-type: none"> • Public health (regional hospitals) |
| Welfare | <ul style="list-style-type: none"> • Social services, such as housing benefits, services for elderly, social welfare benefits | <ul style="list-style-type: none"> • Unemployment measures and fighting • Care for homeless people | |
| Housing | <ul style="list-style-type: none"> • Construction of social housing • Management of municipal housing | | |
| Culture, Sport and Leisure | <ul style="list-style-type: none"> • Local libraries, theatres, cultural institutions | | <ul style="list-style-type: none"> • Regional cultural facilities |
| Misc. | <ul style="list-style-type: none"> • Civil act registration | <ul style="list-style-type: none"> • Land registry and surveying | <ul style="list-style-type: none"> • Protection of the environment |

Presently (1999 data), local governments spend 10.5% of the Polish GDP, or 38% of total government expenditures. It has been a clear increase from 7.4% of GDP and 16% of total government expenditure spent by local government in 1991. Almost 80% of self-government budgets are spent on the municipal level (including big cities with a county status), 15% on the county level and only 5% by regional self-government.

Local governments are financed by a mixture of own revenues (mostly local taxes which—within the limits defined by law—are set and collected by local governments), shares in revenues collected within its local unit territory from central income taxes and grants transfers from the central governments. The proportion of local revenues is significant on a municipal level, while counties and regions are financed predominantly by grants.

2. BASIC DESCRIPTION OF TERRITORIAL ORGANIZATION AND ITS CHANGES

2.1 Descriptive Statistics and Characteristics of Territorial Organizations

Present division into basic territorial units (*gmina*) was introduced in 1973 as a result of amalgamation of earlier, smaller units, called *gromada*. The number of newly created municipalities totaled about 2,400, but later, during the 1970s, there was further gradual amalgamation and, in 1978, the number of municipal governments (including boroughs in the largest cities) was 2,348. Later, a very slow fragmentation process begun and, in 1988, the number of municipalities was 2,399 (again, including boroughs in big cities).

The last decade has not brought a dramatic change to this picture. The 1990 reform liquidated division in the big city boroughs (Warsaw was the only exception). Apart from this, the number of municipalities was relatively stable, diverging only with the occasional rare case of splitting or joining units according to the will of its citizens. The most significant shift in municipal structure reflects the transformation of the rural areas into quickly developing mixed rural-urban *gminas*³. This involves granting (by the Council of Ministers) urban status to the “central village” of rural municipalities. During the last decade, there were 56 villages who received urban status and 30 such cases in the period between 1994–2000 (most often for new cities 1994–99 and in 1996–96). However this kind of transformation, unlike splitting and joining existing units, doesn't affect the total number of municipalities, since each liquidated rural unit is replaced by a mixed one.

The most common type of municipal division occurs in mixed urban-rural *gminas* and results in the establishment of new purely urban and new purely rural municipalities. There are over 500 such (mixed) local governments in Poland, many of them function quite smoothly. However, in some cases, conflicts between the rural and urban population (or even more frequently between urban and rural politicians) results in strong pressure to the divide the local government unit. The reasons for such conflicts are discussed in more detail in the following sections. The largest series of such splits took a place in 1991, when 23 urban-rural municipalities divided into separate urban and rural units. A few other cases took a place in 1994–1997, but central government has been very reluctant to comply with fragmentation pressures and, since 1998, there has not been any case of such splits.

The third type of change in municipal territorial organization was related to the division of existing rural local government into two or more or to the separation of districts of the city. Also this type of new local governments emergence were the most

frequent before 1998, especially in 1994–1997 period. For example, in 1994 only as many as 15 new local governments were created in such a way.

Other cases of splitting are very rare and, as it is shown in Table 5.2, the total number of municipalities has been very stable throughout the last decade. The difference between the number of municipalities in 1991 and in 2000 is 69—less than 3% of the total number of Polish *gminas*.

In total, there were 2,489 municipalities in Poland in 2000, including 307 purely urban (cities), 1,599 rural, and another 572 consisting of both urban and rural areas. The city of Warsaw has special status and consists of eleven municipalities, each having its own council and budget (before 1994, there were 7 (and later 8) boroughs in Warsaw).

Table 5.2
Changes in the Number of Municipalities 1990–2000

| | 1991 | 1995 | 2000 |
|--------|-------|-------|-------|
| Urban | 274 | 304 | 307 |
| Mixed | 559 | 555 | 572 |
| Rural | 1,580 | 1,611 | 1,599 |
| Warsaw | 7 | 11 | 11 |
| Total | 2,420 | 2,481 | 2,489 |

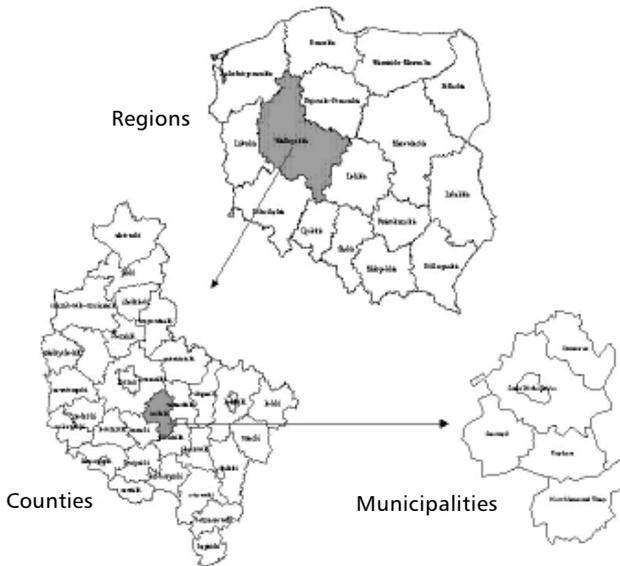
This organizational system, based on a single decentralized level, lasted from 1990 to 1998. At that time, beside municipalities, the country was divided into 49 prefectures (*województwo*) governed by the state administration. In 1999, a new three-tier administrative system was established. The basic unit for administrative division—the self-governing municipality—remained unchanged. However, 49 prefectures were transformed into 16 bigger regions and an intermediate county (*powiat*) tier was created. Of these, 65 of the counties are big cities that have both municipality and county status. The other 308 counties consist of a capital city with a surrounding area covering 3 to 19 municipalities.⁴ Starting from January 1, 2002, seven new counties were established and the total number of counties increased to 315. This change reflects bottom-up fragmentation pressure, which is perhaps more pronounced on a county level rather than on a municipal level.

The organization of municipalities, counties and self-governing regions is presented in Table 5.3 and Figure 5.1.

Table 5.3
Area and Population of Regions, Counties and Municipalities (2000)

| Unit | Area in km ² | | | Population in Thousands | | |
|--------------|-------------------------|-------|--------|-------------------------|-------|-------|
| | Average | Min | Max | Average | Min | Max |
| Region | 19,500 | 9,500 | 35,600 | 2,400 | 1,012 | 4,966 |
| County | 838 | 13 | 2,987 | 103 | 22 | 1,518 |
| Municipality | 125 | 3 | 635 | 15 | 1,3 | 918 |

Figure 5.1
Regions, Counties and Municipalities



Polish rural municipalities, being relatively large (the typical rural *gmina* has a population between 7 and 8 thousand), consist of several settlement units. In 1999, there were almost 58,000 rural settlement units. Some of them are a bit larger than others. They are called *solectwa* (villages)⁵ and have limited autonomy within the municipality. There are almost 40,000 *solectwa* in Poland. The traditional position of a village leader is called a *soltys* (this position is further explained in Section 2.5). As it is presented in Table 5.4, only a small fraction of rural local governments consist of one village. About three-quarters of local governments consist of over 10 villages and, in almost 90% of the cases, they have more than 10 settlement units. The most typical

number of villages in one *gmina* is between 11 and 20, however, there are almost 10 local governments which have even more than 50 villages.

Table 5.4
 Number of Villages (Solectwa) and Settlement Units
 in Rural Local Governments (2000)

| Number of Villages | % of All Rural Local Governments | Number of Settlement Units | % of All Rural Local Governments |
|--------------------|----------------------------------|----------------------------|----------------------------------|
| 1 | 1.1 | 1 | 0.4 |
| 2–5 | 4.2 | 2–5 | 3.1 |
| 6–10 | 17.0 | 6–10 | 8.5 |
| 11–20 | 44.0 | 11–20 | 32.0 |
| 21–30 | 26.6 | 21–30 | 27.9 |
| 31–50 | 6.5 | 31–50 | 6.5 |
| 51 and over | 0.6 | 51 and over | 0.6 |

2.2 Debates on Territorial Organization and the Size of Local Government Units

Within the last decade, the size of municipal government has not generally been debated. The present shape of *gmina* units is usually taken for granted, despite the fact they were introduced from above, less than 30 years ago. One can point out examples of vital discussions in individual cases (such as the split of some mixed urban-rural governments or, quite recently, the organization of local government within the city of Warsaw). Still, the general model for municipal government has not yet been questioned. If there are any suggestions for systematic change in territorial organization on a municipal level, they move in the direction of even further consolidation, not fragmentation. A recent example is provided by the Ministry of Finance proposals for revision of the Law on Local Government Revenues, presented at the beginning of 2002 [Weber, 2002]. The proposal suggested an additional 1% share in PIT revenues for 5 years as incentive for local governments who decide to merge. This suggestion is primarily targeted at county governments, but is also addressed to the municipalities. Still, it should be stressed, once again, that territorial reform on a municipal level is not a topic of Polish debates.

This has not been so with the two other tiers of sub-national government (counties and regions), created only few years ago at the end of 1998. County reform has been a central political issue since 1993, when the first proposal for division into about 300

units was presented by the national government. Also, since the beginning of 1990s, the existence and shape of regional self-government has been disputed.

The discussions included the topic of existence and size of the units to be created as well as their functions and the mutual relations between the tiers of government. Some opponents at the county level suggested that functions which are difficult to deliver by individual municipalities should be provided by voluntary co-operative groups within the municipal governments, rather than by a new tier. However, municipalities were not very willing to give up part of their autonomy to any associations. Mainly because no central incentives were provided and, although there were quite numerous examples of such co-operation, they could not solve the general issues surrounding some services' provision (voluntary co-operation between municipalities is further discussed in Section 7.3).

Before 1999, there were two general approaches to the size of county government. Most economic analysis suggested establishing relatively large units. Many argued that before the relevant legislation was passed the total number of *powiats* should not exceed 175–200. Professor Michal Kulesza, the main architect of the reform, stated very clearly that he was against such a reduction in a number of units because he expected public opinion to be against it [Emilewicz, Wolek, 2000]. In fact, even introducing a much larger number of *powiats* did not prevent the bitter protests of citizens from yet another dozen cities with *powiat*-capital ambitions. After two years (at the beginning of 2001), the government agreed to the modification by creating 7 new counties, increasing the number of units from 308 (plus an additional 65 cities all enjoying *powiat* status) to 315.

The discussion over regional government primarily concentrated on the role of regions. Some opponents were afraid strong regions might lead to federalization and even disintegration of the country. They were powerful enough to both ensure a strong position for the nominated state-administration in the regions and to limit the fiscal autonomy of the elected regional self-governments. Size was another hot issue. The national government's initial proposal, to create 12 large regions, was rejected by the parliamentary opposition and the president, who finally vetoed the relevant Act. The new (accepted) proposal included 16 slightly smaller units. The battle centered around regional forces, all fighting for regional capital status for their cities [Jalowiecki, 1999]. The debate is not totally over, since there is at least one more city (Koszalin) with regional capital ambitions and these aspirations are supported by some politicians.

The third dimension of the regional division debate concentrated on the European statistical NUTS classification. After much debate, self-governing regions are finally equal to NUTS 2 units. This solution was strongly advocated by regional self-governments and all major local government associations. They believed it may help strengthen the role of local governments in implementing EU regional policies and, in

particular, in making detail decisions on the allocation of EU pre-accession and future structural funds.

2.3 The Size of Local Government and Democratic Representation

The number of councilors elected in each municipality depends on population size and is determined by an Article 17 of the Law on Local Government. The 1990 reforms decreased the number of councilors (if compared with the old “people’s councils” system) and a recent (April 2001) amendment to the Local Government Law specified further reductions. This is illustrated in Table 5.5.

The Polish Law on Local Election states, in Article 27, that the division of a municipality into electoral wards is determined by the *wojewoda* (government’s administrative representative in the region). The number of election wards depends on the settlement structure. As long as they do not exceed the total number of councilors to be elected, each village (*solectwo*) constitutes one ward. Urban areas are divided into wards on the basis of sub-municipal administration structure (administration districts, residential areas, etc.)

The Act differentiates between municipalities under 20,000 inhabitants, where voters elect 1 to 5 councilors for each election ward, and units with populations exceeding 20,000, where the number of councilors for each district varies from 8 to 12 (Art.90). In *gminas* under 20,000 inhabitants, election results are calculated according the simple majority rule (voting for individual candidates). In larger units, the councils are elected under the proportional system, with citizens voting in fact for the list (organization) the candidate represents. (Art. 87,88).

Because the number of villages in a municipality is usually quite large in practice, the number of councilors is lower than the number of villages in almost half the rural local governments. This means, some of the villages are not directly represented by their own deputy in the council (a more precise distribution of councilor per village ratio is presented in Table 5.6). Obviously, the recent April 2001 amendment that reduced the number of councilors will increase the number of “unrepresented” villages. After the 2002 local elections, the proportion of rural governments where the number of councilors is lower than number of villages will increase from the present 40% to 59%. Also, the proportion of governments in which the number of councilors is lower than number of settlement units will increase from the current 63% to 76%.

Table 5.5
The Number of Councilors per Municipality as Stated by the Act
on Local Government

| Situation Before 2002 Local Elections | | Regulation to be Applied in Local Election 2002 (After April 2001 Amendment to the Act) | |
|---------------------------------------|--|--|----------------------|
| Number of Inhabitants | Number of Councilors | Number of Inhabitants | Number of Councilors |
| Under 4,000 | 15 | Under 5,000 | 12 |
| 4,000–7,000 | 18 | 5,000–10,000 | 15 |
| 7,000–10,000 | 20 | 10,000–20,000 | 19 |
| 10,000–15,000 | 22 | 20,000–50,000 | 21 |
| 15,000–20,000 | 24 | 50,000–100,000 | 23 |
| 20,000–40,000 | 28 | 100,000–200,000 | 30 |
| 40,000–60,000 | 32 | Five for each of next 100,000 but not more than 60 | |
| 60,000–80,000 | 36 | | |
| 80,000–100,000 | 40 | | |
| 100,000–200,000 | 45 | | |
| Each Additional 100,000 Started | 5 (With total number not exceeding 100) | | |

Table 5.6
Number of Councilors per Village (*Solectwo*) and per One Settlement Unit
Within Polish Rural Local Governments (1999)

| Number of Councilors Per Village | % of All Rural Local Governments | Number of Councilors Per Settlement Unit | % of All Rural Local Governments |
|-------------------------------------|-------------------------------------|---|-------------------------------------|
| 0–0.5 | 4.8 | 0–0.5 | 17.7 |
| 0.5–0.99 | 35.7 | 0.5–0.99 | 45.6 |
| 1 | 4.6 | 1 | 3.7 |
| 1–2 | 40.7 | 1–2 | 24.1 |
| >2 | 14.2 | >2 | 8.9 |

The average number of councilors per 1,000 inhabitants varies from 1.38 in the cities to 3.14 in rural *gminas* (see Table 5.7).

Not surprisingly, the number of councilors per sq. km is the highest in the cities (1.19). However, it is slightly bigger in rural (0.19) than in mixed (urban-rural) *gminas* (0.16). When it comes to settlement units, rural areas have (on average) better representation in the council (1.15 councilors per unit) than in mixed *gminas* (1.01). Cities, obviously consisting of one settlement unit, can not be taken into account in this comparison. It's worth emphasizing that the democratic representation indicators vary strongly within the settlement categories. In most cases, the standard deviation exceeds half of the mean value.

Table 5.7
Democratic Representation in Polish Municipalities (2000)

| | Councilors Per Settlement Unit | | | Councilors Per 1,000 Inhabitants | | | Councilors Per sq.km | | |
|----------------|--------------------------------|-------|-------|----------------------------------|-------|-------|----------------------|-------|-------|
| | Urban | Mixed | Rural | Urban | Mixed | Rural | Urban | Mixed | Rural |
| Mean | | 1.01 | 1.15 | 1.38 | 1.91 | 3.14 | 1.19 | 0.16 | 0.19 |
| Std. Deviation | | 0.80 | 1.47 | 1.31 | 0.85 | 1.04 | 0.85 | 0.09 | 0.13 |
| Min. | | 0.24 | 0.20 | 0.10 | 0.58 | 1.16 | 0.11 | 0.04 | 0.04 |
| Max. | | 8.00 | 22.00 | 6.99 | 6.76 | 8.56 | 6.00 | 1.00 | 1.88 |

The common rule is that the level of democratic representation decreases with the increase in population. In small urban areas (i.e. cities under 20,000 inhabitants) the number of councilors per 1,000 inhabitants varies from 1 to 7, with a very strong tendency to rise as the population decreases. In bigger cities, the indicator value is between 0.1 and 1 (see Figure 5.2).

The indicators presented above refer only to direct forms of democratic representation within municipalities. This is obviously a simplified view of local democracy that may be supported, especially in larger units, by some auxiliary forms of citizens' participation. Political parties, NGO's and the local media are supposed to strengthen inhabitants influence on local public life and help them control their elected representatives.

One of the most common measures of the indirect function of local democracy is the number of inhabitants per NGO. As shown in Table 5.8, indirect representation improves as the number of inhabitants increases, except for the sub-sample of small municipalities with populations not exceeding 10,000. Within this group of *gminas*, the relationship between size and the measure of indirect representation is in the negative: the smaller the municipality, the lower the number of inhabitants per one NGO.

Figure 5.2
Democratic Representation and Population in Polish Municipalities

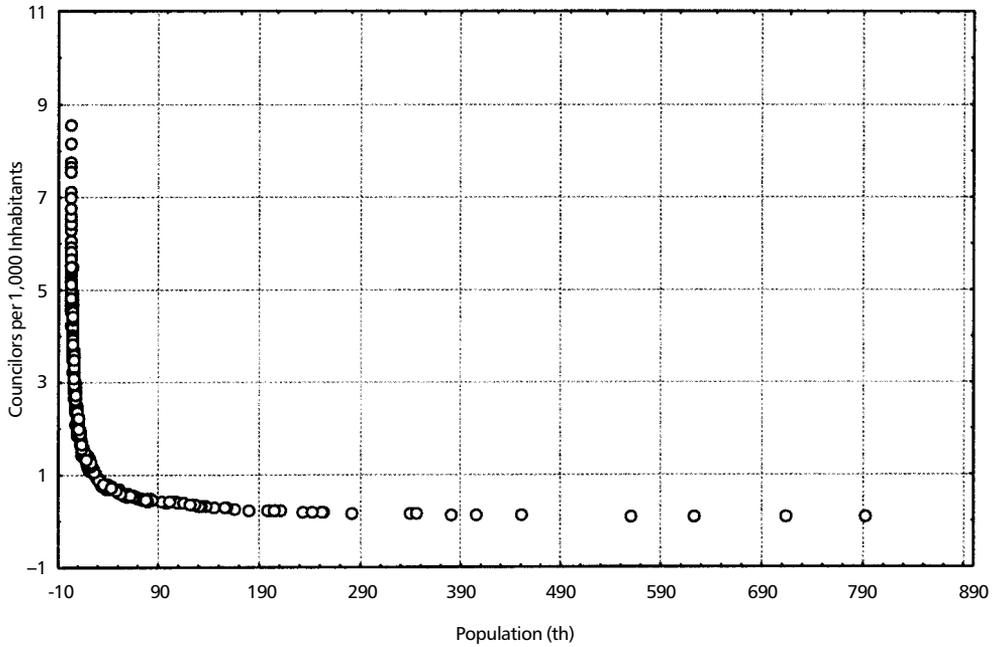


Table 5.8
Size and the Measure of Indirect Representation (2000)

| Population | Number of Inhabitants Per NGO |
|-------------------|-------------------------------|
| Less than 4,000 | 829 |
| 4,000–7,000 | 1,048 |
| 7,000–10,000 | 1,125 |
| 10,000–15,000 | 1,083 |
| 15,000–20,000 | 1,049 |
| 20,000–40,000 | 959 |
| 40,000–60,000 | 815 |
| 60,000–80,000 | 804 |
| 80,000–100,000 | 579 |
| More than 100,000 | 591 |

2.4 Regulations on Division and Amalgamation of Administrative Units

In the Polish legal system, it is the central government that has right to decide upon the number and range of local governments on both the municipal and county level. The decision to change the present borders (or even more so, for amalgamation or split of existing local governments) has to be made after consultations with the effected local councils and citizens. However, the results of these consultations are not binding for the government. The Municipal Government Act states (in Art. 4) that changing the local unit borders' should follow several principles. For instance, the *gmina* should be as homogenous unit as possible, borders should respect settlement structures and spatial organization, they should take into account social, economic and cultural ties and the shape of borders should ensure local government capacity to deliver public tasks. These suggestions are of a very general nature and, in fact, they leave a lot of decisions to the discretion of the central government. The last argument (about capacity to deliver tasks) is most frequently referred to when local attempts at fragmentation (division of local government units) are being fought.

Quite recently, in August 2001, the Council of Ministries published a resolution setting rules for municipalities who are interested in dividing. The municipal council has to pass its petition to the regional governor, who (within 30 days) prepares his (her) opinion and passes it, along with a petition, to the Ministry for Interior and Public Administration. The central government must make their decision within a year and the decision has to be announced no later than June 30 of the preceding year. Such a rule allows the newly created local governments enough time to prepare next year's budget. The municipal petition has to include:

- estimation of the one-time, and consistent, costs of the split;
- the prognosis of local revenues and expenditures for suggested new governments in the next financial year;
- results of social consultations (usually in the form of a local referendum) for each village involved separately, including turn-out and the number of voters actively supporting and opposing the change.

The basic statistics of such splits has been presented in Section 2.1 and some further case studies are presented in Section 4.1.

2.5 Regulations on Sub-Municipal Governments

The Polish municipalities, being relatively large, provide ample opportunities for decentralization within local government. This concerns both rural communities, where

decentralization of some decisions to individual villages could have a place, and big cities, where they might be divided into smaller districts (boroughs). The Act on Municipal Governments leaves all important decisions on sub-municipal “auxiliary units” in the hands of the municipal council (Art. 5). Each municipal council has the power to decide whether such units should exist and, if so, what its geographical borders, precise competencies, method of election of local representatives, etc. should be.

In rural areas, there is a very old tradition of limited forms of self-government led by popularly elected village leaders (*soltys*). The Act on Municipal Government determined that the most important decisions about village government are made directly through “village meetings”, which also elects the *soltys*. In city districts’ citizens elect the district council (although some issues may be decided in citizen meetings as well). Executive power in the district belongs to the district board elected by the district council.

Both the village leader and the city district chairman of the board have a right to participate in all meetings of the municipal council.

Although village and district councils exist in almost all local governments, municipal councils are usually reluctant to transfer any considerable amount of discretionary authority to them. Nevertheless, there have been some examples of innovations in this respect, both in big cities and in small rural communities. This issue is further discussed in Section 4.6.

3. SIZE OF LOCAL GOVERNMENT IN THE LEADERS’ PERCEPTION

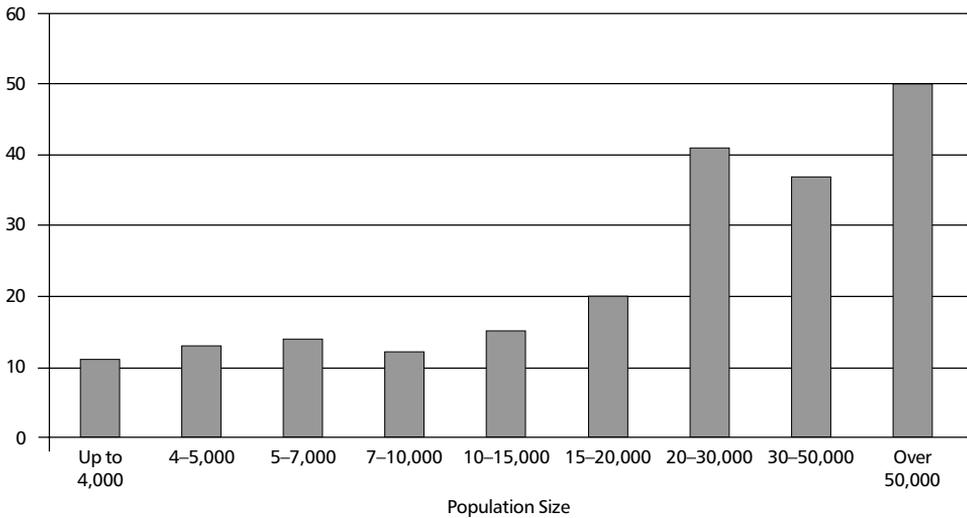
What do Polish mayors think about the size of their municipalities? As it was presented in the introductory chapter, according to the survey conducted by the LDI project,⁶ Polish mayors see the advantages of potential amalgamation of their municipalities more often than their colleagues in the Czech Republic or Slovakia. Nevertheless, there are negative opinions about potential merging that prevail also in Poland. Only 5.5% of Polish mayors said that merging with another municipality would be a very good idea, another 13.1% said it would be a good idea, while 43% thought it would be bad and 39.4% said it was a very bad idea.

But the idea of splitting (and creation of smaller municipalities) is even less popular among Polish mayors. Only a small margin (0.2%) thought it would be a very good idea, another 2.5% said it would be a good idea, while over 60% said it would be a very bad idea and 36% called it a rather bad idea. This means a vast majority of Polish mayors think their municipalities are a proper size and there are no convincing arguments for enlarging or dividing them.

One might expect that arguments in favor of merging with neighboring local governments might be more convincing in small municipalities. Interestingly enough,

the opposite is true. Mayors in large local governments are more often in favor of amalgamation. This is illustrated by Figure 5.3. The breakdown is at about population size 20,000. About 40% of mayors in larger cities see advantages in such mergers, while only 10–20% of smaller local governments do. It seems that mayors in larger units normally think about incorporating the smaller surrounding local governments, while those in smaller municipalities are more often afraid of losing their autonomy as a result of a merger with another unit of a comparable size.

Figure 5.3
 % of Mayors Who Agree that Merging Their Municipalities
 Might be a Good Idea (1997)



Acceptance for potential splits of local government is low among mayors, regardless of the size of the local government they represent. It is only slightly larger in units with population between 15–20,000. In Poland, most local governments belonging to the group consisting of several settlement units. One may expect that local governments in this group are large enough to generate a variety of conflicts between various parts of local governments. Acceptance of splitting is less common in larger local governments, because these are usually single cities, where a split would be unnatural and would cause numerous infrastructure service problems.

Mayors’ points of view on most the individual arguments for merging local authorities is usually unrelated to size of local government. The only clear exception is the opinion

that “merging would help create just distribution of services among citizens”. This opinion is more frequently supported by mayors from large local governments. Probably, they see the possibility to reduce spillovers in service delivery as resulting from incorporating surrounding local governments to the city.

From the same survey, we can see that an increasing number of conflicts between areas of municipality is viewed as the strongest argument against further amalgamation of local government. Since Polish local governments are relatively large and heterogeneous, we may ask whether territorial roles play an important role in local political life. Unfortunately, the only data which we have to help us answer this question comes from a 1991 survey [Grochowski, 1991]. Local mayors were asked to assess the importance of several problems with local governments’ functions. In the hierarchy of perceived problems, conflicts between parts of municipality were not among the most frequently mentioned. Problems relating to insufficient financial resources and central control and standards were indicated much more often. Still, territorial conflicts were indicated as important by 17% of mayors, significantly more than other local conflicts such as conflicts between political groups (10%), between councilors and local administration (11%), and conflicts with occupational groups (6%). This means that territorial conflicts did not effect everyday life in Polish municipalities but, at the same time, they were relatively frequent and important for local political life. Unfortunately, we do not know whether the intensity of these conflicts was related to the size of the local governments nor do we know how the situation developed after 1991. One may speculate that, with further development of the political system in Poland, conflicts between political parties became much more frequent, conflicts between occupational groups have become more apparent, even though the role of territorial conflicts might have relatively decreased. We do not have hard facts to support this intuition, although this thesis can be indirectly supported by some case studies. For example, Malewska-Szalygin (2001) in her analysis of one rural community in Northern Poland comes to the conclusion that the most important contemporary local conflicts include the following dimensions: poor versus rich citizens, teachers versus farmers, as well as members of the communist party before 1990 versus those who were never in the party, but she never mentions territorial conflicts. This intuition is further confirmed by results of the 2001 village leaders (*soltys*) survey, reported in detail in Section 4.3. Yet, some cases of splitting existing municipalities into smaller units (some aspects of these cases are discussed in following sections) suggest territorial conflicts still happen to play a significant role in local politics.

4. SIZE OF LOCAL GOVERNMENT AND LOCAL DEMOCRACY⁷

4.1 Size, Trust, and Citizens' Satisfaction

In theoretical debates on the size of local government units, arguments about democracy are among the most frequently brought up. Most often these arguments are raised by advocates of small local units, although they can be found with proponents' of the amalgamation thesis as well.

From the earlier study on public perception of local government in Poland [Swianiewicz, 2001], we know that people in small municipalities are more interested in local governments' activities. This is confirmed both by citizens' verbal declarations as well as—indirectly—by greater voter turn-out in local elections held in small territorial units. The greater turn-out in small communities (than in big cities) is observed in spite of usually lower education and lower income status of citizens. Size remains the most powerful explanatory variable for turn-outs, even when controlled by other variables such as levels of income or education of the local population.

Reform theorists [see for example Mouritzen, 1989] might argue that citizens' willingness to participate in local politics might be more pronounced in bigger local governments because large administrative units may be granted more functions. This results in local politics becoming more important in people's everyday lives. In Poland, cities over 100,000 citizens have been responsible for more services than smaller local government units. The 1998 reforms then granted similar extended functions to some smaller cities which received a county status. However, empirical data does not provide support for reform theory suggestions. In 1998, local electoral turnout in cities with populations between 40–100,000 and county status was even a little bit lower than in other cities of the similar size (42.1% in cities of county status and 44.3% in remaining cities). One might argue that people were still unaware of the consequences of the recent change in allocation of functions in 1998. But, in cities with populations over 100,000, the extended functions had been transferred to the local governments four years before (in 1994). Nevertheless, the change in turnout between the 1994 and 1998 election was no different there, than in other local governments.

According to public choice arguments, creation of smaller local authorities should result in the increase of local populations' political activity. However, 1990 and 1994 analysis of local electoral turn-out, for over 40 local governments all created in 1991 as a result of a split of larger municipalities, does not support this hypothesis [see Jalowicki, 1995]. In newly created urban local governments, the turnout in 1994 was only marginally higher than in average cities of similar size, while, in newly created rural governments, turn-out was even lower than in remaining rural areas.

Another popular argument for fragmentation says that residents in small local governments know more about local politics and policies and communicate better with councilors and administrative staff. This seems, to large extent, to be confirmed by Polish data. People in small communities know their local representative much more often than in larger agglomerations [for details see Swianiewicz, 2001].

As it was shown in the study on public perception [Swianiewicz, 2001], the level of trust in local governments is relatively high and much higher than the overall level of trust in national political institutions (central government, Parliament). Also in this case, the general assessment of local government is much better in smaller communities. In 1999, the level of trust varied from 60% in rural areas and 59% in cities below 20,000, to below 50% in cities over 100,000.

This relatively good score for local governments is undermined by the widespread belief that municipal authorities are corrupt. Also, in this case, there is considerable variation between the opinions of residents of small and large local governments – better in small, and much worse in big local governments.

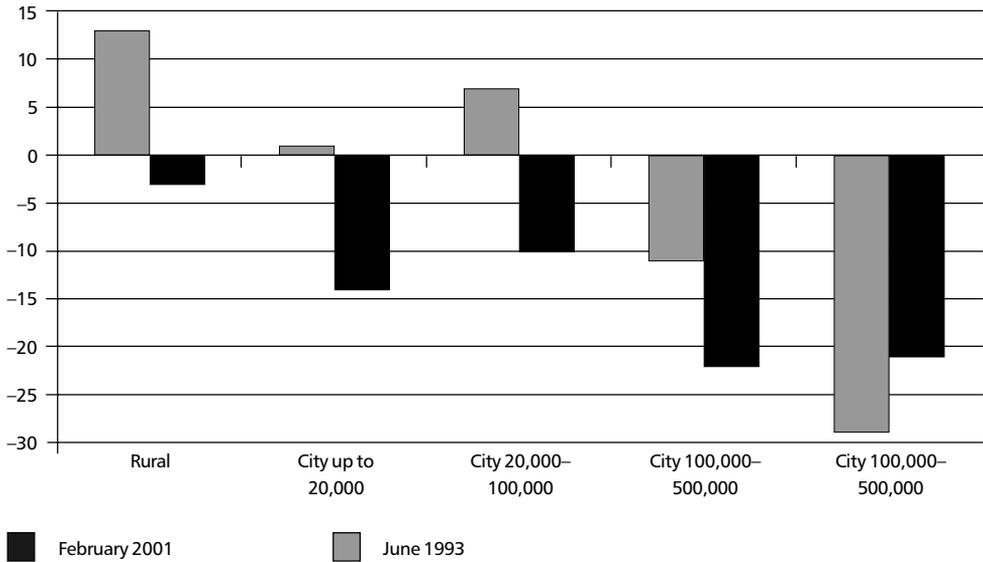
What do people think about the results of local government activities? As it was shown in the “public perception” study in June 1993, the number of those who believed that it led to positive results minimally outnumbered those who did not. The number of positive opinions strongly prevailed in rural communities but only marginally in cities of less than 100,000. In the largest agglomerations, the trend was definitely negative.

In 2001 [CBOS, February 2001] along with the general decline of public opinions in Poland, satisfaction with local government activity was also much lower. The number of negative answers for the question: “Are you satisfied with how local government is functioning” outsourced the positive opinions. However, as it is illustrated in Figure 5.4, this negative attitude was much stronger in larger, rather than in smaller, communities. In rural communities, the number of negative answers was 42% with almost the same number (39%) of positive opinions. In cities over 100,000, the number of negative answers was almost twice as many as the number of positive. This is despite the fact that, in the same year [CBOS, November 2001], overall opinions in big cities, about the political changes after 1989, were much more positive. In rural communities, the present political system is considered better than before 1989—but only by 35% of respondents. In cities, the numbers satisfied with a change varies from 47% in cities below 20,000 to 71% in cities over 500,000.

What is the Variation in the Satisfaction With Individual Services?

In 1999, over 3,000 citizens and over 600 small business local entrepreneurs were asked about their satisfaction with the client service at their city hall [see Swianiewicz, 2000]. The level of satisfaction was much higher in rural governments than in cities of over 100,000.

Figure 5.4
 Are You Satisfied With the Result of Local Government Functioning?
 Percentage Difference Between Positive and Negative Answers
 (Citizens' Opinions)



In 1992, more positive opinions about most local services were found in small rural communities while much more critical opinions were taken from residents of large cities [Swianiewicz, Bukowski, 1992]. This rule was confirmed by opinions on health care, education, water-sewage services, gas, waste collection, safety and telecommunication (see Table 5.9). The only exceptions to this rule concerned activities related to local economic development—unemployment, industry, retail trade (at the beginning of economic reform Polish local government played an important role in reforming retail trade).

Much more recently, following a June 2001 CBOS survey, a similar relationship between the size of local government and satisfaction with service provision was found within primary education (see Table 5.10). People in small communities tend to believe more often that recent education reforms produce positive results, think their local schools better prepared for life in the contemporary world, and are more likely to look at co-operation between schools, local educational administration and parents as positive.

Table 5.9

Do You Think Local Government in Your Community Has Undertaken Visible, Positive Activities in the Following Services [% of Positive Answers, 1992]

| | Cities With Population: | | | Rural Communities |
|-----------------------------------|-------------------------|------------|--------------|-------------------|
| | Over 200,000 | 50–200,000 | Below 50,000 | |
| Gas, Water Services | 21.9 | 25.2 | 20.3 | 42.0 |
| Public Safety | 19.5 | 16.0 | 18.7 | 22.5 |
| Health Care | 16.5 | 19.8 | 11.7 | 27.2 |
| Education | 13.8 | 10.7 | 19.8 | 21.4 |
| Housing | 13.2 | 23.7 | 16.3 | 18.2 |
| Retail Trade | 70.3 | 48.1 | 66.9 | 67.6 |
| Local Industry | 13.2 | 7.6 | 9.3 | 7.4 |
| Environmental Protection | 10.5 | 12.2 | 14.0 | 13.3 |
| Unemployment | 5.1 | 13.0 | 8.9 | 6.2 |
| Street Cleaning, Waste Collection | 19.5 | 28.2 | 37.7 | 30.9 |
| Culture | 18.9 | 14.5 | 26.8 | 15.4 |
| Telecommunication | 32.0 | 14.5 | 26.5 | 41.7 |

SOURCE: Swianiewicz, Bukowski, 1992.

But what does all this really tell us about policy recommendations for territorial organization? Does the fact that citizen satisfaction is generally higher in small local governments mean that the division of larger into smaller units would help to improve these aspects of their operation? This is not so obvious. There are at least two reasons why this relationship is not so straightforward. Firstly, the Sharpe observation (quoted in Chapter 1 of this book), that the differences between bigger and larger local governments, are not so much a consequence of the size difference, but the difference between urban and rural life. Secondly, people may be wrong in their predictions about the real results of suggested changes.

Three pairs of municipalities, created as a result of a split in 1991, were surveyed in 1995 in order to investigate how local population evaluates the decision to split a few years after the fact [Jalowiecki, 1995]. The opinions were quite similar, and ambivalent, in all six new municipalities. About 35% of respondents said the split was positive, significantly more than the 13% who had the opposite opinion. But the number of those who had no opinion was the largest (52%). So, one may hardly say the split led to an explosion of enthusiasm and local activity. When asked about various consequences of the split, citizens positively assessed the change in treatment of customers in the city

hall, in education, and cleaning services. At the same time, most the respondents said the division of the municipality had a negative impact on economic development.

Table 5.10
Satisfaction With Local Primary School Functions (2000)

| | Schools Work Better than Before the Reform | | Schools Co-Operate With Parents | | Schools Prepare Pupils for Family Life | | Schools Prepare Pupils to Become Active in Their Social Environment | | Schools Prepare Pupils to Deal With Various Contemporary Problems | |
|-----------------|--|----|---------------------------------|----|--|----|---|----|---|----|
| | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No |
| Rural Community | | | | | | | | | | |
| Cities: | 21 | 35 | 77 | 14 | 46 | 38 | 40 | 42 | 40 | 46 |
| Below 20,000 | 15 | 43 | 61 | 31 | 42 | 48 | 31 | 58 | 28 | 60 |
| 20–100,000 | 20 | 39 | 67 | 23 | 32 | 52 | 30 | 53 | 34 | 54 |
| 100–500,000 | 15 | 33 | 68 | 21 | 30 | 59 | 37 | 48 | 30 | 56 |
| Over 500,000 | 16 | 45 | 52 | 41 | 25 | 63 | 29 | 62 | 26 | 67 |

SOURCE: CBOS survey, June 2001.

Citizens surveyed thought that the most important reason for the split was the ambition of local politicians. According to average respondents, it was politicians and local political parties who really initiated the split. In some cases, citizens of rural villages were seen among initiators as well but citizens in the cities played no active role in the decision on split.

Among the positive consequences of the division, they mentioned fairer allocation of financial resources between the geographical parts of the former municipality. But they also agreed the costs of local government administration and of local service delivery increased after the split. Surprisingly, only in 4 (out of 6) new municipalities did citizens think that the split helped to reduce number of conflicts in local communities.

The last observation on splitting local governments, yet it not necessarily resulting in reduced number of conflicts, leads us to the question of political representation.

According to a 1993 CBOS survey, most people believe that local councils represent the interests of ordinary citizens. Again, more positive opinions are found among respondents from small local communities [see Swianiewicz, 2001].

4.2 Size and Representation

Another aspect of representation is connected to the social structure of councilors in comparison to the social structure of the represented community. Obviously, it is not a condition of representative democracy that age, education, or gender structure of the representatives, and of the local community, should be identical. For example, it is quite common that people think better educated councilors would present their cases more effectively. In practice, we also know that too wide a gap between the characteristics of the councilors and the represented community frequently contributes to problems of democratic representation and to the psychological distinction between “us” (people) and “them” (authorities). In Poland, age and education (and not gender) structures are closely related to the size of the municipality. The relationship remains strong regardless of whether we consider all local government, only rural, or only urban areas. This is illustrated in Table 5.11, which presents the correlation coefficients as well as in Figures 5.5 and 5.6.

Figure 5.5
Age Structure of Councilors in Polish Municipalities (2000)

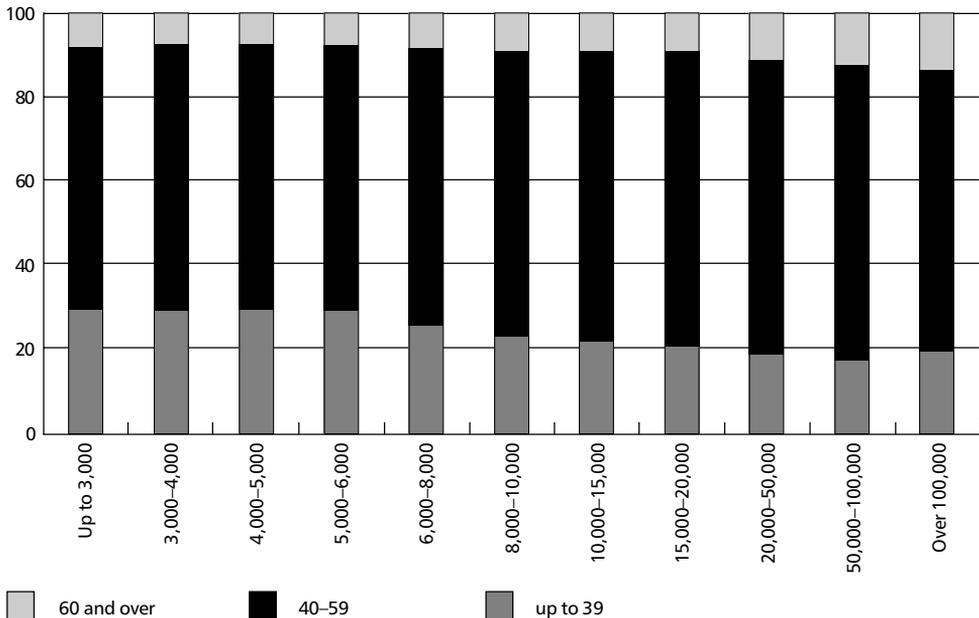


Figure 5.6
Education Structure of Councilors in Polish Municipalities (2000)

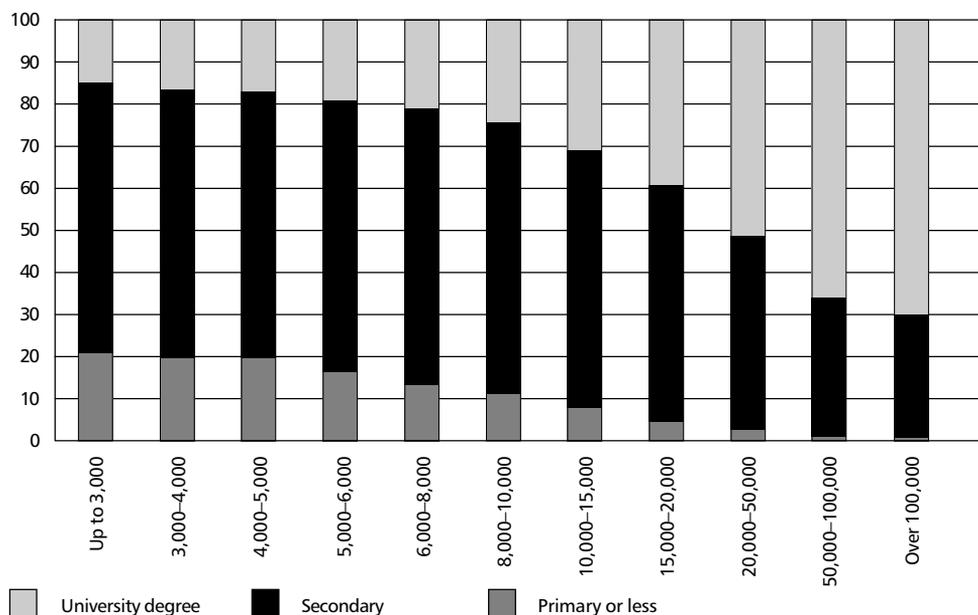


Table 5.11
Size of Municipality, Education and Age Structure of Local Councilors—Pearson’s Correlation Coefficients (2000)

| | All Municipalities | Rural Local Governments | Urban and Mixed (Urban-Rural) Local Governments |
|---|--------------------|-------------------------|---|
| Age Structure | | | |
| – % of Councilors Below 39 Years Old | -0.06** | -0.18*** | 0.0 |
| – % of Councilors 60 Years Old and Older | +0.09** | +0.11*** | +0.11*** |
| Education Structure | | | |
| – % of Councilors With University Degrees | +0.35*** | +0.27*** | +0.34*** |
| – % of Councilors With Primary or Lower Education | -0.14*** | -0.21*** | -0.12*** |

NOTE: ** means a correlation coefficient significant on 0.01 level and *** significant on .001 level.

Councilors in small communities are usually much younger. In tiny rural governments with populations below 4,000, the proportion of councilors who are less than 39 years is over 30%. In large rural municipalities (over 10,000), it is usually about 20%. In instances of councilors who are 60 years old or over, the average proportion in urban governments varies from about 6% in towns with less than 5,000 population to over 13% in cities over 100,000. A similar variation may be found in rural local governments.

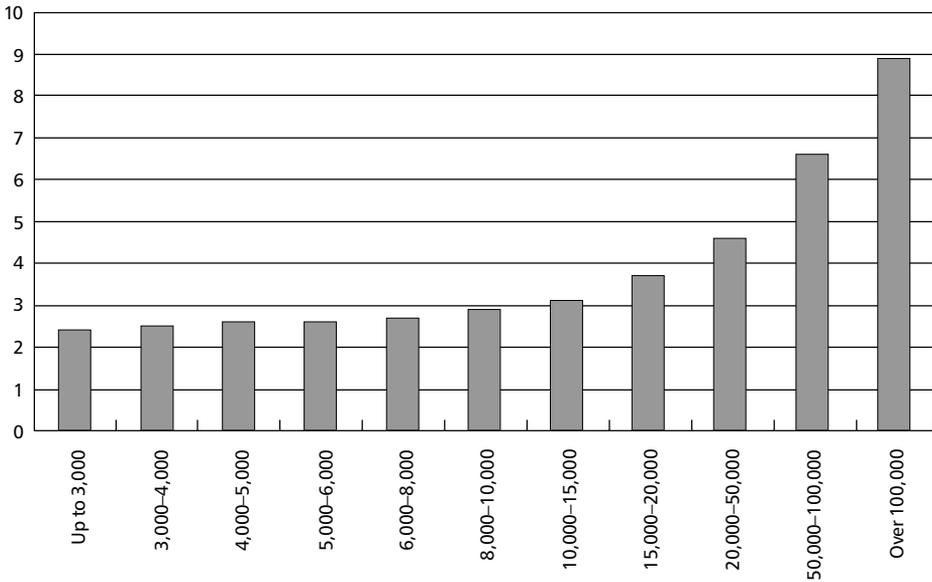
The difference between large and small is even more pronounced in the case of educational structure. In cities over 20,000, the proportion of councilors with university degrees exceeds 50% (in cities over 100,000 it is even over 70%). While, in towns below 10,000, this number is below 30%. In rural municipalities, the proportion varies from slightly less than 14% in municipalities below 3,000 to over 25% in local governments with populations over 10,000. In contrast, the proportion of councilors with primary or lower education varies from over 20%, in rural communities under 4,000, to about 7%, in rural communities over 15,000. In cities, it is between almost 10% in towns below 5,000 to less than 1% in cities over 50,000.

Obviously, both the age and educational structure of the whole population varies significantly between small rural and large urban communities. However, the variation in social structure for councilors is much larger than that of the whole population. For example, the educational structure for the population in small and large rural governments is almost identical. Yet, the structure of councilors' education varies rather significantly. This means size matters. Younger and less educated people have a much better chance of becoming local representatives in smaller local governments than they do in larger ones. Consequently, the distance between the social structure of a local population and their representatives is much more narrow in smaller municipalities.

Some authors argue that there are more interest groups in larger municipalities that try to express their opinions and this leads to more pluralist politics. Such a thesis has been formulated by T.N. Clark on the basis of statistical analysis of local politics in American cities [Clark, 1967]. Is this true of Polish local governments? We can try to measure pluralism in local politics by an imperfect, but significant, indicator—number of candidates competing for a given seat in the local council. In 1994⁸ this ratio was significantly related to the size of municipality. As it is presented on Figure 5.7, the number of candidates was much larger in big cities than in small communities. The average ratio differed from below 3 candidates in local governments below 10,000 to almost 9 in cities over 100,000. The correlation coefficient between number of candidates and the size of governments was very high (+0.63). It also remained significant for the rural and urban governments analyzed separately, although it was much higher in the cities (+0.09 in rural areas and +0.64 in urban governments). We can conclude that this prediction of the reform theory has been proved in Poland—there is more

competition and, consequently, the political process is more pluralist in larger local governments, more so than in smaller ones.

Figure 5.7
 Number of Candidates Per Seat in the Local Council (1994 Election)

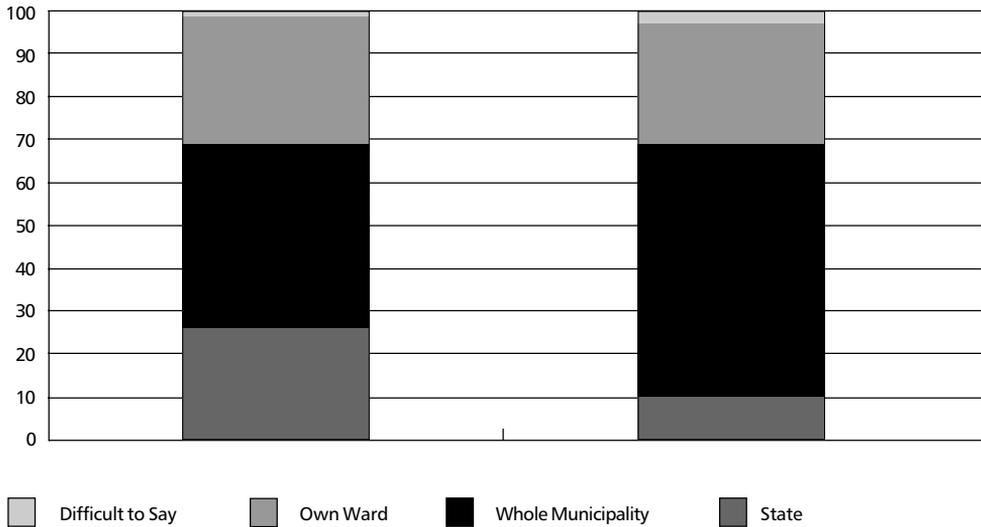


In Polish rural governments, the problem of representation is very much related to territorial representation. As it was mentioned in Section 2, most of the rural municipalities consist of several villages. One may ask; to what extent does this cause problems for local democracy? Are territorial conflicts between individual villages an important dimension to local political life? Do people think councilors should represent their village over the interests of the whole municipality? And is it true that local democracy functions better in governments where each village has its own councilor? On the basis of existing data, we cannot give full answers to these questions, but at least we can draw some preliminary conclusions.

First of all, according to CBOS data, most of people think councilors should represent, first and foremost, the interests of the whole municipality—not of his (her) own ward. However there are those who suggest territorial representation of the smaller geographical area should come first of all. This number is also significant, although it seems to be on a declining slope. This is illustrated in Figure 5.8. Unfortunately, we do not know how the opinions of residents differ depending on the size of the municipality nor depending on the number of villages within one municipality.

Figure 5.8

If There Is a Conflict of Interest, Whose Interests Should Be Represented, First and Foremost, By the Councillor? (Citizens' Opinions According to CBOS)



The point is that people seem to be more interested in local politics in rural municipalities where each village (*solectwo*) has its own representative in the local council. This is confirmed by data from the 1998 local electoral turn-out, which is positively and significantly correlated with the number of councillors per village ratio. This relationship remains significant even if controlled by population size. However, the willingness to participate in local elections (measured by the 1994 data on number of candidates per seat in a local council) does not show any systematic dependency on the number of councillors per village. This relationship gap is probably caused by two forces working in opposite directions. On one hand, people are more interested in politics in villages represented in the council. On the other hand, the potential danger of not having one's own councillor may lead to the increase of competitiveness in local elections.

4.3 Decentralization Within Local Government—the Relationship Between Municipal Authorities and Villages (or City Districts)

As stated in Section 2.4, the functions and financial resources of village self-government depend almost entirely on the decision of the municipal council. The relationship

between the municipality and villages (or districts in urban governments) is not always smooth and straightforward.

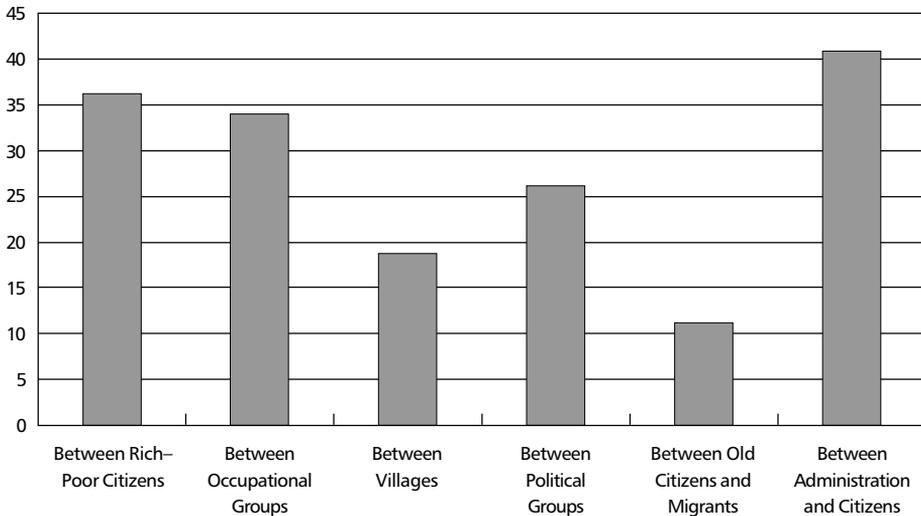
The large size of Polish municipalities, especially considering that rural communities consist of several villages, brings forth the question of *territorial representation*. Is there a real danger that the largest settlement unit may dominate the decision making, leading to financial and economic development policies biased in favor of the central town or village? In regards to this question, we have no systematic observations. Available information suggests this is very unlikely to happen. As it is argued later in this section, village leaders do not see territorial conflicts as important dimension of local politics. The electoral system in the vast majority of multi-settlement municipalities is based on one-councilor wards. So, each part of the municipality has its own councilor. Such a system prevents the danger of domination by the largest town/village in the council. Available data also suggests that, in most municipalities, allocation of resources among geographical parts of the municipality is usually more or less proportional to need and the populations living in these parts. Let's briefly analyze the case of Goldap municipality, a typical example of a mixed urban-rural municipality. It consists of the town of Goldap (inhabited by about 70% of the whole municipality) and several small villages nearby (with remaining 30% of population). In 2001, about 75% of capital spending was related to investments implemented in the town and about 25% of spending went to projects in the surrounding villages [Miros, 2002]. This means, the proportion per capita spending in the town was not substantially different from the percentage of town population to the total population of local government.

This does not mean that operation of multi-settlement local governments is ideal and problem free. Research conducted on the small urban-rural local government of Dukla shows that citizens, as well as local leaders in individual villages, concentrate mostly on the problems in their village, and very rarely do they have common interests and issues concerning the whole local government unit [Mielczarek, Domańska, 1999]. Local political life and discussions among councilors are very often organized around bargain sessions as to which village should get the next investment funds and the meaning of the individual projects, relating to the overall local government strategy, is very often overlooked. All the same, the final result of this process is usually a relatively balanced allocation of resources between geographical sections of the local government, not a domination of one town or village.

However, according to village leaders⁹ surveyed in December 2001,¹⁰ territorial conflicts between individual villages are not seen as frequent occurrences. Only 19% of respondents said these conflicts are important, while much more often the significance of other types of conflicts that was indicated. The most common conflict, according to village leaders, is the conflict between "us" and "them", i.e. between groups of citizens and local bureaucrats (41% indicate this as important). This was followed by conflicts between occupational groups (for example, farmers and the non-

farming population), conflicts between rich and poor citizens, and conflicts between political groups. Among suggested options, only conflicts between old and newly arriving (migrant) populations was seen as less important among villages than within local government (see also Figure 5.9).

Figure 5.9
The Most Important Social Conflicts in Local Rural Governments
According to Village Leaders (2001) [% Answers—“Very important”]



The majority of village leaders assess contact with municipal authorities as sufficient (53%) and the general atmosphere of co-operation as good (54%). However, almost 40% claim that municipal authorities are not interested in regular contact with villages and their leaders.

Giving limited financial autonomy to villages is not unique, though it is not uniform practice either. In almost half of the instances (47%), local government allocated small amounts of the budget for minor village investments, to be both decided and managed locally. In 33% of the cases, part of the revenue from local taxes (usually from the agriculture tax) was kept in the villages in which they were collected. It is a small fraction of the municipal budget, at least it gives a taste of limited autonomy to the individual villages.

Taking into account the observations quoted above, it is surprising that various functions' management is not delegated to villages more frequently. Such a “internal decentralization” was declared by only 25% of our respondents. The most frequent cases of managerial decentralization include: management of village culture centers, repairs for local village roads, street lighting and transport of pupils to the schools.

We can also provide some innovative examples of more radical decentralization within local government. In one rural municipality [Zell, 2001b], each village receives a portion of revenues from the property tax and agriculture tax collected within its territory. They can also keep the revenue from rental of village municipal property. Villages in that *gmina* are responsible for the maintenance of sport-grounds, of some of local roads and bus stops. They also support local kindergartens and primary schools.

A very good example of far-reaching decentralization in rural areas is the rural *gmina* of Brzeg in the Opole region. It has decided to transfer part of its communal property to individual villages [Zell, 2001a]. Villages in this *gmina* are allowed to keep a part of local budget revenues (plus, 100% of the agriculture tax), and are responsible for some services such as transport of their children to the local schools, local street lighting and maintenance of local roads. They have also their own (although very limited) investment budget, which is spent according to the agreed village priorities.

Our survey sought to verify the hypothesis that larger municipalities, and municipalities with the most villages, facilitate more intense territorial conflicts and the contact between municipal authorities and individual village leaders is much worse.

However, this hypothesis has not been confirmed by the empirical data from our survey. The first analysis has even suggested the opposite to this casual relationship. The correlation between population, size of local government, and intensity of contacts is positive (+0.151**) ¹¹ and even stronger (+0.180***) concerning the atmosphere of this co-operation. Bigger municipalities are also more willing to leave some resources for village investment (correlation +0.213***) and leave revenues from some local taxes (+0.188***). The number of villages in a municipality proved to be statistically insignificant. However, this result is biased by the presence of mixed urban-rural local governments in our sample. They are usually larger (in terms of population) and more aware of the necessity to decentralize and maintain good contact with village leaders.

The picture changes if we separate the sub-group of “pure” rural local governments. In larger local governments, the intensity of conflicts is larger. Perhaps this is because they are more internally diversified. Interestingly enough, it affects rich vs. poor and political groups’ conflicts much more than territorial conflicts between villages. In larger rural governments (both in terms of number of villages and total population size), contact with village leaders is much more frequent—perhaps they are seen as more important within larger municipalities. On the other hand, bigger rural governments are less willing to decentralize their finances (correlation of receiving resources for village investments with population number is -0.191** and with the number of villages—0.153**).

There is another variable that helps to reduce the intensity of conflicts and improve the atmosphere of co-operation between municipal authorities and village leaders. This is financial affluence. In general, local authorities with more money (in per capita terms) are more often able to construct successful co-operation and function without

devastating conflicts (compare Table 5.12). However, there seems to be a threshold revenue (about 1,200 PLN), if exceeded, by which the authorities begin to lose their good relationship with the village leaders.

Table 5.12

Village Leaders' Opinions on Contacts With Municipal Authorities (2001)

| Municipal Budget Revenues Per Capita | Frequent Enough Contact | Co-Operation Is Good | More Conflict than Co-Operation |
|--------------------------------------|-------------------------|----------------------|---------------------------------|
| Up to 1,000 PLN | 40% | 36% | 14% |
| 1,000–1,100 PLN | 54% | 54% | 8% |
| 1,100–1,200 PLN | 59% | 59% | 5% |
| Over 1,200 PLN | 56% | 51% | 12% |

Interests of the auxiliary units in rural areas are represented by the National Association of Village Heads (*Krajowe Stowarzyszenie Soltysów*), a relatively influential lobbying group.

The city of Kraków provides one of the most interesting examples of the decentralization policy within a big city. Kraków City Council decided to divide the city into 18 districts. They have been given discretion to decide upon certain functions including:

- Repairs to primary schools, kindergartens and nurseries;
- Repairs to local roads, pavements and street lighting;
- Modernization of playgrounds;
- Taking care of local green areas;
- Overseeing local cultural events.

The city council must approve the rules relating to the established method of financing the decentralized functions. A separate resolution by the Kraków council created a stable framework for supporting small investment projects, such as construction and modernization of water and sewage systems, as initiated by neighborhood groups.

4.4 Size and Function of Local Democracy —An Attempt at Conclusions

Summing up the observations from the whole of Section 4, citizens' perception and interest in local government activity is usually better in small municipalities rather than large. Exceptions to this rule, although they do exist, are not very numerous.

Citizens in small municipalities are more interested in local policy issues, and better communicate with local authorities. They also trust their authorities more and are more satisfied with local service delivery. They also feel better represented by local councilors than residents in big cities. The nature of the sociological data available is such that we can usually only make conclusions about the differences between rural and urban areas and between small and big cities. Therefore, we cannot be sure to what extent a discovered relationship tells us anything about the impact of size itself and to what extent, about the difference between urban and rural life, and/or about the difference between life in a small urban town and big city. Yet, the rare cases where we were able to analyze the impact of size directly (for example, through analysis of voter turn-out, mayoral opinions about citizens interest in local politics, mayoral turn-over, education and age structure for councilors) suggest that size does matter—not only are there statistically significant differences between rural and urban settlements, but also between small and big rural municipalities.

Nevertheless, drawing the conclusion that, by dividing a municipality, one may increase the levels of trust, satisfaction with local government activity or willingness to be active in local public affairs would be a simplification. The story of 23 mixed urban-rural communes that split in 1991 is very telling [see Jalowiecki, 1995]. As mentioned in Section 4.1, available analysis suggests that, the number of citizens satisfied by a split, years after the event, outscores the number of those who think it was better before the split. Even so, the number of those indifferent is much larger still. Also the perceived negative consequences are as numerous as the positive feedback on the organizational change.

The pressure to split was more frequent in municipalities with less than average affluence—one may speculate that lack of satisfaction of needs, stimulates mutual complaints and tensions between the city and rural villages. But did the split lead to policies which would better reflect local preferences? It seems that, in the case of tax policies and allocation of sector spending, this has been true to large extent. Tax policies in new municipalities have been significantly different. For newly created city governments, tax policies usually have concentrated on stimulation of economic activity (average tax rates quite high, but with tax incentives for preferred economic activities) while in new rural municipalities, they have been closer to the populist model with reduced tax rates for the majority of voters but high rates for local enterprises. Also, resource allocation between sectors was considerably different in newly created urban and rural governments. It is very difficult to reach a final conclusion about the impact of splitting to local democracy. Then again, most of residents had ambivalent feelings for a few years after the split. They also thought the change was initiated and worked to the favor of local politicians and their ambitions and it is very hard to find any evidence of increased of activity within the local community. Yet again, the number of satisfied citizens was larger than the number of clearly disappointed citizens and

observation of local policy changes suggest they began to reflect the variation in local preferences more closely.

5. SIZE OF LOCAL GOVERNMENT AND ALLOCATION OF FUNCTIONS BETWEEN TIERS OF GOVERNMENT

It is frequently argued that large local governments can be responsible for a wider scope of functions. On an empirical basis, such a thesis has been supported by Page and Goldsmith (1987) in their comparative study of the European local government system, quoted already in Chapter 1. Consequently, larger local government units allow for more radical decentralization. This claim seems to be confirmed by Polish data; by citizen and leader perception as well as by the actual behavior of small local governments, which are more afraid of new functions.

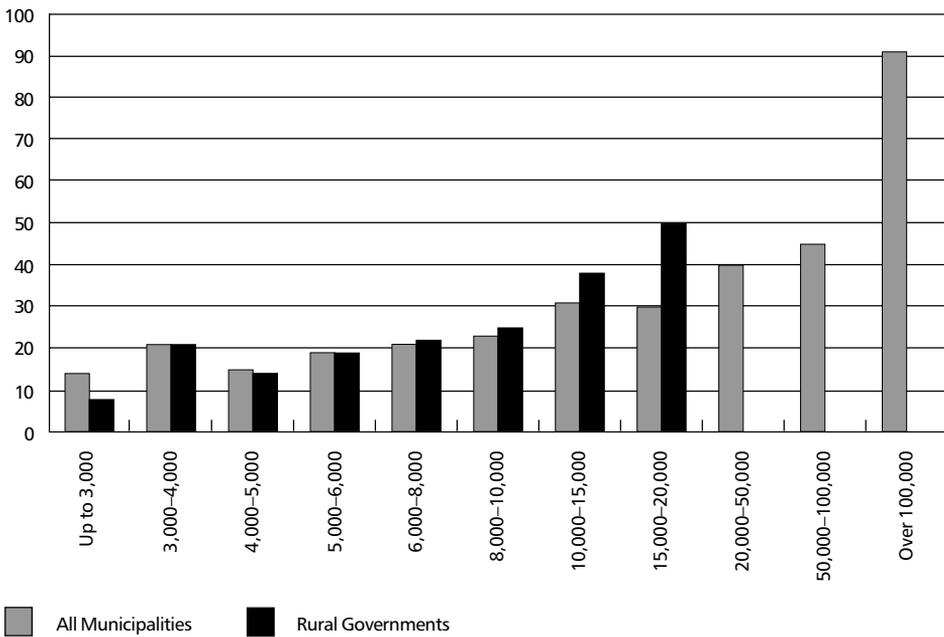
As it has been reported in the “Public Perception of Local Governments” study [Swianiewicz, 2001], several proofs indicate that general support for transferring more functions to local governments in Poland has been greater in big cities than in small towns or rural communities. These variations by community size probably have two parallel explanations. The first is rooted in the empirical observation that small local governments are not prepared to deliver a wide range of functions. They usually do not have enough qualified staff, the majority of users of some services recruit from more than one local government, and the delivery of many functions by small territorial units would lead to diseconomies of scale. These are all arguments discussed elsewhere in this chapter and sociological surveys seem to confirm that many people are aware of these difficulties. This is so, despite citizens of small towns and villages being of a very good opinion about their local governments’ present activities.

The second reason might be of a political nature. Since at least 1993, the PSL (Peasant’s Party) has been strongly opposed to many decentralization reforms, including any transferring of responsibility for primary schools to municipal governments. The PSL influence is strongest in small, rural communities. This means that respondents’ skepticism may partially reflect the opinions of their political leaders. However, one may argue that it is exactly the political base of PSL, in small and relatively weak local governments, which makes this party oppose some decentralization reforms.

The same pattern of variation has been reflected in the actual decisions made by local governments. Before 1996, when accepting responsibility for schools was voluntary, “brave decisions” were much more frequent in larger units. This correlation was especially visible at the beginning of decentralization reform (1991–1992), when responsibility for schools was accepted by less than 10% of rural communities but by over 33% of cities over 100,000 residents. Also, in 1994, a total of 21% rural municipal

local governments managed the primary schools. But in cities over 50,000 residents, it was over 40% and in cities over 100,000, over 90% [Thurmaier, Swianiewicz, 1996]. As analysis of the 1994 data proves this relationship cannot be reduced to an urban-rural variation as to the pattern of behavior—it remains valid only if we consider rural communities. Moreover, if we compare rural and urban muni-cipalities with similar population sizes, there were rural governments who were often more willing to take over responsibility for schools. This is illustrated in Figure 5.10.

Figure 5.10
 Percent of Local Governments Who Took Over Responsibility
 for Primary Schools Before 1995



Willingness to oversee management of schools was also related to the affluence of local governments measured by per capita own revenues of local budgets. One might expect that larger local governments are more affluent and that is why they were taking over schools before smaller units. However, statistical data does not support such a claim. In multi-variable analysis, size is more important than affluence of local budget and, in a group of rural municipalities, the significance of affluence disappears completely. It means there were also other factors (perhaps qualification of local staff was one of them) related to size which played an important role.

There is also evidence that administrative capacity, to provide services efficiently, grows with an increase in population size [Swianiewicz, 2000]. In 1999, the ratio of personal computers per one hundred employees varied from 36, in municipalities with less than 5,000 residents, to over 57, in cities over 50,000 (see also Table 5.12). Similarly, the proportion of local governments that declared Internet use and their own web-site varied from 35%, in municipalities below 5,000, to over 80%, in municipalities over 10,000. This relationship is also statistically significant if we consider rural areas only. Moreover, regardless, whether we consider all local governments or only rural, 10,000 population seems to be a turning point between offices with low or with high technical potential to support their administration. A similar breaking point was also found in case of decisions to take over responsibility for primary schools before the compulsory date.

Also Bartkowska-Nowak (2001), in describing formal procedures for recruiting and promoting staff in Polish cities,¹² discovered that the sophistication of staff management techniques increased with the size of government. For example, in large local governments use of following was much more frequent: training programs for staff, evaluation of training, formal job descriptions.

Table 5.13
Size of Municipality and Technical Capacity
of the Local Administration (1999)

| Population Size | PCs Per 100 Employees | | Internet Use and Own Web-Site | |
|-----------------------|-----------------------|------------|-------------------------------|------------|
| | All Municipalities | Rural Only | All Municipalities | Rural Only |
| Pearson's Correlation | 0.271*** | 0.137* | 0.209** | 0.253** |
| Up to 5,000 | 36 | 36 | 35 | 36 |
| 5-7,000 | 37 | 35 | 43 | 41 |
| 7-10,000 | 35 | 36 | 37 | 41 |
| 10-20,000 | 44 | 48 | 83 | 92 |
| 20-50,000 | 48 | | 79 | |
| Over 50,000 | 57 | | 80 | |

NOTE: * on .05 level
** on .01 level and
*** correlation significant on .001 level .

SOURCE: Survey of 208 local administrations.

6. SIZE OF LOCAL GOVERNMENT AND ECONOMIC DEVELOPMENT POLICIES

Capacity of the local government to influence economic development depends on several factors. In this section, we examine some of them. One of the most powerful instruments is provision of infrastructure, which increases investment attractiveness and makes existing firms more competitive. In Poland, there are municipal governments which are responsible for most the infrastructure and that is why we limit our analysis to this tier of government. To compare only governments with similar functions, we exclude cities with county status.

The capacity to undertake investment projects depends on fiscal revenues and burden of operational spending. Total revenues per capita grow with the size of a local government, however, this relationship is not very strong (compare Tables 5.13 and 5.14).¹³ But even this relationship is mostly a difference between urban and rural municipalities. If we analyze rural *gminas* only, the relationship is even the opposite—larger means financially weaker. The picture changes a little bit if we consider only revenues from own and shared taxes. The dependence on revenues on the size of municipality becomes stronger, but it completely disappears if we limit our analysis to rural communities. The difference results from smaller municipalities' higher dependency on state transfers (mainly in form general and specific grants from the state budget) and higher burdens for operational spending. One may draw a very clear conclusion—small local governments are more costly for the public finance system; they require higher transfers, mostly due to higher per capita current spending. This relationship is valid both for analysis of all Polish municipalities as well as for rural communes only. In the latter case, there is a clear difference between municipalities smaller and larger than population 10,000. One may expect that the fragmentation of relatively large rural governments in Poland would result in an increased demand on the state budget to provide the grants necessary to cope with the burden of increased operational spending.

Investment spending per capita is also higher in larger municipalities. Again, this correlation seems to result from the difference between urban and rural areas as well as from the difference between small and big cities. The difference between small and large rural governments is very weak. One may speculate that only some of local government investment, those related to infrastructure projects, has a direct impact on economic development. However, the relationship with the size looks similar regardless of which group of investments we consider. The only exception to this rule is the higher burden of investment related to social welfare function in big cities and higher investments in education facilities (mostly schools buildings) in small municipalities.

Table 5.13a
Indicators of Capacity to Promote Local Economic Development and Size of Municipalities (2000)

| Size | Per Capita Current Spending* | Per Capita Total Revenues* | Per Capita Own and Shared Revenues* | Per Capita Transfers to Local Government* | Per Capita Investment Spending* | Fixed Expenditures as % of the Total Budget* | Fixed Expenditures Per Capita* | Registered Companies With Foreign Capital Per 1000 Citizens | New Physical Master Plan Prepared by the End of 2000 [%] | Development Strategy Prepared by the End of 2000 [%] |
|--------------|------------------------------|----------------------------|-------------------------------------|---|---------------------------------|--|--------------------------------|---|--|--|
| 1–3,000 | 1,154 | 1,377 | 543 | 834 | 292 | 70.0 | 735 | 0.62 | 42 | 42 |
| 3–4,000 | 1,106 | 1,395 | 578 | 817 | 243 | 71.9 | 736 | 0.35 | | |
| 4–5,000 | 1,028 | 1,221 | 434 | 787 | 239 | 72.6 | 710 | 0.31 | | |
| 5–6,000 | 1,010 | 1,189 | 427 | 767 | 213 | 68.2 | 655 | 0.36 | 38 | 37 |
| 6–8,000 | 981 | 1,169 | 434 | 735 | 221 | 67.4 | 650 | 0.39 | | |
| 8–10,000 | 965 | 1,146 | 440 | 706 | 227 | 66.9 | 640 | 0.36 | 52 | 47 |
| 10–15,000 | 961 | 1,152 | 500 | 652 | 236 | 63.6 | 615 | 0.56 | 58 | 53 |
| 15–20,000 | 956 | 1,121 | 541 | 621 | 222 | 63.0 | 598 | 0.66 | | |
| 20–30,000 | 976 | 1,149 | 602 | 547 | 226 | 60.5 | 588 | 0.65 | | |
| 30–50,000 | 992 | 1,166 | 706 | 460 | 240 | 55.6 | 565 | 0.91 | 67 | 55 |
| 50–100,000 | 974 | 1,136 | 707 | 425 | 248 | 56.3 | 562 | 0.69 | | |
| 100–300,000 | | | | | | | | 1.12 | 65 | 53 |
| Over 300,000 | | | | | | | | 2.66 | | |

NOTE: *due to different functions, and difficulties in direct comparisons with other cities, cities of county status have been excluded from these columns.

Table 5.13b
Indicators of Capacity to Promote Local Economic Development and Size of the Municipality—Rural Local Governments Only (2000)

| Size | Per Capita Current Spending | Per Capita Total Revenues | Per Capita Own and Shared Revenues | Per Capita Transfers to Local Government | Per Capita Investment Spending | Fixed Expenditures as % of the Total Budget | Fixed Expenditures Per Capita | Registered Companies With Foreign Capital Per 1000 Citizens | New Physical Master Plan Prepared by the End of 2000 [%] | Development Strategy Prepared by the End of 2000 [%] |
|-----------|-----------------------------|---------------------------|------------------------------------|--|--------------------------------|---|-------------------------------|---|--|--|
| 1–3,000 | 1,113 | 1,305 | 457 | 849 | 269 | 71.1 | 721 | 0.24 | 42 | 44 |
| 3–4,000 | 1,099 | 1,391 | 565 | 826 | 239 | 72.3 | 735 | 0.29 | | |
| 4–5,000 | 1,008 | 1,198 | 404 | 794 | 234 | 73.3 | 708 | 0.22 | | |
| 5–6,000 | 998 | 1,177 | 401 | 776 | 216 | 68.7 | 655 | 0.28 | 36 | 36 |
| 6–8,000 | 961 | 1,153 | 409 | 744 | 224 | 67.3 | 648 | 0.31 | | |
| 8–10,000 | 947 | 1,131 | 421 | 710 | 228 | 67.6 | 638 | 0.31 | 52 | 48 |
| 10–15,000 | 936 | 1,143 | 466 | 667 | 256 | 63.8 | 614 | 0.51 | 52 | 61 |
| 15–25,000 | 903 | 1,100 | 437 | 664 | 237 | 63.3 | 604 | 0.58 | | |

Table 5.14

Person's Correlations Between Size of Municipality and Various Indicators of Capacity to Promote Economic Growth (2000)

| | All Municipal Governments | Rural Governments Only |
|---|---------------------------|------------------------|
| Total Revenues Per Capita(x) | 0.056** | -0.072** |
| Own and Shared Revenues Per Capita(x) | 0.115*** | |
| Operational Spending Per Capita(x) | 0.105*** | -0.191*** |
| Transfers From Central Budget Per Capita(x) | -0.167*** | -0.283*** |
| Investment Spending Per Capita (x) | 0.099*** | |
| Fixed Spending as % of the Total Budget(x) | -0.170*** | -0.253*** |
| Fixed Spending Per Capita (x) | -0.101*** | -0.251*** |
| Registered Foreign Investments Per Capita | 0.255*** | 0.119*** |
| Prepared New Drafts of Master Plans | 0.165*** | 0.151* |
| Prepared Development Strategy | 0.159* | |

NOTES: (x)—without cities of county status. * Correlations significant on .05 level; ** Correlation significant on 0.01 level; *** Correlation significant on 0.001 level. Blank spaces mean correlation insignificant on at least 0.05 level.

Small local governments capacity to make strategic decisions is also limited by a greater burden of fixed expenditures.¹⁴ This burden is higher for small municipalities both in terms of percentage of the total budget and per capita base. In 2000, the average share of fixed expenditures was over 70% in local governments below 5,000, but below 60% in cities over 30,000. The difference is also clear if we only consider rural *gminas*. In the latter case, the breakdown between smaller than 10,000 and larger than 10,000 governments seems to be visible again.

To measure the capacity to promote economic development, we also analyzed planning instruments. We use two specific indicators:

- preparation of new physical master plans. In 1996, Parliament changed the law on physical planning requiring a new format of physical master plans to be prepared by the end of 1999. We analyzed how many of local governments were able to fulfill this obligation on time [for source of data see Swianiewicz, 2000]. In fact, many local governments had problems preparing the plan on time and finally the Parliament had to 'give up'—deciding to delay the deadline by another two years. Only 30% of local governments prepared new plans before the original deadline, another 23% had begun preparation, while the remaining 48% did nothing. Local governments have been very slow despite failing to prepare the new plan could result in inability to grant any building permits

after 1 January 2000 (not delaying the deadline would then nearly freeze any housing or commercial investments in almost half of the country).

- number of local governments who have prepared strategies for local development.

In both of cases, larger local governments performed considerably better than small municipalities. In case of physical master plans this correlation is stronger (than in case of preparation of development strategic programs) and remains valid (although is much weaker) when we limit our analysis to rural governments only. It can probably be explained by the lower administrative capacity of small municipalities. Very small organizations are less able to cope with complicated, new tasks.

7. UNIT COST, CATCHMENT AREA, QUALITY OF MUNICIPAL SERVICES AND THE SIZE OF ADMINISTRATIVE UNITS

For most local services, comparison of unit costs and the quality of delivered product is extremely difficult. It is so both because of methodological traps and frequent lack of relevant, reliable data. In the following subsections we try to analyze issues of unit costs, catchment area and service quality in three, relatively simple and well-documented cases. However, in these cases we can also not avoid some abridgements.

In regards to unit costs, all three cases document economy of scale, i.e. decreasing standard unit costs along with the increase of service area. Proving the economy of scale phenomena would be more difficult for other services Polish local governments are responsible for. But in contrast, we do not know any empirical analysis which would show (for any of the local services in Poland) the opposite case—i.e. the increase of costs together with the increase size of local government unit.

In general, small municipal governments spend more (on per capita base) on current operation, despite (as it has been noted in Section 4) their own and shared revenues are lower. In 2000, the average municipality under population 4,000 was spending more than 1,100 zloty per capita on current operation, while municipalities with over 6,000 inhabitants were spending less than 1,000 zloty per capita. Comparing smaller size cohorts, one may notice that current expenditures per capita gradually decrease up to the size of about 6–8,000, then remain relatively flat for larger local governments.

7.1 Basic Administrative Services

Current spending on local administration is relatively simple to analyze. Moreover, following the Sharpe (1995) distinction, analyzing the administrative overhead, we can really focus on the differences between small and big government, not on the

variation between urban and rural. The same statistical relations remain valid regardless of whether we take into account all local governments, only rural or only urban units.

The negative correlation between the size of local government and per capita spending on local administration has been already described for Poland in the 1994 and 1996 data [Swianiewicz 1996; Swianiewicz, Amos, 1998]. It has also been supported by the 2000 data presented in Table 5.15. We took into consideration only local governments with comparable scopes of administrative tasks. That is why we excluded the Warsaw city boroughs from municipal governments (due to specific division of functions between tiers of government in Warsaw) and cities of a county status (which are responsible for more functions than other municipalities). The correlation coefficient between the size and per capita spending on administration is -0.339 (significant on 0.001 level) and between size and percent of budget spent on administration -0.434 (also significant on 0.001 level). The average per capita spending on administration in a local government with a population under 3,000 is more than twice of the amount spent per citizen in a city over 50,000. But differences are also very visible within the group of small (for Polish standards) governments. The average Polish rural government has population of about 7,000. Such governments spend 40% less on administration than smaller *gmina* (having under 3,000 inhabitants) and 20% more than big rural *gmina* (with populations over 15,000). Parallel, with increasing size, administration spending becomes a decreasing burden from the total current budget (from 22% in the smallest local governments to below 15% in units with populations over 15,000, and below 13% in cities over 50,000).

The same negative correlation has also been established (although it is not as strong in the case of municipalities) for county level government. Average per capita spending on administration in the smallest group (below 50,000) is over 50% higher than in the largest counties.

But one should take notice of Table 5.21, there is an even higher variation of administration costs within individual size groups. It means, though size is a good predictor of spending, it is not the only one. The affluence of local government is an even more powerful explanatory variable. The correlation coefficient between per capita spending on administration and total revenues per capita is $+0.572$. It is also very high within individual size groups (varying from $+0.398$ for cities over 50,000 to $+0.891$ for governments between 3 and 4,000—all coefficients significant on 0.001 level).

The conclusions below may be additionally strengthened by an observation concerning the split of 23 mixed urban-rural governments in 1991. After the split, per capita administrative overhead increased by 20% [Swianiewicz, 1996].

Table 5.15a

Current Spending on Administration and the Size of Local Government (2000)
Municipal Governments (Without Cities of County Status)

| Population Size of Local Government (Thousands) | N | Operational Spending on Administration Per Capita [PLN] | | | Spending on Administration as % of Current Expenditures | | |
|---|-----|---|---------|---------|---|---------|---------|
| | | Average | Minimum | Maximum | Average | Minimum | Maximum |
| Below 3 | 82 | 256 | 124 | 990 | 22.0 | 15.0 | 33.3 |
| 3-4 | 195 | 216 | 134 | 1056 | 19.8 | 11.7 | 32.5 |
| 4-5 | 303 | 186 | 101 | 370 | 18.2 | 10.6 | 28.4 |
| 5-6 | 291 | 180 | 104 | 470 | 17.8 | 10.7 | 31.1 |
| 6-8 | 470 | 163 | 91 | 460 | 16.6 | 10.2 | 27.8 |
| 8-10 | 303 | 150 | 85 | 365 | 15.5 | 9.1 | 32.8 |
| 10-15 | 352 | 146 | 80 | 375 | 15.1 | 8.5 | 27.2 |
| 15-20 | 153 | 137 | 84 | 288 | 14.3 | 8.7 | 25.7 |
| 20-50 | 231 | 129 | 72 | 344 | 13.1 | 8.5 | 21.4 |
| 50-100 | 33 | 121 | 75 | 176 | 12.4 | 8.4 | 16.8 |

Table 5.15b

Current Spending on Administration and the Size of Local Government (2000)
County Governments (Without Cities of County Status)

| Population Size of Local Government (Thousands) | N | Operational Spending on Administration Per Capita [PLN] | | | Spending on Administration as % of Current Expenditures | | |
|---|----|---|---------|---------|---|---------|---------|
| | | Average | Minimum | Maximum | Average | Minimum | Maximum |
| Below 50 | 53 | 66 | 49 | 109 | 14.4 | 7.5 | 34.5 |
| 50-60 | 45 | 63 | 49 | 96 | 13.1 | 8.3 | 24.6 |
| 60-70 | 34 | 59 | 45 | 87 | 13.3 | 8.8 | 28.1 |
| 70-80 | 41 | 53 | 43 | 68 | 13.0 | 8.3 | 27.7 |
| 80-100 | 53 | 54 | 39 | 75 | 13.7 | 8.1 | 31.5 |
| 100-150 | 60 | 49 | 31 | 74 | 12.2 | 8.2 | 30.3 |
| Over 150 | 22 | 43 | 28 | 52 | 12.2 | 5.0 | 22.8 |

7.2 Primary and Secondary Education

The management of kindergartens, as well as primary and secondary schools, is currently one of the most important and certainly the most expensive tasks undertaken by Polish local government. Since 1990, municipalities have been responsible for maintenance and development of pre-school education. In 1996, they took on the primary schools (including hiring teachers) and, in 1999, counties have managed most types of secondary schools as well as some non-mandatory educational units. To fully understand the role of education in the Polish model of territorial self-government, it is important to realize that, in some municipalities (especially small ones), the share of education expenditures often exceeds half of the total annual budget.

Pre-school education is financed through own revenues of the municipalities. Therefore, the attendance rate for children, 3–5 years old, depends on the cultural variation and also the development of the kindergarten network as well as on the financial capacity of the *gmina* consequently.

Primary and secondary education are supposed to be financed by part of a general purpose grant received by the local authorities from the central government. This part of the grant is called an education subvention and is aimed at covering the current costs of school system in municipalities and counties.¹⁵ The education grant is calculated on the basis of the weighted number of students in the municipality/county schools. The a-priori set standard subvention is granted to the local government for each “weighted student”.

In 2000, municipalities’ current expenditures on education (even excluding spending on kindergartens) exceeded the received subvention by 20%. However, it must be emphasized that the years 1999 and 2000 were exceptional in terms of local governments’ financial efforts because of the substantial reforms of Polish education system in process at the time.¹⁶ There is no point, at least in this paper, in comparing education expenditure figures for the different years, since both the method of calculating the school subvention and the scope of local government responsibilities have changed dramatically.

Table 5.16
Current Expenditures Over the Amount of Received Grants
in Three Types Polish Municipalities (2000)

| Total | All Rural Municipalities | All Mixed Municipalities | All Urban Municipalities |
|-------|--------------------------|--------------------------|--------------------------|
| 20.0% | 21.0% | 24.3% | 17.8% |

Considering both primary and secondary education, there seems to be two kinds of units where the deficit of current expenditures on education is the highest. The first

type can be characterized as a small rural municipality with an ineffective network of low-quality small primary schools. The “per student” costs in such municipalities are higher because the small size of schools and classes increase the share of fixed costs in total expenditures. This may lead to a low quality of education, since municipality spends all the resources on current needs and is unable to provide better equipment/facilities/teachers.

The other extreme example of high education cost occurs in the big city, where teachers’ salaries are high,¹⁷ school programs include more faculties, and the school equipment is better than average. The ministerial subvention does not cover the total current expenditures, but the city spends its own resources in order to attract students, teachers, investors, etc.

It seems that, for the further discussion on the relationship between size and effectiveness of municipalities, only the first case of high cost education (small units with inappropriate school network) is relevant.

Secondary education in Poland is highly concentrated in urban areas. Only 7% of students attend secondary schools located in rural areas. Moreover, many students choose schools located outside their home county. In theory, this should not cause any disturbance to the financial system. Since the ministerial subvention is calculated per student enrolled in the county’s schools, a migrating student simply brings money to the county where he or she arrives to study. In reality, however, some counties invest their own resources towards the school system in addition to those received in the form of education grants. Therefore, students migrating to such counties act as “free riders”—benefiting from the local taxpayers’ effort. This is especially the case for the 65 cities with county status having dual status as a municipality and a county. These cities experience a significant migration of secondary school students. The problem can be defined in terms of the size of administrative unit, since the administrative boundaries obviously do not fit to the scope of the market for services provided by the county.

The three issues briefly discussed above are analyzed in the following sub-sections. We now focus on the cost efficiency of public education as a measure of local governments’ performance. This approach makes educational activities of different municipalities comparable, but omits the quality of the education services, hardly measurable in the Polish education system. Until 2002, all examinations in Polish schools were conducted and evaluated by local teachers. Therefore, the examination results do not reflect the differences in school quality. Other indicators, such as pupil/teacher or pupil/class ratios, are strongly correlated to the unit cost of education and are not worth discussing separately.

7.2.1 Pre-School Education and the Size of Local Government

The hypothesis: Smaller (less populated) municipalities have lower financial potential and, therefore, are less capable of providing pre-school education to its citizens.

As mentioned above, kindergartens are supposed to be fully financed by municipalities from their own revenues. This explains why local kindergartens attendance rates became one of the most frequently used indicators of *gminas'* financial self-sufficiency and ability to provide municipal services. Table 5.17 shows the average kindergarten attendance rate for various types of municipalities.

Not surprisingly, the highest (still, not very high) average rate is observed in urban areas. Yet, there are towns where pre-school education practically does not exist (min. attendance at 1.3%) and, yet again, rural municipalities where over 80% of children, 3–5 years old, attend kindergarten. Although cities are more populated than rural areas, and have bigger per capita own revenues (see Section 6), the differences in mean attendance rates are not enough to prove a relationship between size and ability to provide pre-school education services. It is common knowledge that parents in Polish villages are less interested in sending their children to kindergartens, so, the variation of rates presented in Table 5.17 may simply reflect variation in consumers' preferences.

Table 5.17
Average Kindergarten Attendance Rate of Children, 3–5 Years Old,
in Polish Municipalities (2000)

| | N | Mean | Min | Max | Std. Dev. |
|-------|----------|-------------|------------|------------|------------------|
| Rural | 1,548 | 17.1% | 0.0% | 83.0% | 14.6% |
| Mixed | 567 | 27.9% | 0.5% | 75.9% | 13.4% |
| Urban | 307 | 44.2% | 1.3% | 96.7% | 12.3% |

Therefore, to neutralize the influence of the rural life style, it seems reasonable to examine the variation of childrens' attendance to kindergartens within the category of rural municipalities. We assume that there are no significant differences in parents' attitude toward kindergartens amongst the rural villages.

Table 5.18 shows that attendance rates increase along with the size of municipality, as expressed in terms of population size, even if we limit our analysis to rural areas only. The average attendance in municipalities with 5,000–10,000 inhabitants is close to the average for all rural units. The rates for two largest size categories is almost equal, which may suggest that 21% is a natural (not limited by the capacity of local government)

attendance to kindergartens for rural areas. If this is so, we could intuitively claim that the population number in rural municipality should not be lower than 10,000 in order to provide the local government the potential to maintain their kindergartens.

Table 5.18
Kindergartens Attendance Rate in Rural Municipalities (1999)

| Population | Kindergartens Attendance Rate |
|-----------------|-------------------------------|
| Less than 3,000 | 11.9 |
| 3,000–5,000 | 15.2 |
| 5,000–10,000 | 17.2 |
| 10,000–15,000 | 21 |
| 15,000–25,000 | 21.2 |

7.2.2 The Primary School Network, School Size, and the Size of the Municipality

Hypothesis: Small (in terms of population number and population density) municipalities tend to have small schools and classes which leads to increased unit costs for education.

An average primary school in a Polish rural municipality has 148 students, in comparison to 540 in the city. The average rural class size is 18 students, while in the city—24. This disproportion is an obvious consequence of different settlement organizations. In many villages, the primary school is the only social and cultural center. For this reason, local authorities often prefer to maintain an economically ineffective school network. The ministry of education encourages the mayors to rationalize the local school system but, at the same time, the per-student education grant for rural areas is 33% higher than for cities (note that the average class size ratio for urban and rural areas is 1.33).

Table 5.19 shows that, in 2000, the average municipality spent over 20% more on education (current expenditure only) than it received within the education grant. This rule held in all kinds of municipalities, which shows that the subvention has been considered equally insufficient for rural and urban local governments.

As shown in Table 5.20, per-student expenditures in rural municipalities are also about 30% higher in rural areas than those in cities. At the same time, the average per-capita own revenues in rural municipalities are only 60% of those in cities'. This implies that expenditures over the received subvention create much bigger financial burdens for rural *gminas* than for the cities.

Table 5.19
Received Subvention and Resources Spent on Education by
the Municipalities (2000)

| Municipalities | Total Subvention Received | Total Resources Spent on Education | Average Expenditures Over Subvention |
|----------------|---------------------------|------------------------------------|--------------------------------------|
| Rural | 3,979,028 | 4,798,432 | 20.6% |
| Mixed | 2,657,125 | 3,302,609 | 24.3% |
| Urban | 7,472,635 | 9,067,450 | 21.3% |

Table 5.20
Expenditure on Primary Education and Budget Revenues in Polish
Municipalities (2000)

| Municipalities | Expenditure Per Student | Per Capita Own and Shared Revenues |
|----------------|-------------------------|------------------------------------|
| Rural | 3,509 | 433 |
| Mixed | 3,104 | 512 |
| Urban * | 2,860 | 762 |

* Excluding cities with county status.

To examine the relationship between the municipality size and unit cost of primary education, one must realize that the strongest determinant of per-student expenditures is the size of classrooms in local schools. The correlation coefficient for per-student spending and average class size is -0.68 , which must be considered high, since the calculation involved the entire Polish municipal population.

Our research hypothesis says that sparsely populated *gminas* tend to maintain smaller schools and school classes, which leads to extremely high unit expenditures for education. Again, we restrict our analysis to rural municipalities in order to neutralize disparities coming from dramatically different settlement organizations. Table 5.21 confirms that average class size increases along with population (except in very small municipalities). Also, the unit cost of primary education in rural *gminas* is clearly negative in relation to population.

Table 5.21
 Rural Municipality Size (Population) and Average Per Student Expenditures
 on Primary Education (2000)

| Population | Average Class Size (Students) | Per Student Current Expenditures |
|---------------|-------------------------------|----------------------------------|
| 0–3,000 | 17.8 | 4,181 |
| 3,000– 5,000 | 17.5 | 4,184 |
| 5,000–10,000 | 18 | 4,047 |
| 10,000–15,000 | 19.1 | 3,917 |
| 15,000–25,000 | 19.7 | 3,824 |

7.2.3 The Problem of Free Riding Within Secondary Education

Hypothesis: Big cities with dual (municipality and county) status provide secondary education services not only to their own citizens. The service catchment area is larger than the administrative jurisdiction. This leads to inefficiency caused by the free-riding phenomenon.

In order to illustrate the inconsistency of the city-county size and the territorial scope of its educational services, it is enough to compare the attendance to secondary schools in some cities with county status and the surrounding areas.¹⁷ The average attendance rate in cities-counties is 132%, which obviously means that a substantial part of the students come from outside the county to benefit from the high quality teaching, better equipment, and further professional opportunities. Table 5.22 below presents the comparison of attendance rates in 5 big cities and surrounding units (so-called “around-the-city counties”).

As we can see, in all cities examined the number of students exceeds the local population base. In the most spectacular case of *Rzeszów*, only 32% of students which graduated the primary schools in surrounding *rzeszowski* county continue their studies there. In the neighboring city, the ratio of recently subscribed secondary students to last year’s local primary school graduates is 2.11.

This phenomenon can be classified as an example of free riding, since the current costs of education are not entirely covered by the education grant received by the county. Moreover, as shown, the financial effort (measured by the ratio of education expenditures to the received grant) is bigger in cities-counties than in surrounding areas.

Table 5.22

Attendance Rate in the Secondary Schools of 10 Selected Counties in 2000

| County Name | County Type | Students in First Class of Secondary Schools/ Population of 15 Years Old | Students in First Class of Secondary Schools/ Graduates of Local Primary Schools | Students in Secondary Schools/Population of 15–18 Years Old |
|-------------|-------------|--|--|---|
| Toruń | City | 1.61 | 1.49 | 1.31 |
| Toruński | Surrounding | 0.20 | 0.21 | 0.21 |
| Rzeszów | City | 2.28 | 2.11 | 1.9 |
| Rzeszowski | Surrounding | 0.31 | 0.32 | 0.28 |
| Kraków | City | 1.45 | 1.38 | 1.28 |
| Krakowski | Surrounding | 0.34 | 0.35 | 0.33 |
| Wrocław | City | 1.30 | 1.29 | 1.19 |
| Wrocławski | Surrounding | 0.18 | 0.20 | 0.17 |
| Olsztyn | City | 1.64 | 1.60 | 1.35 |
| Olsztyński | Surrounding | 0.42 | 0.49 | 0.38 |

Table 5.23

Cities and Surrounding Counties Financial Effort for Education (2000)

| County Name | County Type | Current Expenditures on Education/Received Subvention |
|-------------|-------------|---|
| Toruń | City | 1.73 |
| Toruński | Surrounding | 1.20 |
| Rzeszów | City | 1.57 |
| Rzeszowski | Surrounding | 1.10 |
| Kraków | City | 1.62 |
| Krakowski | Surrounding | 1.11 |
| Wrocław | City | 1.73 |
| Wrocławski | Surrounding | 1.03 |
| Olsztyn | City | 1.65 |
| Olsztyński | Surrounding | 1.17 |

7.3 Voluntary Co-Operation Between Local Governments

In spite of the relatively large size of Polish local governments at a municipal level (in an European comparative perspective), there are numerous cases in which local authorities decide it is worth joining resources and efforts with their neighbors to achieve certain goals or to deliver some public services jointly. Article 10, as well as the whole chapter 7 of the Gmina Government Act, allow and provide the legal framework for such arrangements. The Association (*Związek*) created in that way is a separate legal entity, financed and managed jointly by several local governments.

The number of such inter-communal arrangements has been dynamically growing throughout the last decade, as it is illustrated in Table 5.24.

Table 5.24
Number of Inter-Municipal Associations in Poland

| 1991 | 1992 | 1994 | 1996 | 2001 (January) |
|------|------|------|------|----------------|
| 50 | 79 | 125 | 150 | 191 |

SOURCE: Karnkowski, 1996; Kowalska, 2002.

At the beginning of the 1990s, the most common associations dealt with infrastructure networks covering the area of more than one local government—first of all, water and sewage systems then public transportation and central heating [Aziewicz, 1994].

There were a few other features which were characteristic for the later development of inter-municipal co-operation:

- creation of associations focused not only on joint delivery of services, but on joint problem solving for more general issues, sometimes not related to the gmina compulsory functions. Organizations created for the joint promotion of economic development, implementation of tourist development programs or to deal with general issues related to environmental protection, are all good examples of this process;
- one-purpose associations began to cover some other services, not related to indivisible infrastructure. Under this new organization, the main focus was to reduce unit costs of service delivery. Joint arrangements for solid waste collection and disposal are a good example;
- the legal form of association, in some cases, proved to be inefficient and was sometimes replaced by joint communal companies established by a few local governments. The starting point for this change was an observation that noted, under the association arrangement, the decision making process was too slow (because delegates of individual local governments needed frequent consultations

with their local councils) and that the position of executive boards was too weak. A company form is less vulnerable to such negative phenomena.

Obviously, the function of both associations and joint companies is not a remedy for all the problems related to high unit-costs or difference between geographical borders and the catchment area of services. There are many examples where the initial attempt to establish the co-operation failed because local governments involved could not agree on some principles of co-operation. Aziewicz (1998) gives also some examples of the devastating conflicts in existing associations. Definitely not all the 191 can be treated as successful cases. But in many cases, they did all help in more efficient implementation of developmental policies or in better management of some services.

An interesting example of the successful single purpose association is an Association of Municipalities in Jura Region, which involves 36 *gminas* working together on the development of the tourist industry in the region. Over two thirds of the Association's budget comes from the members' contributions. This contribution is relatively small (about 10 cents per annum from every citizen in small local governments), so, it is not a heavy burden on local budgets. But co-operation of several local governments allowed for preparation of promotional materials and participation in international tourist fairs, which would be impossible for any single municipality. Preparation of a high quality video, filmed with the use of a hired helicopter, is just a one example. Successes in the join promotion of the region prove that, no doubt, the co-operation has been cost-effective.

7.3.1 Case Study—Solid Waste Management

Waste management is another example of a municipal task which is strongly related to the size of municipality and often goes beyond the capacity of a single *gmina*. One may ask why this function has not been transferred to county government, when the upper tier of local government was created in 1999. This is especially surprising when taking into account the fact that central government decided to leave this function with the *gmina* but, at the same time, was trying to encourage *gminas* within one county to co-operate on provision of the service. Probably, the only explanation is the promise made by central government that the 1998/99 reforms would not result in any limitation of *gmina* powers and function. One of the major arguments raised by opponents of the reform was that new tiers would dominate municipalities and central government made a promise in order to secure the support of municipal politicians.

Regardless of the reason for present allocation of this function, efficient waste management tends to exceed single *gmina* borders. There seem to be two reasons for this: management of solid waste is expensive and it is socially difficult. Some analysis

even estimates that complex technological solutions in waste management can be effectively implemented for a market of approximately 100,000 consumers (citizens) or more (*Regionalna gospodarka...*, 1998). These high costs are almost impossible for smaller units to independently carry out and are related to the cost of: (1) investment in the preparation of a new site, (2) high level of constant costs, independent of the number of users, (3) costs of technology for recycling and utilization of wastes.

The usual problem with waste management by local governments refers to the NIMBY (not-in-my-backyard) phenomenon. Waste treatment facilities (dumps, recycling plants) are commonly recognized as necessary, but nobody wants them to be established in his/her municipality. There is a strong believe that such facilities negatively affect the quality of the local environment, cause diseases, etc., even if research has proven the opposite.

Modern waste treatment infrastructure is expensive and not every municipality is capable of getting it. Moreover it's hardly efficient to build a facility for a single *gmina*, lets call it "A", since once the dump or recycling plant is established, it can be exploited by several municipalities (B,C,D) . If the facility is located in "A", the users B,C and D may be required to pay a fee to the authorities of "A" or to cover most of the investment cost as compensation to A's for their social and economic burdens related to the building and maintenance of the waste treatment facilities.

Such arguments lead Polish municipalities to join in on purpose-oriented associations established in order to provide waste treatment services for its' members. The existence of these associations proves that that the actual size and potential of many municipalities is inadequate, at least for some of the fulfilled tasks.

Table 5.25
Purpose–Oriented Associations of Gdynia and Slubice

| | Gdynia | Slubice |
|---------------------------------|---|---|
| Year of Establishment | 1991 | 1997 |
| Number of Member Municipalities | 5 | 12 |
| Total Population [Thousands] | 417 | 104 |
| Total Area [km ²] | 432 | 2,497 |
| Main Activities | Water distribution, solid and liquid waste collecting, dumping and treatment, heating, environmental protection | Waste filling, dumping and recycling, ecological education |
| Initial Method of Financing | Contributions of municipalities proportional to the population number | Contributions of municipalities proportional to the population number |

The two examples of the function of one-purpose-associations, presented in the Table 5.25, take place in different regions of Poland. The association located in Gdynia (northern Poland) groups six member municipalities, two of which are big neighboring cities with a joint population close to 300,000. The other association consists of 12, relatively small, municipalities located near the western border of Poland, surrounding the town of Slubice.

Both associations do not limit their activities to waste disposal, but manage also a variety of issues from water distribution and heating (Gdynia), to ecological education (Slubice). Table 5.25 shows the comparison of size, scope of activities and other details concerning the two associations.

One well-known and successful example of co-operation in waste management is the company *Beskid*, established in 1993 by 18 municipalities surrounding the town of Żywiec [Strypan, 1999]. In order to improve management mechanisms and speed-up the decision making process, local governments decided on a company instead of the traditional form of inter-municipal co-operation. The idea behind the Żywiec region joint waste management program was born in 1992 when the old waste disposal plant capacity had exhausted. There were five new locations available for the dump-site, but all of them met with the protests of local residents. Eventually, the only acceptable new location was within the Żywiec city limits. City government had an obvious choice: either it builds a plant for itself or it co-operates with the surrounding, mostly rural, municipalities. There were two arguments for co-operation: (i) exploitation of the plant by the city only would be much more expensive in terms of unit costs; (ii) due to considerable externalities, only a joint waste management system would provide the opportunity for a radical improvement in local environmental protection. Currently, the company operates one of the most modern facilities in Poland and runs a successful program of waste segregation and recycling. It is quite clear that the positive results of the program would have been impossible for a single *gmina* to achieve.

8. CONCLUSIONS

Following the Keating (1995) concept, quoted in the introductory chapter, the quality of local government functions can be evaluated as a sum of three factors:

- capacity for economic development;
- ability to provide high quality cheap services;
- functioning of local democracy.

Theoretical expectations concerning the impact of size on these broad categories often go in opposite directions. For instance, with capacity for economic development

growth with the size of local government according to reform theory, the ability to mobilize larger resources for massive infrastructure projects seems to be a decisive factor. But according to some public choice arguments, big bureaucracy problems can be more visible in large administrations and small units competing for investments should be more effective. Moreover, some neo-liberal concepts suggest that the ability to plan strategically does not matter, since only the market can provide an optimal allocation and any planning can have harmful effects by sending false signals to the market.

As far as the ability to provide services is concerned, reform theory argues for large governments. This is both due to lower unit costs and the ability to provide more services. But some public choice proponents suggest that size does not matter, since services can be contracted-out to private providers.

Last, but not least, most of arguments for local democracy opts for small units where contact between citizens and authorities is closer, bureaucracy is smaller, and policies may better reflect local preferences. However, reform theory suggests that big governments, having more functions, attract more citizens attention and that—following Dahl’s (1961) classic concept—larger communities provide space for more interest groups competing for influence, which leads to more pluralist political models.

How do these conflicting competing theories correspond with Polish reality? The summary of findings is presented in Table 5.26. Capacity for economic development is definitely larger in large local governments. Public choice counter-arguments on bureaucratic difficulties in big organizations do not seem to be decisive. Ability to provide more services, and to provide them cheaper, works again in favor of larger territorial units. Once again, we could not find any evidence confirming public choice expectations. It is important to stress that these findings do not reflect simply differences between rural (small) and urban (big) governments, but have been confirmed by analysis of the variation between small and large rural communities as well.

However, in the case of local democracy indicators, the picture is almost opposite. Level of interest, trust and satisfaction with local government is much larger in small territorial units, rather than in large ones. This time, public choice expectations are confirmed and reform theory arguments, that larger capacity results in larger citizens interest, seem to be on a false track. However, there is one exception to this rule—as reform theorists suggested, larger local government seem to have a more pluralist model of politics. The findings on a variation in social structure of councilors are difficult to classify. The proportion of educated councilors grows with the size of the local government. On one hand, this means that “human capital” in the council increases. On the other hand, one may argue, since the structure of a council becomes more distant from the structure of the whole local society, it may cause representation problems.

Table 5.26
Size and Local Government Functioning—Summary of Polish Findings

| Issue | Category | Variables (Indicators) | Theoretical Expectations According to: | | Empirical Evidence in Poland |
|-----------------------------------|---|---|--|----------------------------------|------------------------------|
| | | | Reform Theory (Economies of Scale) | Public Choice or Localism Theory | |
| Capacity for Economic Development | Financial potential | Total revenues, per capita investment spending | + | + | 0 |
| | | Share of own revenues, per capita own revenues, low dependency on state transfers | + | | + |
| | Burden of inflexible spending | Low share of fixed current costs (salaries, energy) in total budget | + | | + |
| | Ability to strategic planning | Preparation of first plan of strategic development and physical master plan | + | — | +/-0 |
| | Ability to gather resources from support programs and attract foreign investors | Share of total grants and non-state aid in investment spending, attracted foreign investments | + | — | ? |
| Ability to provide services | Capacity to provide cheap services | Low per capita spending on administration | + | — | + |
| | | Low unit costs of primary education | + | | + |
| | | Reduced free loading and other problems with catchment area | + | | + |
| | Capacity to provide more services | Willingness to take responsibility for primary schools before compulsory deadline | + | — | + |
| | | Citizens willingness to decentralize more functions | + | — | + |

Table 5.26 (Continued)
 Size and Local Government Functioning—Summary of Polish Findings

| Issue | Category | Variables (Indicators) | Theoretical Expectations According to: | | Empirical Evidence in Poland |
|-----------------|--|---|--|----------------------------------|------------------------------|
| | | | Reform Theory (Economies of Scale) | Public Choice or Localism Theory | |
| Local democracy | Citizens' interest in local government | Turn-out in elections, declared interest | + | — | — |
| | Citizens' trust in local governments | Various survey measures | | — | — |
| | Pluralist local politics | Competition in local elections | + | | + |
| | Citizens' satisfaction | Various survey measures | | — | — |
| | Political transaction costs | Number of councilors constituting the majority, the share of big political parties representatives among councilors, conflicts between parts (villages, city districts) of local government's territory | | + | ? |
| | Democratic representation | Number of councilors rep. 1,000 inhabitants and per settlement unit | | | — |
| | Human capital potential | Councilors' level of education | + | | + |

8.1 Efficient Function of the Municipality—Attempts at Building a Composite Index and Relationship With Size

The goal of this attempt to build a composite index of local government efficiency is to summarize the findings described in the previous sections as well as to confirm some general, theoretical relationships between the size and efficiency in economic development and public management.

The construction of an index will consist of three steps:

- STEP 1—Defining the efficiency (performance) in terms of the factors described in previous section.
- STEP 2—Matching variables for the factors and developing the final formula describing efficiency of the municipality.
- STEP 3—Verifying the relationship between size and efficiency.

8.1.1 Defining the Efficiency (Performance)

Let us consider the overall performance (P) of the municipality as the difference between its economic potential (E) and the sum of costs related to provision of communal services (S) and function of local democracy (D). The formula denoting municipality's performance is:

$$(1) \quad P = a_1 \times E - (a_2 \times S + a_3 \times D)$$

where a_1 , a_2 , a_3 are weights coefficients reflecting the contribution of factors to overall performance of local government.

Thus, we assume the linear relationship between the measure of efficiency (P) and each of the factors E,S,D. However, we do not impose any particular form of the relationship between overall performance (P) and size of the municipality. Indeed, the municipality's size (measured by population) is introduced to the analysis indirectly, via the factors E,S,D. What our indicator says is that the impact of size on the efficiency of local governments is an aggregate of the three relationships:

- between size and economic potential;
- between size and efficiency in service provision;
- between size and quality of local democracy.

The crucial element of the index refers to values of weights a_1 , a_2 , a_3 , attributed respectively to the factors E, S, D. The decision to pay more attention to one factor

depends on the values we believe in, rather than on scientific considerations. Starting with the democratic theory, we may treat functioning of democratic system as the most important. In a more economic-pragmatic approach, we may focus on provision ability and costs of services. But, for example, starting from Peterson’s “city limits” theory (1981), we may assume that capacity to promote economic development is absolutely crucial and, in fact, determines the ability of local government to perform any other social functions.

The values of weights a_1 , a_2 , a_3 clearly depend on some general assumptions made by the researcher or, under another approach, on the importance attributed to different issues of municipality’s public life by local society. Therefore, the goal of developing the indicator should not be considered in terms of finding “the optimal size” of the municipality or defining the precise function explaining the influence of population number on the local quality of life. Instead, the indicator should show how the relationship between size and efficiency changes in reaction to the shifts in the relative importance given to the three elements constituting the local development.

8.1.2 Matching Variables, Developing the Final Formula for the Efficiency (Performance)

The empirical application of the equation (1) is conducted with a sample of about 1,900 (out of 2,489) Polish municipalities. We have decided to exclude cases in which impact of size may be significantly distorted by various factors:

- 65 cities with county status—due to different (wider) scope of tasks;
- boroughs of Warsaw, which have different functions than other municipalities;
- a few extremely affluent municipalities, in which the 2000 revenue per capita exceeded the national mean, plus 10 standard deviations;
- municipalities located within metropolitan areas, whose functions and affluence are heavily dependent on their role within metropolitan areas.

Each factor of the indicator is represented by the unweighted average of the standardized indicators. Variables included are presented in Table 5.27.

Therefore the equation (1) takes form:

$$(2) \quad P = a_1 \times \sum_{i=1}^4 e_i / 4 - (a_2 \times \sum_{j=1}^3 s_j / 3 + a_3 \times \sum_{k=1}^3 d_k / 3)$$

where i , j , k show the number of the variable within the three factors (E, S, D).

Table 5.27
Variables Used in the Index of Local Government Performance

| Factor | Variable (Indicator) | Variable Name | Comments |
|--|--|---------------|------------------------|
| Economic potential(E) | Per capita own revenues together with shares in state taxes (2000) | e_1 | in PLN |
| | Per capita investment spending (1998–2000) | e_2 | in PLN |
| | Share of fixed costs in the budget (2000) | e_3 | in % |
| | Number of personal computers per employee in municipal office | e_4 | |
| Cost and willingness to provide services (S) | Per student spending on education (2000) | s_1 | in PLN |
| | Per capita spending on administration (2000) | s_2 | in PLN |
| | Municipalities overtaking schools before compulsory term | s_3 | “dummy” (0–1) variable |
| Cost of functioning of local democracy (D) | Turnover in local elections (1998) | d_1 | in % |
| | Number of candidates per mandate in local elections (1994) | d_2 | |
| | Number of councilors per 1,000 inhabitants (2000) | d_3 | |

8.1.3 Verifying the Relationship Between Size and Efficiency

Although theoretical findings are sometimes in contradiction (for example, public choice expects that local democracy functions better in small local governments, while some reform theorists provide arguments for the opposite case). However, dominant literature, as well as empirical evidence from Poland, leads to the following expectations about the three factors mentioned above:

- municipalities' potential for economic development increases with the rise of population. Larger units have more resources as well as higher human and organizational potential. Nonetheless, the relationship between size and economic development is likely to have a diminishing marginal performance. This expectation has been confirmed by Polish empirical data—most of indicators of economic capacity correlate better with a log of population size than with size expressed by linear function of the number of population;

- the “unit cost of services” factor is likely to work in favor of big municipalities, as the unit cost of provided services falls with the increase of population. Also, large governments are better equipped to provide larger number of services. However, one may expect a threshold size, above which the service factor value is negatively related to the size. Big cities providing services to its’ citizens, face not only the economies of scale but also diseconomies related to the problems of co-ordination in large organizations as well as additional infrastructure costs. We should add, however, that the latter phenomenon has not been observed so far in Polish empirical data;
- most of the results in Polish empirical analysis suggest that idea of local democracy works better in small units, where relationship between authorities and citizens is closer and more direct. An exception to this rule is the higher pluralism of local politics identified in large municipalities.

The data available for our empirical research does not always allow us to identify the “optimal size” of the municipality. Not by applying analyses focused on particular issues of local development, nor by using more “holistic” model approaches. Also, many sociological surveys which we quoted use very broad size categories which lowers the precision of the approximations. Nonetheless, whenever we could speak of ‘efficient size’, it has been somewhere between 10 and 50 thousand residents. For example, local governments below and above 50,000 clearly differ from the point of view of following measures:

- turn-out in local elections;
- education structure of councilors;
- number of candidates per seat in local election.

Those in the 10,000 size seem to be a breaking point for an even larger number of indicators such as:

- citizens’ opinion that local powers are too narrow (somewhere around size 10–20,000);
- mayors’ opinion that councilors often loose touch with ordinary people;
- ratio of councilors per inhabitants (somewhere around 30,000);
- size of local government spending on administrative (per capita);
- use of internet and computers in local administration;
- size of local government investments per capita;
- local government budget dependency on state grants;
- attendance rate in kindergartens;
- average class size in primary schools and, as a consequence, per pupil cost for primary education.

If so, one may speculate that the “ideal” balance between the beauty of being small, and advantages and strengths possessed by being large, is in a category somewhere between 10 and 50 thousand. Available data does not allow for a complete verification of this brave hypothesis, but we make an initial attempt by constructing a composite indicator for municipal efficiency, as described in the paragraphs 8.1.1 and 8.1.2.

Let us consider seven different sets of coefficients, a_1, a_2, a_3 , as described in Table 5.28. In sets 1, 2, 3 we assume that evaluation should focus entirely on a single factor. For example, we give absolute priority to the capacity to promote local economic development or to local democracy. Set 4 reflects the “indifferent” approach, where equal weight is given to all identified factors. Also, in sets 5 to 7, all three factors are taken into account but one of them is considered more important and is given the weight 3, while other coefficients equal 1.

Table 5.28
Weighted Values for Different Index Variations

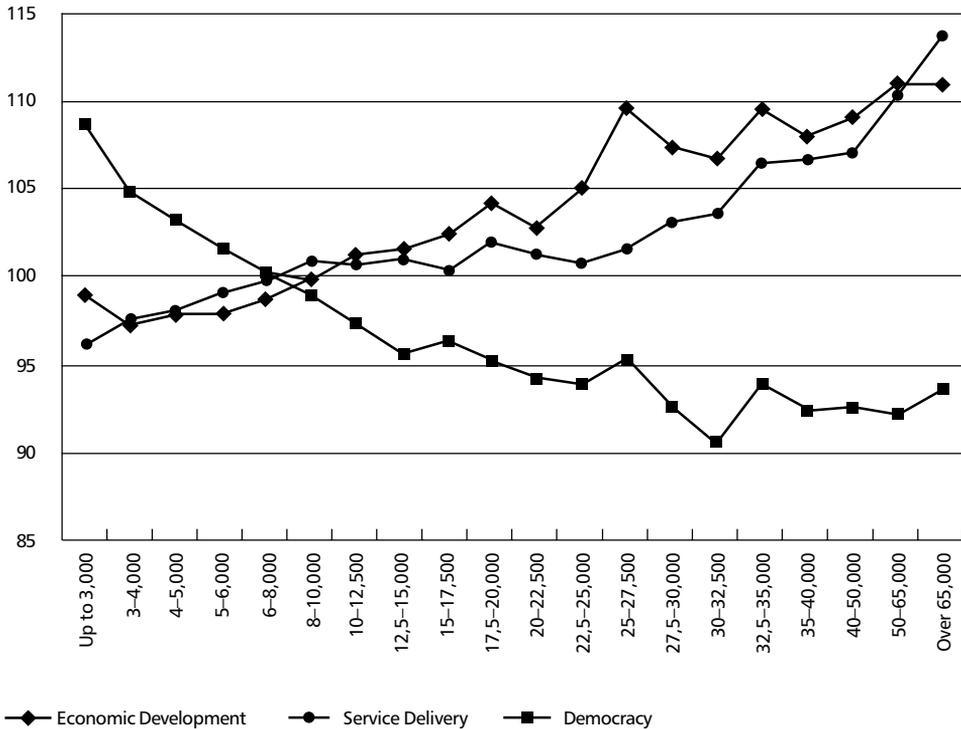
| Set Number | Set Description | a_1 (Economy) Value | a_2 (Services) Value | a_3 (Democracy) Value |
|------------|------------------------------|--------------------------|---------------------------|----------------------------|
| 1 | Only economy matters | 1 | 0 | 0 |
| 2 | Only services matter | 0 | 1 | 0 |
| 3 | Only local democracy matters | 0 | 0 | 1 |
| 4 | Equal weight | 1 | 1 | 1 |
| 5 | Economy oriented | 3 | 1 | 1 |
| 6 | Services oriented | 1 | 3 | 1 |
| 7 | Local democracy oriented | 1 | 1 | 3 |

Lets see how these relationships are reflected in empirical data for over 1,900 Polish municipal governments. Figure 5.11 illustrates the relationship between population size and value of local government performance (P) under the assumptions expressed in sets 1, 2, 3 (single factor indicator). In general, the observed relationships are consistent with the expectations presented at the beginning of this section. Not surprisingly, the economic potential is positively correlated to the size of local government. The bigger the municipality, the larger is its economic potential. However, the marginal gain in efficiency clearly decreases for the units with populations exceeding 25,000.

Imposing a “service only” variant results in almost linear function—the bigger the local government, the more efficient service provision is. The positive relationship between the size and the efficiency in the service is observed all along the whole population spread.

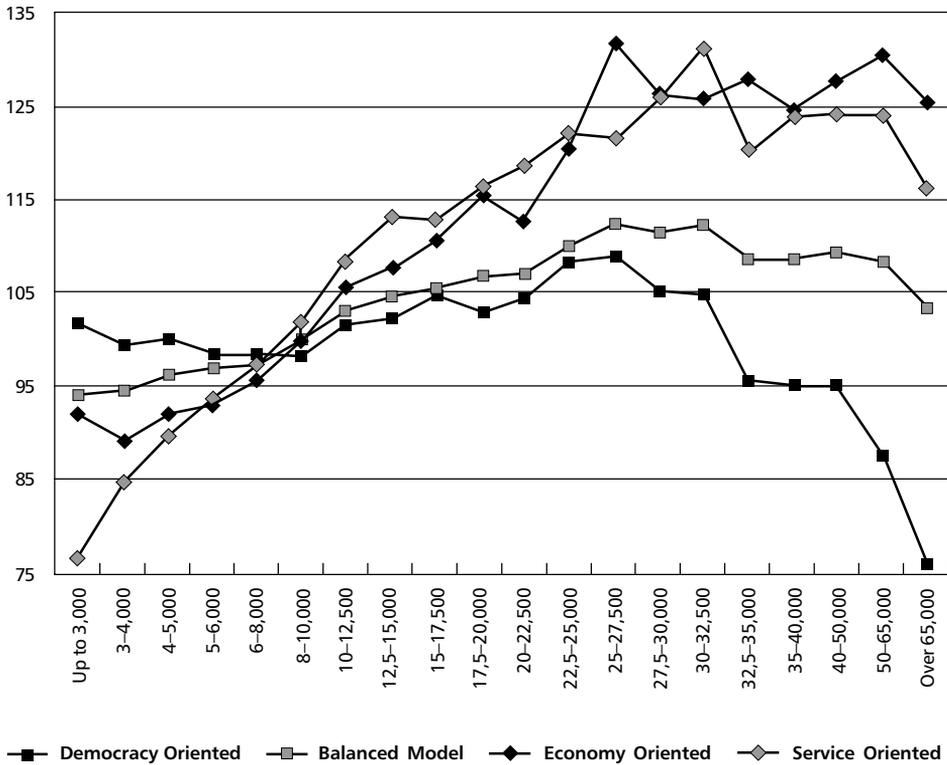
As expected, in the approach focused on local democracy, the performance curve slopes downward and relatively steep. This reflects the greater citizens' participation and democratic representation in smaller units. However, there is a clear threshold around populations sized at 25,000, after which the performance curve turns from clearly negative to almost neutral (flat curve).

Figure 5.11
Local Democracy, Economic Development, Service Delivery and Size of Local Government



The “equal weights” variant (Figure 5.12) is the easiest to defend on theoretical grounds, since there is no good reason to believe that any of the three factors are more important than others. This approach indicates an “optimal” size of local government somewhere between 25,000 and 32,000, dividing municipalities into two upward and downward sloping groups on the performance curve. The marginal gain in overall performance for small units is much higher than the marginal loss for the municipalities of population exceeding the threshold number.

Figure 5.12
Index of Performance and Size of Local Government



Not surprisingly, the “economy oriented” index shows “optimal size” at around a similar point. The major difference with the “equal weights” indicator is that, in case of “economy oriented”, the performance curve is almost flat for the municipalities above this population number. This may suggest no significant difference in efficiency between the municipalities of 25,000 inhabitants and larger.

In the “service oriented” index, the threshold population size seemed to be at about population 30–32,000. However, while the marginal gain for small local governments is very clear (the curve is very steep), the marginal loss for larger units is not so evident. Beyond the “optimum point” there is no clear relationship between size and performance of local government. In more detailed data analysis (not shown on Figure 5.18) we may, however, observe a significant variation of the performance value for big cities, which may indicate that efficient provision of local services depends substantially on some specific individual conditions.

Finally, the “local democracy oriented” variant clearly “worsens” the performance of big cities, moves the “pick performance” point down to about 22–27,000 and makes the performance curve slop sharply downward for high population numbers.

In all 4 variants the “optimal” point is somewhere between a population of 22 and 32 thousand. Interestingly, this result is not very different from Plato’s theoretical considerations (see the quotation in Chapter 1 of this book).

8.2 Practical Recommendations

Do the findings described in this chapter bring us to any practical recommendations for the territorial organization of local governments? In Poland, the discussion over the size of local government is not a very hot issue. However, it is occasionally the focus of social attention. It is not so often the case on a municipal level, although in some cases pro-fragmentation tendencies dominate the local political scene. More commonly, there has been recent discussion on the size of county tier governments and one can expect that the pressure for further changes will continue. The creation of 7 new counties at the beginning of 2002 is a good illustration of this phenomenon. Unfortunately, a lot of the evidence analyzed in this chapter is rooted in the municipal level. Though some examples from counties (spending on administration, free-riding phenomenon in secondary education) have been discussed as well. Therefore, some of our observations could be treated as useful practical recommendations for policy makers, both on a local and central level. Perhaps more important still, Polish experiences may be interesting material for other countries in the Central-East European region which are now undergoing a very lively discussion of the “size issue” (Czech Republic, Hungary, Slovakia, Ukraine).

How can these practical recommendations can be summarized? Below, we present a list of issue recommendations which are, of course, selected and formulated subjectively, but are based on objective empirical evidences:

- *Do not allow more fragmentation on a county level.* This would lead to strengthening the free-riding effect, would increase the unit costs of some services (most certainly with administrative overhead). Polish counties have very limited potential for undertaking infrastructure projects and further fragmentation would reduce this potential even more. On the other hand, at this size level, the expected positive change in local democracy function is rather an illusion. So, for reasons enumerated just above, the suggested development should be consolidation, rather than fragmentation.
- *Make sure the consequences of a municipality’s split are recognized by and clear for the local population.* Sometimes the level of conflicts within a municipality makes “divorce” difficult to avoid. There are also positive consequences of such a split which should not be neglected, even though, as we have shown in this chapter,

these positive results are frequently over-estimated. Quite often, the local population is not aware of the negative consequences of fragmentation such as increase of costs and reduced capacity to provide services. This message should be always very clearly communicated to citizens *before* they have to express their opinion in public consultation (by referendum or any other method of consultation which is applied).

- *Remember that a fragmented territorial system is more costly to the state budget.* Small local governments have larger operational spending (expressed on a per capita basis), they cannot cover these with their own revenues and require greater assistance in the form of transfers from the state budget.
- *In case of amalgamation, protect a form of the village autonomy.* This is a Polish experience, but also recognized in other countries with multi-village rural governments (parishes in United Kingdom, and in Scandinavia). The village level of government, even with very limited and mostly symbolic powers, is very important to the protection of village pride and identity. The Polish *soltys* is an important local leader and his presence, together with a formal recognition of the “village meeting” institution, clearly contributes to the strength of local democracy in rural areas.
- *Encourage co-operation between municipal governments.* Regardless of the territorial organization model type, there are always functions which can be performed more effectively when a few local governments co-operate with each other. In Poland, where municipal governments are rather large, this is clearly this case with solid waste management, tourist development, or environmental protection. The process of co-operation should not be left only to spontaneous development. This is more valuable if co-operation is voluntary, but it might stimulate co-operation if there are policies which provide incentives (possibly including financial incentives). In Poland, lack of such incentives is a main reason why most local governments try to cope (often ineffectively) with waste management alone. At the same time, availability of EU funds for local infrastructure investments caused some municipalities to co-operate on joint projects in order to meet formal requirements which were difficult to meet alone.
- *Better representation and closer links between authorities and citizens are real values in small governments and should be protected.* Therefore, the recently declared tendency to reduce the number of councilors in Polish local governments should be stopped, at least in rural areas. Such a change would increase the number of villages not represented in the council and may be harmful to local democracy in small communities. Yet again, the change in a number of councilors in large local governments is probably not so very important from a democratic principles point of view. While the reduction may bring some cut costs and better organization in the decision-making process, it could mean the relationship

between size of local government and size of a council could be more flat than it is nowadays.

- *The majority system and single-ward system is worthy of consideration for all rural and mixed urban-rural governments, regardless their population size.* Such a solution should support balanced representation of settlement units in the council. The proportional system (currently in all municipalities over 20,000 citizens) may lead to a situation in which the largest settlement unit is greatly over-represented, leaving smaller villages under- or not-represented at all in the council.
- *Available evidence suggests that a population size of 10,000 provides sufficient capacity for effective provision of many services.* This factor should be taken into consideration when any concrete decisions on fragmentation or amalgamation are to be made.

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NOTES

- ¹ Pawel Swianiewicz is a professor and Mikolaj Herbst a research assistant at the European Institute for Regional and Local Development, University of Warsaw.
- ² Similar observations on a wider European level were made by Page and Goldsmith (1987) who noticed that territorial organisation is very much related to the allocation of functions. Small (fragmented) local governments are usually unable to take responsibility for many services, which need to be delivered by upper tiers of governments.
- ³ A mixed municipality consists of a (usually small) town and several surrounding rural villages.
- ⁴ Some of these are called “around-the-city-counties” consisting of municipalities surrounding metropolitan counties
- ⁵ It is very difficult to find the proper English terms, but in this chapter we use the term “village” for larger settlement units (*solectwo*) and the term “settlement unit” for any, even the smallest, unit.
- ⁶ LDI–Local Democracy and Innovation Project sponsored by the Norwegian government. The survey quoted here was conducted in 1997 with a sample of over 1,000 mayors from the Czech Republic, Poland and Slovakia.
- ⁷ Several arguments on the relationship between size of municipality and local democracy have been already presented in the LGPP study on “Public Perception of Local Governments” [Swianiewicz, 2001]. In this book, we do not repeat this data. We present only general conclusions and focus on the aspects which were not analyzed in the public perception study.

- ⁸ Unfortunately we do not have data from the, more recent, local election of 1998
- ⁹ A village leader (*soltys*) plays a very important as a local leader at a village level. Often times, a village leader plays a crucial role as a channel of communication between the local government executive board and citizens within individual villages [Mielczarek and Domańska, 1999].
- ¹⁰ Survey organized December 2001 as a part of the LGPP “size” project with the support of the National Association of Village Leaders. A total of 395 respondents, from 87 local governments located in 4 regions, were interviewed.
- ¹¹ As elsewhere in this paper *** marks the correlation coefficient significant on 0.001 level, ** on 0.01 level and * on a 0.05 level.
- ¹² Her research concentrated on urban municipalities with a population size under 50,000. Bartkowska-Nowak distinguished between small, average and large local administrations on a base of the total number employed at city hall (in her classification, small administration had less than 33 clerks and large over 52 clerks). However, the number of local administrative employees is strongly correlated with population size, so we can draw conclusions on differences between small and large local governments as well.
- ¹³ Correlation coefficients in Table 5.14 are the most telling. Comparing group means in the Table 5.20 is sometimes misleading, because of small groups in very small governments, which for a variety of reasons have extremely high revenues per capita. These very limited number of very affluent municipalities are reflected in the group mean and in a very high standard deviation for the group.
- ¹⁴ A full description of the complicated methodology to determine which of city expenditures should be treated as fixed, as applied in this paper, would be too long to fit within limited space available. However, to give some example, we treat expenditures related to standard salaries of local government staff, or heating of municipal premises, as fixed.
- ¹⁵ The subvention is formally a non-targeted grant, which means it may be spent on any purpose, not necessarily related to education. However, in the vast majority of municipalities, actual current spending on education is higher than the received grants.
- ¹⁶ Among other issues, the 1999 reforms involved transforming the former 8-year primary school into two-tier system of primary (6-year) and middle level school (3-year). Municipalities covered most of the cost related to these changes. Also, in 1999, the controversial law on teacher’s rights (Teacher’s Chart) was approved by Parliament. This raised the teachers’ remuneration without sufficiently increasing the education grant for the municipalities. For this, and other reasons,

the share of municipalities' own resources in current education spending increased from 8% in 1998 to 20% in 2000. Also, the proportion of municipalities who "subsidized the education grant" from their own revenue sources increased from 83% in 1994 to 96 in 1999 [Ćwikła, 2001] and then to over 99% in 2000.

- ¹⁷ Average teachers' salaries are set by law, but local governments are free to pay an additional remuneration. Frequently, they pay more to offset the higher cost of living in the cities and to attract foreign languages teachers, etc.
- ¹⁸ By "attendance rate", we mean the ratio of students attending local schools vs. the number of 15–18 years old inhabitants, or the graduates of local primary schools.

Is There a Third Way
Between Small yet Ineffective
and Big yet Less Democratic?
Comparative Conclusions
and Lessons Learned

Paweł Swianiewicz

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Is There a Third Way Between Small yet Ineffective and Big yet Less Democratic? Comparative Conclusions and Lessons Learned

Paweł Swianiewicz

After the presentation of theoretical expectations in the first chapter (which are either inconclusive or, depending on the stress on particular values, lead in the opposite direction) and after presenting the empirical findings of individual countries, we may ask; do these observations allow for more general conclusions? And are there any practical recommendations stemming from them? These are the main questions discussed in the present chapter. However, before turning to empirical evidence on local government function in relationship to its size, we need to focus briefly on an institutional setting which is very different in each of countries considered.

1. HOW HAS TERRITORIAL ORGANIZATION CHANGED SINCE 1990?

As it was mentioned in chapter 1, the 1989/1990 political transformations brought significant changes in the territorial organization of the municipal level in some countries (Czech Republic, Slovakia, Hungary). While in some others (Poland, Bulgaria) the level of fragmentation/consolidation remained mostly unchanged. Contrary to the events in several West European countries during the 1960s and 1970s (see chapter 1), the change led rather to a more fragmented, not to a territorially amalgamated, system. As a result, among the countries which are analyzed in this book, there are two very distinct models of territorial organization on the municipal level: those that are territorially fragmented, as in the Czech Republic, Hungary, Slovakia, and those which are territorially consolidated as in Bulgaria and Poland. It seems inevitable that allocation of functions, relationship between municipalities, other tiers of administration, as well as the everyday functioning of local governments, must differ in such distinct institutional settings.

In the discussion of underlying reasons for these variations, one might put several explanatory factors, such as:

- the perception of the main values of local democracy. There is some evidence that in the Czech and Slovak Republics the communitarian approach, seeing first and foremost the representational role of local government, has been dominant. While in Poland, the more liberal attitude, placing more emphasis on efficiency in local service delivery, has been more visible [for more detail see the discussion in Swianiewicz, 2001]. The former approach led to the “freedom of fragmentation” while the latter demanded maintenance of the larger local government units. A quite similar line of argumentation for West-European countries has been presented by Goldsmith (1995);
- various levels of public sector control over the rural communist economy. In Poland, a large part of the rural economy was organized around private farms while, in other countries in the region, the *kolkhoz* structures (often identical with the territorial administrative units) very much dominated every day life. Therefore, territorial organization was “more visible” for average citizens and the oppression of the “central village” in the municipality was much more painful. It led to the demand for village autonomy as soon as the democratization process would allow for such a change;
- depth of democratization and decentralization reforms. At the beginning of 1990s, decentralization reform in Bulgaria was much more modest than in other countries discussed in this book. The limited reform did not produce enough space (or incentives) for a bottom-up demand for fragmentation.

But whichever of these underlying reasons we treat as the most convincing, there are some immediate differences between the ways various countries make decisions on territorial division at the lowest level. These are differences between legal regulations. They are perhaps the most rigid in Poland where the law says vaguely about “consultations” with local community and yet the central level is free to make a decision on the splitting or merging of municipal governments even against the opinion expressed in these consultations. In Bulgaria, the role of local public opinion is slightly greater. A decision on establishment or liquidation of municipality requires, not an undefined type of consultation but, namely a referendum. It is impossible to change the territorial division if the local community votes in opposition to it. However, if the referendum proves there is public support for a change in the territorial organization, the central government may, but does not have to, proceed based on this opinion. There are several conditions in order for a new municipality to be formed: it should have a minimal population of 6,000 people, it should have central settlement unit, minimal financial capacity and—furthermore—the maximum distance between villages located within the municipality should not exceed 40 kilometers.

Similarly in the Czech Republic, Hungary, and Slovakia, no change can be introduced without the agreement of the local population. Since the beginning of

the last decade, it has been automatic to follow the peoples' preferences, which sometimes led to enormous fragmentations. There were even some extreme cases in which villages with less than 20 citizens declared themselves a separate local government. Since then, national governments have introduced legislation that attempts to stop the process of fragmentation. Most often, the threshold population size for a village to be proclaimed as a separate municipality was adopted, with some variety of conditions added as well. In Slovakia in 2001, a new law was introduced (effective as of 1 January 2002) which set some conditions for the creation of a new municipality. A minimum threshold, a population of 3,000 people, seemed to have been the most important among the new criteria. In the Czech Republic, the threshold was declared a population level of 1,000, with no additional conditions mentioned. In Hungary, the limit was set at a much lower level (population 300) but additional conditions, to demonstrate the capacity to provide all obligatory functions, were added. Any change in the existing territorial division can be initiated only locally, but not by the central authorities. It seems, however, that the threshold numbers introduced by new legislations are based on intuition rather than on any concrete analysis. Indirect proof of such a claim is provided by the fact that, in Hungary, there are no statistics available which describe the differences between costs and administrative performance in the groups below and above 300 citizens (the minimal size for a new municipality). The regulations discussed above are briefly summarized in Table 6.1.

Table 6.1
Decisions on the Change in Number of Municipalities

| Country | Method of Decision/Limitations |
|----------------|---|
| Poland | indecisive consultations, decision made by the central government, territory of the new municipality should "as far as possible, be homogenous, take into account social and cultural links, and ensure capacity to provide public functions" |
| Bulgaria | local referendum may block government decision, but can not force the central government to create/liquidate a municipality, new municipality should have above 6,000 citizens, central settlement unit; distances among villages should not exceed 40 km. |
| Slovakia | the domination of the right of every village to their own local government, beginning in 2002, a new municipality cannot be smaller than 3,000 citizens, infrastructure facilities serving the whole territory of the municipality cannot be divided, cannot create an "urbanite unit" within the "mother unit" |
| Hungary | the dominate right of every village to their own local government, recent threshold of 300 minimum population size, newly created local government has to demonstrate its capacity to provide obligatory tasks |
| Czech Republic | the dominate right of every village to their own local government, recent threshold of 1,000 minimum population size |

Another dimension of territorial changes after 1989 relates to new divisions and the creation of elected self-governments on the regional level. During the last five years, re-organization concerning this has been implemented in the Czech Republic, Slovakia and Poland. In Hungary, the upper (county) tier of self-government has existed throughout the whole of the 1990s, but it has been relatively weak throughout. In Bulgaria, there is still only one level of self-government. Yet, introduction of regional self-government seems quite unlikely in the near future even though such a recommendation has been formulated by several experts (including authors of the report in this book). Interestingly enough, amongst the analyzed countries, Poland is the only one in which the elected regional governments cover territory identical with NUTS 2 units, which play an important role in the implementation of European Union regional policies [Żebrowska–Cielek, 2001]. The issue of regional government is a fascinating and very important field of analysis, however, in this book we focus, first and foremost, on the basic level of local governments and the regional dimension will not be discussed further in this chapter.

2. TERRITORIALLY FRAGMENTED VERSUS TERRITORIALLY CONSOLIDATED SYSTEMS—DEFINITION

Several times in this chapter we use the term “small” or “big” local government. But how can we define which municipal government we can call “small” and consequently, which local government system we will call “fragmented” and which “territorially consolidated”? As mentioned in Chapter 1, some analysis made in Western European countries suggests that several functions cannot be performed locally in communities of less than 1,000 citizens and that the unit costs of several functions grow significantly below 5,000 dwellers threshold [“The Size of Municipalities...”, 1995]. The Polish chapter of this book indicates that, for various functions, the visible threshold is somewhere about 5–10,000 citizens.

For the analysis presented in this book, let us agree to call “fragmented” systems those in which a considerable proportion (over 25%) of local governments is smaller than 1,000 citizens, while a vast majority (over 66%) is smaller than 5,000. As it has been shown in Figure 1.3 in Chapter 1 of this book, in the countries analyzed, the proportion of “below 1,000” municipalities varies from none in Bulgaria and Poland, to 54% in Hungary, 68% in Slovakia and 80% in the Czech Republic. The proportion of “big” (over 5,000 citizens) varies from about 5% in the Czech Republic and Slovakia, to almost 10% in Hungary, 72% in Bulgaria and 76% in Poland. The split between fragmented systems in the Czech Republic, Hungary and Slovakia, on one hand, and consolidated systems of Poland and Bulgaria, on the other, is very clear and sharp.

3. NATIONAL DEBATES ON THE SIZE OF LOCAL GOVERNMENTS

In regards to the discussions on territorial organization, we could perhaps distinguish between small, local debates on merging/splitting individual local governments, which happens in every country, and larger, national debates on the general shape of territorial division. The latter type is a hot topic in some of the countries analyzed. The size of municipal governments has not recently been debated much in countries with territorially consolidated systems. Bulgarian discussions related to size are not at the center of the political agenda and are mostly focused at a regional level.

In Poland, most of the discussions relating to the size issue concentrate on the upper tiers—regions and counties. Should twelve, sixteen or seventeen regions, over 300 or below 200, counties be created? These were very hot issues not very long ago, and some attempts at county governmental consolidation are still under discussion. But the size of (relatively big) municipal governments is usually taken for granted and not disputed. What is interesting, however, is that if there are any suggestions on systematic changes of the basic territorial organization level, they point in the direction of even further consolidation, not fragmentation. A recent example is provided by the Ministry of Finance's proposals for the revisions of the Law on Local Government Revenues, which were presented at the beginning of 2002 [Weber, 2002]. The proposal has suggested an incentive, of an additional 1% share in PIT revenues for 5 years, for those local governments who decide to merge. This suggestion is targeted, first of all, at county governments but it is also addressed to municipalities as well.

In the fragmented systems of Hungary, Slovakia or Czech Republic the issue of size is the subject of very hot debates. General amalgamation is usually rejected as unrealistic and undemocratic, but individual countries concentrate on other solutions which are discussed in detail within national reports and will be briefly summarized later in the concluding chapter. For example, in Hungary there are suggestions to make notary offices (which serve administration of several local governments) obligatory for villages below 1,000 or even populations below 1,500. It is suggested that there should be between 3 and 7 villages (local governments) served by one notary office. Interestingly enough, in Poland the average number of villages in the one rural local government is almost 20. Still one should remember that an average Polish village is smaller than a Hungarian one. The stimulation of voluntary inter-municipal co-operation is another direction which will be also discussed later in this chapter. It should be added that, according to national reports, Slovakia is the only country in which the obligatory amalgamation of the smallest villages is among the considered options.

Also in the Czech Republic, the appreciation of the low level of effectiveness of very small municipalities (especially of the 547 local governments with less than 100 citizens) is very common. But the discussion goes mostly in the direction of categorization of municipalities and increasing number of functions delivered by the larger ones.

4. SIZE AND ALLOCATION OF FUNCTIONS

4.1 More Functional Decentralization in Countries with Bigger Municipalities?

In the introductory chapter, we referred both to theoretical arguments as well as to empirical observations from Western European countries suggesting that larger size local government units allow for more radical decentralization of functions. We may ask whether this observation can be confirmed by data from Eastern and Central Europe.

A very simple indicator we may use is the role of municipal budgets in public spending within countries with more (territorially) fragmented and consolidated systems. The best measure would be the share of the municipality in total public spending. However, this measure creates several methodological and data problems because of the existence of various extra-budgetary public funds in several countries. Therefore, we concentrate on the, less perfect but more clear, indicator—namely the share of municipal spending in GDP.

As it is clear from Table 6.2¹ there is some relationship between the average size (or between fragmentation measured by the proportion of municipalities below 1,000 population) and the overall size of municipal budgets. Still, it is not as strong or clear as one might expect. There are countries which support our hypothesis—small size corresponds to the low share of municipal spending in GDP (Slovakia) or big size is connected to a relatively high share in GDP (Poland, Bulgaria). But as the Hungarian case shows, there might also be small local governments spending a lot of money.

The correlation with the dominant trend in municipal spending over the last decade is a little bit stronger. As Table 6.3 shows, municipalities in all of the countries with fragmented territorial systems have been on a descending slope in the share of municipal spending in GDP. However, in some of these countries (Hungary, Slovakia) the trend is not very clear (and they have been marked by question marks in Table 6.3). It is much less clear still, on the other extreme, with territorial organization. Among countries with consolidated systems, Poland has been the only case with a clear increase of municipal budgets. In Bulgaria or Lithuania, the share in GDP has been decreasing—not very different from the fragmented systems.

In Central and Eastern Europe, it is quite clear that the level of territorial consolidation has had some importance on a municipal level yet has not been a decisive factor for functional decentralization. Several other factors, quite out of the scope of the analysis of this book, such as political determination for the decentralization agenda, have played much more important roles.

Table 6.2
 Relationship Between Average Size
 and the Municipalities Expenditures' Share in GDP

| | | Share of local government spending in GDP | | |
|---|---------------------|---|------------------|------------------------------|
| | | Low (<5%) | Medium (5–8%) | High (over 8%) |
| Average population size of municipalities | Small (below 5,000) | Slovakia (4) | Czech Rep. (5.8) | Latvia (8.6) Hungary (11) |
| | Medium (5–12,000) | Romania (<4) Slovenia (4.7) | | Estonia (12) |
| | Big (over 12,000) | | Lithuania (6.8) | Poland (8.6) Bulgaria (8) |
| % of municipalities with less than 1,000 population | High (over 50%) | Slovakia (4) | Czech Rep. (5.8) | Hungary (11) |
| | Medium (10–50%) | | | Latvia (8.6) |
| | Low (below 10%) | Slovenia (4.7) | Lithuania (6.8) | Estonia (12) |
| | None | | | Poland (8.6) Bulgaria (8) |

SOURCE: Author's calculations based on Horváth (1999) and Kandeve (2000).

Table 6.3
 Relationship Between Average Size of Municipalities and Trend of Changes
 (During the Last Decade) in Municipalities Expenditures' Share in GDP

| | | Trend of Changes in Municipalities Expenditures' Share in GDP | | |
|---|--------|---|---------------------|------------|
| | | Decreasing | Stable | Increasing |
| Average population size of municipalities | Small | Czech Rep. Latvia Hungary? Slovakia? | | |
| | Medium | | Romania Slovenia | Estonia |
| | Large | Bulgaria Lithuania | | Poland |

NOTE: Question marks indicate a trend which is unclear.

SOURCE: Author's calculations based on Horvath (1999) and Kandeve (2000).

4.2 Illusion of the Same Function for Every Local Government

In all of the countries analyzed, the legal regulations stipulate that all basic tiers of local governments (regardless their size) are equal and have the same powers. Obviously, it is an illusion to expect small villages will be able to provide a similar number of functions as bigger territorial units do. In fact, the real scope of activity depends strongly on the size of municipality.

In Bulgaria, the national report states that the capital, Sofia, provides 48 various functions. In smaller units, the number of activities gradually decreases and in case of municipalities with a population below 10,000 the average number of provided functions is a mere 13. Health care provides a good example of this process—the number of functions related to the health care gradually decreases with the decreasing size of local government.

In Poland, the law defines the 65 big cities which are responsible not only for municipal but also for the county functions, such as secondary education, fire service, consumer protection, etc. But there are differences in service provision among the rest of municipal governments, although these differences can be hardly traced by the law. Local public transportation is a good example—it is provided by about 200 (usually the biggest) municipalities, but not by the remaining 2,200+.

A Hungarian report mentions few thresholds related to population number (2,000, 10,000, 20,000, 30,000) above which the number of obligatory functions increases. Similarly, it is difficult to expect that almost 9% of Czech municipalities with less than 100 citizens, or their equally small counterparts in Slovakia, are able to take responsibility for most of the typical local functions, such as infrastructure services, waste collection and disposal, etc. In some cases, these functions are delivered jointly by some of the neighboring local governments. Sometimes, local government remains responsible for them or contracts them out to private or public sector companies. In several cases, especially in the Czech Republic, these functions are simply provided by the neighboring town, without any formal agreement nor financial compensation from the surrounding rural governments.

As it has been shown in the study on public perception of decentralization reforms (Swianiewicz 2001), citizens of large municipalities also think local governments should be responsible for a wider scope of functions. In the Czech Republic, citizens of small villages (below 500) usually think that present duties of local governments are sufficient, while respondents from the largest cities express their wishes for further progress in decentralization. A similar relationship has been found in Poland as well.

The typical argument, heart-breaking and frequently raised, against territorial consolidation within territorially fragmented countries is the case of an old lady who needs to travel several kilometers to get something done at the municipal administra-

tion office. Then there is the question (which is discussed in more detail later in this chapter) whether it is really necessary for her to go to the central town/village or whether a municipal administration might be available locally (as it is sometimes in Bulgaria) even if the capital of the municipality is several miles away. More importantly, we can re-formulate the dilemma: she may have a municipal office very nearby but, it may only deal with a very narrow scope of issues (so, for more complicated matters, she will need to travel anyhow), or the municipal office might be slightly more distant but it may provide much more complex services.

Summing up, we failed to find convincing evidence that the territorial consolidation versus fragmentation of the municipal government system is related to the extent of financial decentralization of countries in the Central and Eastern Europe. Nevertheless, it is quite clear that the variation of functions allocation can be observed within individual countries. *Larger municipalities are responsible for a wider scope of functions, while, in numerous cases, the autonomy of the smallest local governments is mostly symbolic, since in practice they are unable to take responsibility for any significant public services.* Instead, these services are provided to the local population either by the state administration or by another municipality.

5. COST OF SERVICE DELIVERY —THE CASE FOR ECONOMY OF SCALE

In most of the countries analyzed, it has been discovered that the economy of scale is important for several of the services local governments are responsible for. Straight forward comparisons are very difficult because small and bigger municipalities often perform different functions, even within the same sector. Moreover, some of national chapters report that lower spending per unit is very often due to lower quality and performance level, which in turn is due to insufficient financial capacity of the smaller governments. For example, this has been noted in Bulgaria in case of waste collection, kindergartens, and some other social services. Similar observations have been made also in the Hungarian chapter concerning pre-school and school education. The specifically Bulgarian explanation of (sometimes) unexpectedly high relative spending per unit in the biggest municipalities concentrate on a lack of arrears in payments in big cities, whereas, such unpaid bills are quite common in smaller municipalities. We can make note all of these explanations, but it is extremely difficult to measure the impact of such differences and formulate convincing descriptive evidence, either of the existence or the lack of effect of economy of scale. Still, we can make several general observations based on cases discussed in the national reports presented in this book.

As it was noted above, in Bulgaria, the number of services provided is much lower in small municipalities. Yet, the curve illustrating the relationship between per capita spending on several services and the size of local government is U-shaped. We may interpret this as indirect evidence of higher unit costs in the small local governments group. However, we should remember that even the smallest Bulgarian local governments might be considered big in several other countries with more fragmented territorial systems. They consist of several settlement units and have population well over 1,000. It seems that their higher unit costs are mostly related to lower populations density and spatial dilution of service users rather than the size factor itself. In Bulgaria, changing the administrative division, towards the direction of further amalgamation, would probably not change the general picture described above.

In Poland, the clear illustration of the economy of scale phenomenon is provided by the costs per pupil in primary education which increases with the decreasing size of local government. The relationship remains valid when we limit our analysis to the group of rural local governments only, where the impact of population density is not correlated with the size. This means that size itself is an important explanatory variable of the unit cost. Similarly, it has been noted that the costs of solid waste collection and disposal are significantly lower in those cases of inter-municipal co-operation.

Also, in Hungary, the education costs per pupil in rural areas provides an example of economy of scale. The Hungarian report suggests that size of local government makes a big difference to social services. It also suggests that in the case of public utilities, it is not so important because they are provided by utility companies which usually cover areas larger than one local government unit. We recognize this opinion, however, this observation does not seem to be valid for the whole region. It is often the case that catchment's areas of public utility services are identical with the area of municipality and that the fragmentation of local governments leads to the parallel fragmentation of the service provision.

In the case of current expenditures per local administration, the analysis of the impact of size on per unit spending is relatively simpler. The summary of findings for four countries (Bulgaria, Poland, Slovakia and Hungary) is presented on Figures 6.1a and 6.1b². *The evidence of economy of scale* is most visible in the Polish and Bulgarian instances. Per capita spending in the largest group is about two times lower than amongst the smallest municipalities. In Bulgaria, per capita spending in relatively small municipalities is much higher than in larger local governments, in spite of their much narrower scope of functions. However, in the two remaining countries, the descending slope for the administrative costs of bigger local governments is also quite convincing. There are two complicating factors, however, which cause the relationship to be not quite linear: (i) the extended functions of larger local governments influence also raises spending on administration (that is why cities

with a county status have been excluded from the Polish analysis, this same factor probably explains the relatively good score for the smallest—below 200 citizens—Hungarian villages), (ii) big cities pay higher salaries to their employees. These factors have been reported directly within the Hungarian chapter. Figure 6.1b³ also illustrates that small local government's budgets are dominated much more by administrative spending—in some extreme cases, not much is left over for any other purpose. This is most visible in Hungary where the smallest local governments spend over 40% of their budgets on administration. Further, in Slovakia, a very great burden of administrative spending within local budgets is very visible. In villages below 500, citizens bureaucracy consumed almost 49% of total local budget during 2000, this is down from 52% in 1999.

In addition to the evidence provided by Figure 6.1, we should mention that Hungarian analysis reported an over 50% difference in administrative spending between local governments that joined and did not join the notary office. It is quite evident that, in the provision of administrative services, joint efforts with other municipalities leads to considerable savings.

Figure 6.1a
Spending per Capita on Municipal Administration
as % of National Average

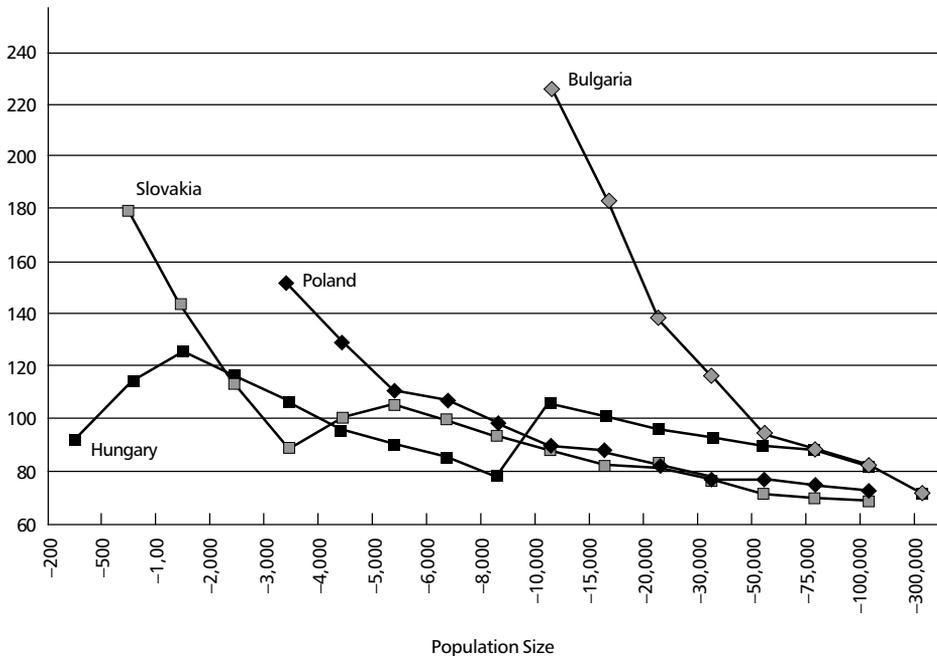
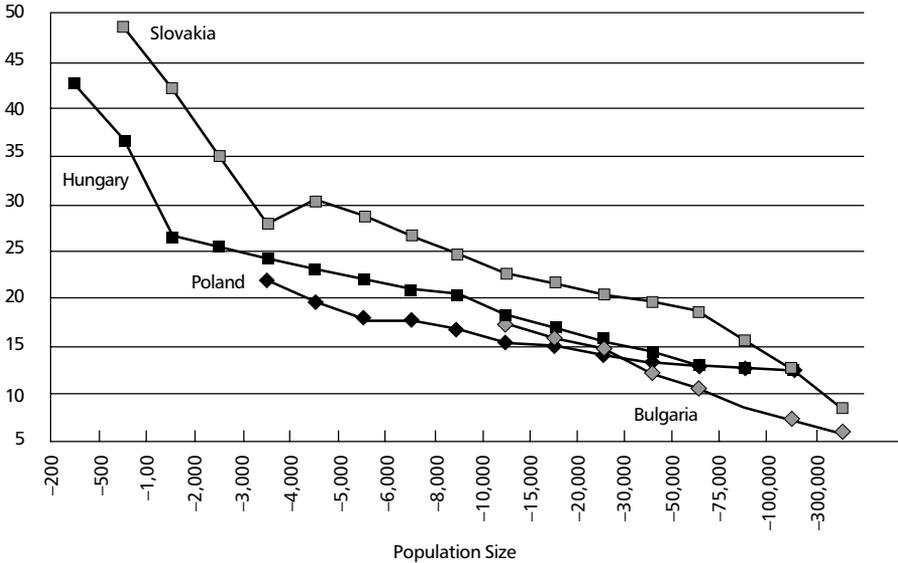


Figure 6.1b
 Spending on Administration
 as % of Total Operating Expenditures



6. BIG IS STRONGER—SIZE AND CAPACITY FOR ECONOMIC DEVELOPMENT

In the countries analyzed, the direct influence of local governments on the local economy is relatively limited. However, they can support local enterprises and attract investments through planning instruments, implementation of promotional strategies, use of local tax incentives, etc. At least with some of these instruments, big local governments have a greater chance to make an impact. They can mobilize (and concentrate) larger amounts of resources and—for example—are capable to undertake wider promotion/marketing activities.

Perhaps indirect influence on local economy is even more important and also more dependent on the size factor. Local competitive advantage, to a large extent, depends on the infrastructure facilities which municipal governments are responsible for in most of the countries analyzed. There are several indicators suggesting that *big local governments may be more effective in infrastructure development policies*:

- 1) they are less dependent on the transfer of state grants, which makes them more flexible in making policy choices. This has been clearly reported in

Bulgarian, Polish and Slovak reports. In Bulgaria, the relationship between size of local government and investment spending is not very clear (it is the highest in Sofia, on one hand, and also in the smallest municipalities, on the other). Yet detail data clearly suggests that a relatively good “score” for small municipalities is fully dependent on capital grants received from the state budget.

- 2) They usually have a stronger economic base combined with lower per unit operational costs, this results in a larger part of their revenue base which may be allocated to financing developmental projects (either directly or through re-payment of debt made in order to finance capital projects). Again, data from Bulgaria, Poland and Slovakia clearly support this claim.
- 3) Big municipalities can more easily concentrate resources on a small number of big projects, which are crucial from the point of view of developmental perspectives.
- 4) Their capacity to use credit resources in order to finance investment projects is greater. This is due both to the fact that they are treated as “better clients” by commercial banks and other investors (for example, those who are interesting in buying municipal bonds) as well as due to the more advanced technical skills of their administrative staff. As included in the Slovak chapter, information on the high level of debt of the largest municipalities is, on the one hand, sometimes scary. On the other hand, it confirms their high credibility for banks. Polish data indicates both more frequent using of credit instruments by bigger municipalities and their frequent long-term, coherent investment strategies.
- 5) Their current level of technical infrastructure facilities grows alongside the growing size of the local government unit (partially as a result of the factors enumerated above). The most complete evidence of this thesis is included in the Hungarian and Bulgarian chapters, but it is also true in the other analyzed countries. As a result of better infrastructure facilities, the competitive advantage of larger local governments is bigger.

The second very important indirect influence of local governments on economic development is the spatial (land use) planning instruments. Because of their better qualified staff and sometimes also because of larger financial resources, bigger governments are much better prepared to cope with this task effectively. This has been reported in Poland where several small municipalities have had considerable difficulties preparing new master plans before the national legislation’s set deadline. The Slovak report informs that several small villages have been unable to modify the spatial plans prepared long ago during the communist period.

7. SMALL IS LIKED—THE CASE FOR LOCAL DEMOCRACY

There is no doubt that—as public choice or localism theories suggest—the smaller size of local governments helps build of healthy and vital relationships between citizens and local authorities. This has been already noted in the study of public perception of local governments [Swianiewicz, 2001, pp.34–35]:

[citizens from small municipalities] feel better informed and they more often know local councilors. In all the countries analyzed, the turn-out for local elections is negatively correlated with the size (i.e. citizens of small towns and villages are more interested and more involved in local public affairs). Also, in the larger cities, there is higher mayoral turn-over after elections, which may be interpreted as lower voters' satisfaction with local governmental performance in big cities...

Although in most cases, overall positive opinion is clearly related to the small size of the local constituency, the picture is not quite one-dimensional. The level of declared satisfaction with local governments' activity is usually negatively correlated with size, but there are some exceptions to this rule.

In the Czech Republic, the opinions of citizens from villages below 500 inhabitants are less positive than those from the 500–2000 population cohort. Although the difference is not statistically significant, at least the trend stops at around population size 500. In Hungary, there was a visible (negative) correlation between size and satisfaction in 1990–91, but data for 2000 is not as clear. In the smallest groups (below 1,000) average opinion is negative, while the most positive feedback is from administrative units between 2 and 5 thousand citizens...

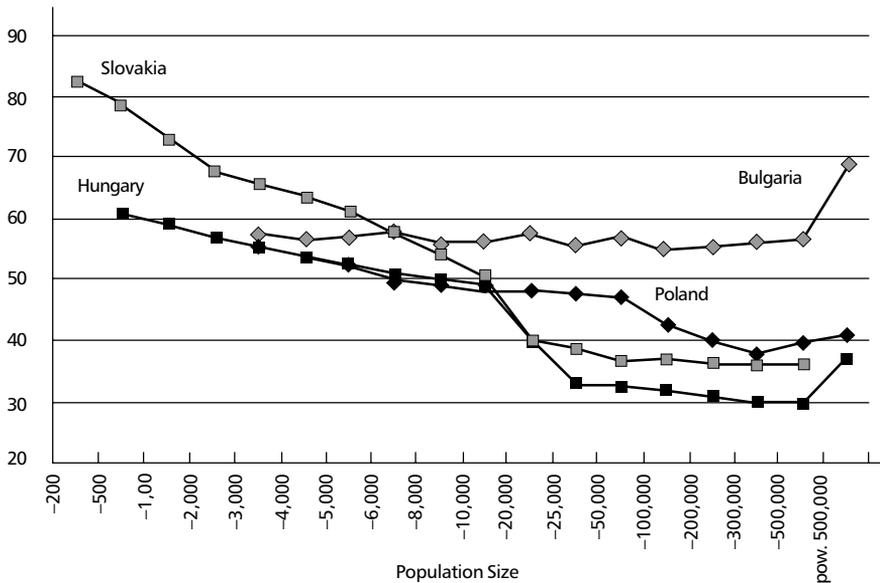
For many services, the highest rate of satisfaction is found in the 2,000–10,000 cohort, while satisfaction in the smallest units is slightly lower. In the case of schools, the level of satisfaction is very low in villages below 1,000 citizens. Regarding culture, the relationship with size is positive (i.e. higher levels of satisfaction are found in larger territorial units). In the Czech Republic, declared interest in participation in local politics is the highest, not in the smallest group, but in towns between 3 and 20 thousand.

It is hard to formulate very definite conclusions on the basis of data collected by the “Public perception...” LGPP project, but it seems that citizens from smaller administrative units, while enjoying many positive features of their local governments, are at least partially aware that far reaching decentralization of functions would be unrealistic and/or lead to inefficiency of service provision for much smaller authorities. This is confirmed both by less support for decentralization of more functions in the smallest local governments and by some level of disappointment with local services' quality in the smallest municipalities (Hungary, Czech Republic).

Reports included in this book mainly confirm observations made in the public perception study. In Bulgaria (which was not included in the study quoted above), the available data is rather limited. However, on the basis of a small sample of municipalities under investigation, we may say that people in bigger local governments are less interested in local public affairs but more satisfied with the provision of services. However, we should remember Bulgarian smallest municipalities are still quite big by the Slovak, Czech or Hungarian standards.

The relationship between size and local democracy is not entirely one-dimensional. The reform theory expects greater pluralism in the local politics of bigger governments as well as higher trust, due to a better developed civic society and their activities in larger communities. This expectation has been partially confirmed in our reports. In Poland, the number of candidates in local elections sharply increases in larger municipalities. Both Polish and Hungarian chapters report more NGOs and local newspapers in bigger local governments. Opposite to reform theory expectations, neither greater pluralism nor wider scope of functions of big government leads to greater citizens trust or interest in participation in local politics. As it is shown on Figure 6.2, turn-out for local elections is negatively correlated with the size of municipality in three of four countries for which relevant data is available (Hungary,

Figure 6.2
Turn-out in Local Elections (1998)



Poland, Slovakia⁴). Interestingly enough, in most countries, we also observe considerable increase in voter turn-out in the largest local governments group (with slight simplification we can dub this phenomenon the “capital city effect”). Still, it does not change the general picture. The rule of higher turn-out in small municipalities does not apply in the case of Bulgaria, a full explanation of this would require an additional detailed investigation. One may speculate that the proportional electoral system in Bulgaria, which does not support representation of small villages in municipal councils may discourage voters from voting in these settlements. It must once again be noted that there are no really small local governments in Bulgaria, so the factors of closeness and openness of small communities are not really able to be examined.

8. VOLUNTARY CO-OPERATION OF MUNICIPAL GOVERNMENTS

In situations in which individual local governments are too small to provide some functions effectively, voluntary co-operation with neighboring municipalities might be seen as the solution. This is quite often seen as an alternative to the creation of large local government units through the amalgamation process. Indeed, examples of co-operation have been described in all national chapters of this book. Interestingly enough, it is seen as an important way to improve the performance of local administration, not only in countries with numerous tiny municipalities, but also in states with large local governments. In Western Europe, such examples are drawn from Britain, where joint authorities provide services such as fire protection, public transport and waste disposal. In Finland, local authorities form joint boards for health care, social services and vocational training [Davey, 2002]. Similar examples may be found in Central Europe, in countries in which basic tier authorities are generally larger—i.e. in Bulgaria or Poland. In both Poland and Bulgaria, the one service the central government has most encouraged inter-municipal co-operation for is solid waste disposal.

According to some Polish studies, the economy of scale for this service is not achieved if the market serves less than approximately 100 thousand residents. Therefore, the waste disposal site’s optimal catchment area is closer to a Polish county than a municipal government. In some services (waste disposal, water provision and waste water treatment), it has been determined that inter-municipal commercial companies are more flexible and enable easier management options than the “traditional” local government associations. There are also several examples of co-operation in promotion of local economic development and environment protection. At the end of 2000, there were almost 200 municipal associations registered in Poland which focused on delivery of services or joint promotion of local development.

In other countries analyzed in this book, as recommended (by the central government), co-operation concerns a broader scope of services with a special stress on basic administrative services. The strongest suggestion for co-operation is found in Hungary, where it is recommended that all local governments with populations lower than 1,000 should form joint notary offices. These offices should then provide basic administrative services for a group of villages. However, in practice only 2/3 of small municipalities enter into these kinds of co-operations, moreover, the number of notary offices has been stagnating and even decreasing in the last few years. In 1997, in order to strengthen joint offices and to provide additional incentive for local governments, a special subsidy system was created. In 2000, this subsidy has been offered on a normative basis. Consequently, the trend of the decreasing number of joint offices (which had been noted in the first half of the last decade) has been reversed. The typical joint office usually serves between 1,000 and 2,000 citizens, not 5,000 as is recommended by official central government policies. In Hungary, examples of the joint provision of services may be found also in other sectors, such as kindergartens or primary schools. In 1999, as many as 7% of children and students have been attending jointly managed kindergartens and schools. There is a total number of over 1,400 associations, most of them focusing on one function, often led by "compulsion", i.e. the old, indivisible infrastructure which cannot be managed by a single village. Another typical aim of the small local government association is promotion of economic development (or some sectors of the local economy, such a tourism) in the micro-region.

In Slovakia, typical areas of inter-municipal co-operation cover: solid waste disposal, sewage treatment, environmental protection, economic development (including tourism), joint development of infrastructure projects, education, as well as social welfare projects. In the instance of technical infrastructure, as with Poland, organization of inter-municipal commercial companies has recently become quite a popular option. Similar to Hungary, the Slovak system provides an opportunity for joint administrative offices, but this option has not been widely used. Very limited enthusiasm for the co-operation is seen also in the results of surveys conducted in municipalities with less than 5,000 citizens. Local mayors were asked about their plans regarding delivery of education services after responsibility is transferred to local governments. Only 17% expressed willingness to establish inter-municipal co-operation. Even in villages with less than 200 citizens, more than 1/3 wanted to manage schools and kindergartens independently and in villages between 200 and 500 citizens, the proportion rose to over 2/3.

In the Czech Republic, very often instead of co-operation between a few neighboring local governments, the service is delivered by the local center (town) not only for its citizens, but also for residents of the surrounding villages. Village governments do

not contribute to financing these services. But such an arrangement also means that the local rural population does not have an opportunity to influence (through democratic mechanisms) the way service is managed either.

Why are examples of voluntary inter-municipal co-operation not amply frequent and why don't they always bring satisfactory results? One should remember that there are several potential problems to overcome before co-operation becomes fruitful and operational. It requires compromises on the particular interests of the individual villages involved. Local leaders need to agree on co-operation which will sometimes affect their personal political ambitions. The joint provision of functions, although frequently bringing financial savings, requires transaction costs, which may be identified with a complicated organizational-managerial setting. Therefore, it is difficult to expect that the expected benefits will provide sufficient stimulation and that voluntary co-operation may solve all problems related to the lack of economy of scale in small local government units. *The development of co-operation needs to be stimulated by incentives provided by the central government.* The Slovak authors, in their chapter of this book, even recommend some forms of mandatory (imposed by the law) cooperation between municipalities. In some of the countries analyzed, the only incentives have been of a "moral" nature, which are definitely not sufficient. A specific illustration of an insufficient central government interest in promoting inter-municipal co-operation is provided by Hungary, where there is still no precise information available about the intensity and structure of associations.

It is interesting that there seems to be no relationship between the average size of local governments in the country and no central government policies that encourage joint provision of services. It is hard to find examples of the financial incentives both for Poland (in which local governments are usually relatively big) and for Slovakia (which has one of the most territorially fragmented systems). Conversely, in another country with big local governments—Bulgaria—the government has been offering special grants for the joint development of waste landfills, grants that cover most of capital investment costs. The most complex system of co-operation support has been sited in Hungary. Villages of less than 500 citizens may get grants only if they belong to the office notary and if they deliver some functions through associations. Quite recently, there was a special grant scheme for the purchase of school buses. This would enable the liquidation of small and costly schools in very small villages and develop a decent transportation system to ship pupils daily to more distant schools. There is also extra support available for municipal associations. However, the Hungarian authors claim that the system is not really coherent. Support for associations competes with special grants for the smallest local governments. Grants for school-buses have not been followed by the support for every-day operation of a pupils' transportation system⁵. It seems that the system of incentives for co-operation might easily be built-up or developed in any of the countries analyzed.

9. RELATIONSHIP BETWEEN “MUNICIPAL CAPITAL” AND “MUNICIPAL PERIPHERY”

In two of the countries analyzed (Bulgaria and Poland), there are several villages that do not have their own local government but are part of a larger municipality with the “capital” in another town or larger village. It is exactly this situation that many local politicians in the Czech Republic, Hungary, and Slovakia are afraid of. They argue that such an arrangement violates the right to local autonomy, destroying village identity, and may lead to disregarding the needs of small local communities. The Bulgarian and Polish examples give us an opportunity to consider whether such fears are well grounded, under what circumstances, and how negative consequences of multi-settlement unit local governments may be reduced.

First of all, we should stress that in none of the “consolidated systems” does the village in question disappear as an entity with a certain amount of autonomy. In Bulgaria, within municipal structures, there are almost 1,700 *kmetstva*, and in Poland over 40 thousand *solectwa*, that enjoy the power to deliver limited functions and have their own elected representatives. The existence of sub-municipal units depends on the decision made by the municipal council, but there are no signs of attempts at liquidating them. Village leaders are invited for municipal council meetings and they may make the interests of their small motherlands known, but they have no voting rights in the local government council. The position of sub-municipal government is briefly summarized in Table 6.4.

However, it should be added that, in both countries, decentralization within the municipality can go further. Moreover, the chapter on Bulgaria reports there has been decreasing enthusiasm for the delegation of more functions in recent years. Also in Poland, in a survey of village leaders, many respondents complained that their relationship with municipal mayors has not been straightforward and delegation of functions has often included only very limited powers. There is no doubt that there is space for more radical decentralization and the passing of more discretionary powers to individual villages. This claim is supported by the examples of Western democracies with territorially consolidated systems [compare for ex. Hambleton, Hogget, 1990]. Some extreme arguments are provided by Norwegian cities [Klausen, 2002] in which over half of the municipal budgets are administered by sub-municipal units. In Poland, usually no more than 2–3% of the budget is transferred to the villages or districts of the city. A similar figure is provided in the Bulgarian report.

The survey of village leaders in Poland still does not support those who suggest small villages would feel oppressed by the “capital” in large local governments and the struggle for resources between sections of the municipality might become a dominant dimension of local conflicts. According to the survey, territorial conflicts are among the least visible and the least important problems amongst Polish local

governments. Part of the explanation for this statement may be the electoral system. In many Polish rural governments, there is a majority system, with one (or more) councilor elected for every village. In this way, every village has a feeling of being represented and, even in those municipalities in which there are more villages than councilors, the representation in the council is based on a geographical basis. In mixed urban-rural municipalities (consisting of relatively small urban town and several surrounding villages), it quite often will happen that councilors from the town may be out-voted by the more numerous representatives of rural areas. Anyhow, domination over the largest settlement unit during the decision making and allocation of resources is actually very unlikely.

Table 6.4
Position of Sub-municipal Governments in Bulgaria and Poland

| | Bulgaria | Poland |
|--|---|---|
| Number of sub-municipal governments | 1,696 <i>kmetsvo</i> | Over 40,000 <i>solectwo</i> (exist in 99% of rural and urban-rural and in 6% of urban municipalities) |
| Size of sub-municipal units | At least 500 citizens (by law) | Average 370 citizens |
| How the unit is created? | Referendum initiated by 25% of population or by the council | Decision of the council, in practice led by the tradition |
| Election of village leader | Popular (all citizens) | Popular |
| Representation of individual villages in the local council | No guarantees, proportional representation tends to lead to the to the domination of the largest town and dramatic under-representation of villages | Single-councilor wards guarantee representation of most villages (but in 40% of rural governments, the number of villages is larger than number of councilors). But in 152 (7%) of municipalities within villages, in which population exceeds 20,000 —proportional elections in few wards with 5–10 councilors in each |
| Powers and services delivered by villages | Depends on the municipal council. Reported decline in support for decentralization | Depends on the council. Typical examples: part of the revenue from local taxes stays in the village, management of village culture centers, street lighting, transport of pupils to school |
| Village leader participation in management of municipality | Invited to municipal council meetings, but no voting rights | Invited to municipal council meetings, but no voting rights |

The situation in Bulgarian local governments is significantly different, due to a different electoral system. Proportional representation, with all citizens voting for the same lists, often leads to a situation in which over 90% of councilors come from the largest town. Also, in the allocation of resources, the needs of small rural villages are more likely to be overlooked.

10. CONCLUSIONS AND RECOMMENDATIONS

Both empirical observations and theoretical considerations suggest there are several options for arranging the territorial organization of local governments. These options have been summarized in Table 6.5.

Each of these options has positive and negative aspects. In practice, the most common model is a mixture of various approaches, but we may find examples which are the closest to each of these solutions in their most ideal form. Until recently, Slovakia had been a good example of the first solution (fragmentation, most of functions kept by the state), but recent reforms have started to change this picture and Slovakia is looking for an arrangement better tailored to wider decentralization. One of the considered options is amalgamation of the smallest municipalities—the Slovak chapter in this book suggests it should be mandatory for villages below 200 inhabitants. The present situation in the Ukraine (especially in rural areas) is also not very different from option one. The Czech Republic is perhaps closest to the second model, in which, despite formally even distribution of functions between all municipalities, larger towns frequently serve citizens from smaller local governments. Obviously, such situations happen in every country regardless of territorial organization and local government system. Still, it seems unusually common and is generally (although silently) accepted in the Czech Republic. In Hungary, the central government tries to promote voluntary (and semi-voluntary) co-operation among small local governments, although many observers of this policy say they are not always implemented and, consequently, their successes are limited. In the Hungarian report there is also reflection on the discussion about wider implementation of the “buying in” option.

Poland has followed the model of territorial consolidation, although the opinion has been voiced that further amalgamation, both on the municipal and on a county level, are necessary. The road of amalgamation has been also chosen by several Western democracies—including all the Nordic countries, United Kingdom, Netherlands and, to some extent, Germany and Austria. But, as we mentioned in Chapter 1, Western experiences are also not uniform—France provides an example of an extremely fragmented municipal tier with a mixture of upper tier (department) responsibility for several functions and very wide-spread co-operation among tiny *communes*. There are over 19,000 inter-municipal associations in France. These take various organizational

forms such as syndicates, districts, communities of cities, etc. [Poplewska, 2002]. With some services (water provision), France is also an example that a private provider may be the answer for a lack of economy of scale in small territorial units [Lorrain 1997].

Table 6.5
Territorial Organization on the Basic Level—Options Available

| | Size of Local Governments (Basic Tier) | How Are Most of the Important Local Functions Delivered | Risks/ Recommendations |
|---|---|--|---|
| 1 | Small | Narrow scope of functions for local governments, most of services delivered by the state administration | Lack of decentralisation, central provision is often less efficient than provision by democratic local governments |
| 2 | Small | Narrow functions of villages and small towns, several services delivered by larger towns for citizens of surrounding settlement units (which are formally separate local governments) | Accountability problems in delivery of services for small local governments |
| 3 | Small | Wide scope of functions for local governments, several services delivered through contractual arrangements—“contracting out” (buying services from the private sector) or “buying in” (small local governments purchase services from the bigger town nearby). | Wide “contracting out” especially difficult in CEE countries where market of providers is not developed. Local governments are usually not willing to enter “buy in” agreements |
| 4 | Small | Narrow functions for basic tier governments, upper tier responsible for majority of vital functions | Not applicable for small countries in which county/regional tier is difficult to justify. Fear of municipalities’ domination by upper tier of government |
| 5 | Small | Wide scope of functions delivered through voluntary co-operation of local governments | Political and administrative costs of co-operation make most of local governments reluctant. Accountability and transparency problems of associations. Co-operation requires strong central incentives and clear rules focused on transparency. |
| 6 | Big | Wide scope of functions possible to deliver by consolidated (amalgamated) local governments | Recommendations: protect neighbourhood (village) governments’ identity; avoid proportional electoral system which may lead to local council biased towards over-representation of the main town. |

Empirical evidence, presented in this book, suggests that some amount of territorial amalgamation would have a positive impact on the economic performance of local government. Models presented in the Polish chapter suggest that, for local governments with populations below 20,000, the increase in population size results in the marginal loss in democratic efficiency which is lower than marginal gain in economic performance. So, from the cost/benefit analysis point of view, there is a lot of space for amalgamation in most of countries in the region. However, in several cases, amalgamation is a solution which is not politically accepted. Small village autonomy is seen as a very important value, even if, in practice, this autonomy is more symbolic than real. The fragmented system definitely helps to build a local democracy. In Central and Eastern Europe, where democratic values still need careful cultivation, this argument is difficult to reject. Therefore, we are not able to say whether the fragmented or amalgamated system is always better for every country. The decision toward territorial organization has to be made locally and needs to take into account what is politically acceptable.

Does it mean that the evidence and analysis collected in this book does not allow for any definite conclusions and recommendations? We are not able to give a “best” answer which would be valid for each set of local circumstances, but we are able to discuss advantages and disadvantages of the most typical solutions and to indicate the traps that should be avoided, as well as recommend steps which may help assist within a chosen option.

Small Local Governments (Options 1–5)

One may decide that the local democracy arguments presented above are the most important and forced amalgamation is out of the question. But *local communities do not only have a right to autonomy, they should also have a right to information.* It is highly recommended that complex information, on the implications of maintaining the fragmented system, is provided to local population in an easily comprehensible form. In such cases, we can assume that, if a local government refuses to merge with another local government, it is the result of a conscious decision and not just lack of information.

But even if we decide in favor of a territorially fragmented system (a system which may be characterized by a large number of municipalities), there are still a variety of arrangements (described in Table 6.5, above, as options (1)–(5)) for local government systems available.

Option (1) (many small elected governments, but most functions are in the hands of the state administration) is hard to accept for those who believe that local democracy and decentralization both bring important values to social and economic life. Apart from other reasons; why bother with the function of several hundreds (if not thousands) of local governments if they have very little, or nothing, to do with your everyday life? Function

of local councils and even residual local administration is always costly. So, it only makes sense when they have an essential role to play. Symbolic representation of villages and practical lessons of local democracy are important, but not sufficient if they have minimal influence on the crucial services delivered to local population.

Option (2) (citizens in a small local government are served by a nearby town) has one fundamental disadvantage. If “by definition” the catchment area of several crucial services is different from the geographical boundaries of the administrative unit responsible for their delivery, *democratic accountability is seriously damaged.* Citizens from small villages are proud of having their own local government, which they can influence but their local authorities have a minimal impact on the most important services. At the same time, they do not elect the representatives (councilors, mayor, etc.) of the nearby town (which, in fact, provides them with many important services). So, they have no democratic influence on the way crucial services are managed. There is also no direct link between (local) taxes paid by dwellers of small villages and delivery of many services. The town finances these services either from its own resources (under the assumption that its local tax base is rich enough) or gets support directly from the central budget. Such a situation also undermines the rules for a healthy local democracy.

Option (3) (contractual arrangements through the “contracting-out” or “buying in” of services by small local governments) sounds attractive, but most likely it is unrealistic in contemporary Central and Eastern Europe. Most typically, the market for local services (especially in the peripheral, small, local governments) is not well developed enough to expect contracting-out to the private sector as a realistic solution. Certainly, these options would require complex legislative changes, potentially similar to Compulsory Competitive Tendering in Britain [see, for example, Walsh, 1994]. It does not mean that there are no positive examples of contracting-out in Central and Eastern Europe. In Poland, for instance, several cities contracted-out waste collection and disposal. The city of Gdańsk had already contracted-out its water provision by 1992. Yet these examples are not very numerous, moreover, they are more likely to be found in relatively big cities than in small, rural governments. Experience from Central and Eastern Europe suggests that local governments are not very willing to enter inter-municipal contractual arrangements to buy services from another municipality. Most often, negotiations fail and citizens end up using the services of neighboring authorities as “free riders”. This is quite frequent in the Ukraine, where—for example—citizens of one local government use the hospital services of the larger neighboring town while their own local authorities are unwilling to contribute to financing operation of the hospital [Swianiewicz, Tymkovich, 2002]. Similarly in Poland, most of the negotiations between core metropolitan cities and surrounding towns, on co-financing metropolitan public transportation system, failed as well. Further examples are relatively easily found in other countries in the region too. However, in the Hungarian report, this solution has been mentioned as a possible recommendation.

So, in fact, the only two acceptable versions for “small governments” decision are (4) and (5). The typical trouble with option (4) (*small governments with limited functions and an upper tier of elected government providing more functions*) is the unpleasant memory of the relationship between the municipal and upper tiers of government under the previous political system. During the communist period, the higher tier of local government used to directly supervise local communities and had been seen as one of the main barriers to local autonomy. It is not surprising that in several countries contemporary suggestions for a strong, elected county self-government with no hierarchical dependencies and a clear distinction of functions between tiers of government, is often met with distrust. Otherwise, option (4) is worth considering—as it is certainly easier to manage than relying on the voluntary co-operation of municipalities.

Voluntary co-operation of municipalities (option 5) seems to be the most commonly accepted. We have already mentioned numerous examples of inter-municipal co-operation in France. There are also thousands of voluntary agreements in metropolitan areas in the U.S.. Joint purchasing agreements provide a very good example of an attempt at utilizing economy of scale effect (Lindstrom 1998). Clark (2000) stresses that, in such agreements, each local government *can voluntarily withdraw from the consortium at nearly any time. This forces the consortium to act responsibly and keeps local power within the smallest local governments, rather than transferring major power to a metro area unit that could generate deleterious effects for democracy.* However, this positive image is not always the reality. The co-operation is complicated, has organizational and political costs, and the experiences of most of European countries suggest it almost never happens automatically or spontaneously. Wherever we find good and plentiful examples of co-operation, they have been supported (stimulated) by central policies. It has been so in France and often times in Hungary. Some experts suggest that, in many cases, co-operation should be compulsory rather than voluntary. In such an instance, one may ask, what is the difference between the existence of small municipalities, with compulsory co-operation in delivery of some services, and creation of an upper tier of local government? But even if we do not leap so far ahead in our conclusions and we are strict in keeping with the principle of locally made decisions, there are some obvious recommendations to follow. First of all, *there has to be a favorable legal framework allowing for different forms of joint-ventures between local governments.* In some countries (not presented in this book however; in the Ukraine for example), establishing single-purpose local governmental associations is very difficult, or even illegal. Another serious problem related to voluntary co-operation is an issue of transparency. *Transparency and democratic accountability in the associations’ decision making process is more difficult to achieve than in singular local governmental units.* Therefore, legal regulations should be especially sensitive to these issues. Clear rules on reporting and public access to information concerning local governmental associations’ finance, structures, and other activities may help to reduce the problem.

Last, but not least, in each of the national reports in this book (including the Hungarian one) we identify either that there are no real incentives, or that the system of incentives is not coherent neither consequent. The Western European experience has been that if no specific, strong incentives are provided by the central level authorities, small municipalities are usually not very willing to co-operate with their neighbors on the up keep of basic services, regardless of the technical merits of such arrangement [Davey, 2002]. Without violating the local autonomy, *central government should build a clear set of support for co-operating local governments, as well as disincentives for small local governments who are not willing to enter joint agreements*. Otherwise, it would be naive to expect the majority of local governments to break down all their organizational and psychological difficulties and enter into mass co-operation.

Territorial Amalgamation (Option 6)

As it was mentioned above, there are strong empirical arguments for the creation of large local governmental units. But, if there is a political will of territorial consolidation through amalgamation of small local governments, there are also some practical recommendations also worthy of consideration:

- *protecting the identity of amalgamated villages*. Amalgamation reforms have been introduced to strengthen local governments and enable them to deliver a wide scope of functions efficiently. But citizens' identification with smaller territorial communities is also a value worthy of protection. In most countries which have undergone the amalgamation reform, smaller villages' governments did not disappear completely, becoming subjects of territorial governments. There is usually a symbolic political representation at the village level. Both in Poland and Bulgaria, the legal system even keeps traditional names (*solectwo* and *kmetstvo*) and village leaders are popularly elected and recognized as important symbols of their local communities;
- *responsibility for some functions in amalgamated municipalities can be decentralized and handed down to villages*. In the United Kingdom, parish councils, although not very powerful, play important role in local life. In Scandinavian countries, experiments with management of some functions by small communities within larger local governments have well advanced. In some local governments in Poland, individual villages keep a portion of local taxes and provide some simple functions. Both Bulgarian and Polish chapters agree that, in practice, there is still much more progress to be made in the passing of more functions down to villages. One may claim that a difference between the amalgamated system (with symbolic political representation on a village level and provision of some limited functions of the lowest possible level) and two-tier system

(with formally independent, small villages and more powerful upper tier of elected self-government) is not very intense.

- *electoral system that prevents domination of one town and secures balanced representation of geographical interests.* The typical fear of amalgamation is related to the potential domination of the largest settlement unit and disregard towards the needs of small villages. Bulgarian examples suggest such a fear is not merely theoretical. As the Polish case suggests, one may reduce such a danger through the electoral system, in which the municipality is divided into as many wards as the number of councilors elected. Such a system ensures that no part of municipality will be without representation and that none of the settlement units can dominate within the council or during local decision-making. The issue may be even more controversial when the mayor is directly elected by all the citizenry (as it is in Slovakia, Hungary or Ukraine and as it will be in Poland after the 2002 local elections). In such an instance, the local council (which has more or less a balanced geographical representation) should play an important role in crucial budget allocation decisions.
- *accessibility of local administration.* As it was mentioned above, the frequent argument against amalgamation stresses that it might be troublesome for people to travel relatively far away in order to visit the local town-hall. There are several solutions to reduce the effects of this problem. Municipal administrations may have local branches in individual villages. They do not need to be open on a daily basis but should be accessible enough to serve local citizens needs. This solution is technically easier nowadays due to the wide-spread availability of the Internet and other computer technologies. But it is still possible, even in those peripheral regions of the Central and Eastern European countries in which such advanced technological tools are still unavailable.

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NOTES

- ¹ Tables 6.2 and 6.3 are based on 1998/1999 data. The situation may have changed since then in some of the countries analysed, but for the sake of a clear comparative base more recent data has not been considered
- ² However, even in this relatively simple case, there have been considerable methodological problems which resulted in some approximations on the graph. Firstly, individual national reports used various size-cohorts. In several cases, Figure 6.1 includes estimations based on interpolation of data for original size groups.

Secondly, the Hungarian report used the combination of size and administrative status (village, town, town being a county capital) criteria. Sometimes a big village is larger than small town. Also, the county capital designation does not imply any particular size, however, the graphic illustration is based on the assumption that most county capitals are bigger than the other towns, and that the majority of them are larger than a population of 50,000.

- ³ In Slovakia, data from Figure 6.1b refers to the share of administrative expenditures to total expenditures (current + capital).
- ⁴ In Slovakia, data on the size of local government in Figure 6.3 refers to the number of eligible voters, not to total number of citizens in the local government unit.
- ⁵ However, one might argue that if operation of the joint school is really cheaper, no additional incentive is necessary. After the initial stimulus in forming support for the capital purchase of the bus, the maintenance of the bus service could be financed by savings made by lower school operational costs.

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