

Parliamentary dimension

5TH MEETING

OF THE COMMITTEES ON PUBLIC ADMINISTRATION AND REGIONAL POLICY
OF THE PARLIAMENTS OF THE **VISEGRÁD GROUP** COUNTRIES

WITH THE PARTICIPATION OF THE RELEVANT COMMITTEES
OF THE **SLOVENIAN** AND **CROATIAN** PARLIAMENTS

WARSAW, 28 - 29 JANUARY 2013

Dr. hab. **Elżbieta Kornberger-Sokolowska**, University of Warsaw Professor
and Dr. **Beata Marczevska**, CSSTiRL, University of Warsaw

EXPERT OPINION on

*Central and Local Government Administration at the Time of the Financial Crisis:
The Central European Perspective*

1. The financial crisis has affected all countries considered in this paper (Poland, the Czech Republic, Hungary, Slovakia, Slovenia, and Croatia). Their situation has been significantly influenced by economic and financial relations including also the policies pursued by the European Union. The ability of Central European countries to tackle the new threats is largely dependent on the strengths and weaknesses of the economies and the public administration of each country, as well as the scale of decentralisation. The countries most susceptible to the crisis are Slovenia and Hungary. The countries which require special attention include Slovakia, Poland, Croatia and, to a somewhat lesser extent, the Czech Republic.
2. The global financial downturn, declared in the latter half of 2008 to be a financial crisis, precipitated the obvious need for reaction of public authorities. The reaction is multi-tiered: it usually involves multilateral international consultations (including consultations within international groups), regional arrangements, as well as national measures. The reactions of the public administration, including local governments, in Central European countries to the global financial crisis can be examined along these lines.¹
3. The turbulences arising as a result of the financial crisis promptly spilled over from the market of credit instruments to other segments of the financial markets. Initially, they were purely financial in nature; however, as the crisis mounted, they also began to affect the real economy (production and provision of services), contributing to a significant slow-down of the rate of economic growth.

¹ Based on: K. Davey, *The Impact of the Economic Downturn on Local Government in Europe*, Budapest 2010; *Declaration of European Ministers responsible for Local and Regional Government*, Council of Europe conference, 16-17 November 2009, Utrecht; *Declaration of European Ministers responsible for Local and Regional Government*, Council of Europe conference, 3-4 November 2011, Kyiv; World Bank Doing Business Reports 2013, 2012, 2011; cf. also: B. Guy Peters, J. Pierre, T. Randma-Liiv, *Economic Crisis, Public Administration and Governance*, 2010; M. Bitner, K. Ś. Cichocki, *Finanse podsektora samorządowego w wybranych krajach OECD w latach 1999–2010*, Samorząd Terytorialny 2012, Vol. 1-2, pp. 5-71 (The article is an attempt at a comprehensive comparative analysis of the local government finance including revenues, expenditures, operating profits, deficit and debt in European Union countries and other selected OECD countries. Such analysis covering a period of several past years enables both an observation of general trends and developments typical of many countries and the drafting of findings and conclusions about the evolution of the local government finance system in Poland against the backdrop of evolution of the system in other OECD countries.)

4. At the time of the crisis, Central European countries should intensify their efforts aiming to improve the performance of the public administration, the state, and the political system. To do so, Central European countries should take measures in order to mitigate the institutional weakness of the state and the public administration by means of:

- introducing effective mechanisms of accountability of public authorities and their representatives (e.g., civic control by non-governmental organisations, verification of political declarations by professional think-tanks and specialised non-governmental organisations, media monitoring);
- fostering an administrative culture geared to the achievement of measurably defined development goals where procedures are means rather than ultimate ends;
- developing a system of multi-level governance in the public sector and with regard to individual public policies;
- moving away from vertical thinking towards horizontal thinking in designing and pursuing policies and in implementing public programmes;
- limiting the myriad of front committees and opinion-giving bodies and implementing solutions which ensure practical usefulness of consultations (both to public authorities and the beneficiaries and stakeholders of their specific activities);
- equipping the public administration with state-of-the-art information and communication technologies (e-administration, portals, intranet, information and document distribution IT systems, databases, IT tools supporting decision-making processes);
- applying flexible, task-oriented forms of organisation derived from the concept of a learning organisation (application of flat organisational structures, introduction of the format of task forces and effective information and communication systems focused on swift dissemination of information and knowledge);
- establishing a high-rank research and forecast resource for the government;
- developing a public policies analysis system including among others national academic communities in order to provide decision-makers with a credible basis for strategic choices;
- improving the professional competences of public officials (effective system of training and professional development, introducing incentives encouraging the improvement of professional competences, competitive systems of employee recruitment, objective employee appraisals, planning of professional development).²

5. At the time of the crisis, Central European countries should put an emphasis on improvement of the quality of public administration institutions. The last two decades have brought a range of research projects focused on the quality of institutions. The World Bank Government Matters indicators are broadly acknowledged.³ The table below presents the most recent available institutional indicators (2010) and, for comparison, the indicators for 2000. The indicators measure: the rule of law, government effectiveness (where government is understood as public administration in general), and regulatory quality in 13 EU countries, 9 accession countries (ex-

² T. Geodecki, G. Gorzelak, J. Górniak, J. Hausner, S. Mazur, J. Szlachta, J. Zaleski, *Kurs na innowacje. Jak wprowadzić Polskę z rozwojowego dryfu?*, Kraków 2012, pp. 15-16.

³ The indicators covered 210 countries and dependent territories in 2010. The indicators were based on several hundred variables collected by more than 30 organisations, which capture respondents' opinions on those aspects of public governance performance which are key to economic activity. While perceptions may not always be an objective reflection of the reality, on the one hand, as the authors of the report note, "agents base their actions on their perceptions, impression, and views" (D. Kaufmann, A. Kraay, M. Mastruzzi, *Governance Matters VII: Aggregate and Individual Governance Indicators 1996-2007*, World Bank, 2008, p. 4) and, on the other hand, the multiplicity of sources drawn upon to develop the synthetic measures helps to eliminate the impact of potential methodological errors or outlying observations. T. Geodecki et al., 2012, op. cit., p. 34.

cluding Malta, Cyprus and Slovenia), and 4 Southern European countries. The indicators range from -0.41 to +1.82 within the overall range from -2.5 (worst score) to +2.5.⁴ This picture can be complemented by the World Bank Doing Business indicators. First, they afford a closer view at different aspects of the quality of public institutions and practical implications of the weakness of public institutions.⁵ In 2011, Poland ranked #70, a low position compared to other countries in the region. It should be noted not only that other accession countries ranked better than Poland but also that the countries south of Poland had a strong advantage (Slovakia ranked #41, Hungary #46, while Bulgaria, Romania and the Czech Republic ranked in the range #51-#63) while the Baltic states had an overwhelming advantage (ranking in the top 20 and 30 globally). Of the Mediterranean countries, the institutional framework of Greek and Italy ranked below Poland; these economies have stagnated in the past years, which illustrates a close relation between the quality of the institutional framework and the international competitiveness of the economy⁶ while also suggesting a relation between little decentralisation and a crisis of effective and efficient public governance.

In 2013, Poland ranked #55 on the list of business-friendly countries, as compared to #62 in 2012. In the past years, Poland has been one of the few bright spots in Europe, maintaining a strong growth while the neighbouring economies weakened; however, forecasts for the coming year suggest that Poland's growth will slow down.

Indicators of institutional quality in selected EU countries, 2000 and 2010						
Country	Rule of Law		Government Effectiveness		Regulatory Quality	
	2000	2010	2000	2010	2000	2010
Poland	0.63	0.69	0.58	0.71	0.63	0.97
Czech Republic	0.64	0.95	0.67	1.01	0.77	1.24
Hungary	0.86	0.78	0.90	0.69	0.98	1.05
Slovakia	0.30	0.58	0.54	0.85	0.46	1.05

Source: D. Kaufmann, A. Kraay, M. Mastruzzi, *The Worldwide Governance Indicators: A Summary of Methodology, Data and Analytical Issues*, World Bank Policy Research, 2010.

6. Territorial consolidation reforms. The territorial (administrative) division of many Central European countries changed after 1990. A general trend was one of territorial fragmentation by way of splitting existing "municipalities." Such changes were put in place, among others, in the Czech Republic, Slovenia, Croatia, Slovakia, Hungary and in some other countries. They often came as a reaction to previous forced combination of municipalities imposed in violation of democratic procedures in the 1970s. After 1990, decentralisation and local autonomy were understood in some countries as the right of every town, be it very small, to have its own local government. Attempts at retaining bigger municipalities were considered a breach of the principles of local autonomy. As a consequence, a significant part of local government units in many countries are very small: many have a population under 1,000. On the other hand, in some countries in this part of Europe, territorial division is quite different: the average population of a municipality, also in rural areas, is at least several thousand while there is no single municipality with a population under 1,000. Poland is one of those countries. Overall, however, the trend of strong

⁴ T. Geodecki et al., 2012, op. cit., pp. 34 -35.

⁵ T. Geodecki et al., 2012, op. cit., p. 35.

⁶ T. Geodecki et al., 2012, op. cit., p. 36.

territorial fragmentation at the lowest level of territorial division is quite widespread in Central Europe.⁷

7. It was noted soon after the 1990 political breakthrough that a small size of municipalities is a barrier to decentralisation and to effective and economical performance of the local government. The issue was debated to a different degree in Hungary, Slovakia, and the Czech Republic. It was also raised in Poland in a somewhat different context: during the debate on the division of the country into counties (*powiat*) and regions (*województwo*). On the other hand, bottom-up initiatives aimed at division of municipalities were undertaken from time to time also in Poland, where municipalities are usually quite large (for instance, close to 30 “urban-rural municipalities” in Poland were broken down into smaller units).⁸

8. However, irrespective of the above mentioned debates and the fact that the combination of municipalities has frequently been proposed as a potential panacea for the problems faced by countries with many small municipalities at the time of the financial crisis, proposed changes have hardly ever been put in place.⁹ Economic factors should be an important incentive for the consolidation of local government units; however, one should realise that their effectiveness is limited by barriers both political and linked to awareness. For example, financial incentives proposed in Poland’s local government finance system so as to encourage local government units to consolidate have not produced the expected results.

9. Territorial reforms are usually very difficult in political terms and implementation problems are not a Central European specificity.¹⁰

10. At the time of the financial crisis, territorial consolidation which fosters the creation of big local government units is one of the ways to improve the economic standing of local government units. Bigger local government units have a bigger capacity to perform a broader scope of functions. Thus, territorial consolidation enables deeper decentralisation.¹¹

- Economies of scale apply to many services provided by local governments (the most direct evidence is available for expenditures of the local government administration).¹² As a consequence, some functions are less expensive when performed by big municipalities.¹³
- If bigger local governments can perform more functions, it is expected that there will be more interest of the local population in local politics. From this perspective, territorial consolidation serves as a factor promoting local democracy.¹⁴
- In a territorial organisation where the basic units are big, there is less differentiation in the level of development and budget revenues among local government units. As a consequence, there is less need for horizontal equalisation measures, which are both expensive to the state budget and usually politically controversial.¹⁵

⁷ P. Swianiewicz, *Reformy konsolidacji terytorialnej – teoria i praktyka Europy Środkowo – Wschodniej część 1*, 2009, <http://www.samorzad.lex.pl>, 9.01.2013.

⁸ P. Swianiewicz, 2009, op. cit.

⁹ P. Swianiewicz, 2009, op. cit.

¹⁰ P. Swianiewicz, 2009, op. cit.

¹¹ P. Swianiewicz, 2009, op. cit.

¹² Cf. P. Swianiewicz (ed.), *Consolidation or Fragmentation? The Size of Local Governments in Central and Eastern Europe*, Budapest 2002.

¹³ P. Swianiewicz, 2009, op. cit.

¹⁴ P. Swianiewicz, 2009, op. cit.

¹⁵ P. Swianiewicz, 2009, op. cit.

- Big local governments can be more effective in spatial and economic planning.¹⁶
- Territorial consolidation helps to bridge the gap between the territory of administrative units and the coverage of services provided by local governments.¹⁷

11. The first of the above mentioned arguments plays a particularly important role in debates taking place in Central Europe; hence, it is relevant to discuss it at greater length.¹⁸

The proponents of territorial fragmentation put forth a range of arguments. Defence of small local government units usually focuses on the democratic argument. In small municipalities, the relations between local politicians and the local population (voters) are usually closer and more direct. There is more trust, the distribution of information is facilitated and, as a consequence, it is expected that the local government will better accommodate the preferences of the local population. Many studies suggest that people living in small municipalities are more satisfied with the performance of local governments (although, as suggested by research of György Hajnal¹⁹ and of Jaroslav Borecky and Libor Prudky²⁰ carried out, respectively, in Hungary and in the Czech Republic, the rule does not apply to the smallest municipalities with a population under 1,000. In this case, the low effectiveness of the local government outweighs the positive characteristics of a small local community and adversely impacts the perception of the local government's effectiveness). In most countries, the interest of the local population in public affairs, as measured by the turnout in local government elections, shows a negative correlation with the size of the municipality (confirmed for Central European countries).²¹ A model confirming this rule in Western European countries has recently been published by Poul Erik Mouritzen.^{22, 23}

12. Therefore, while territorial consolidation is usually associated with more effective performance of various functions, the presence of small units is usually defended with arguments evoking the democratic system. In the most popular form, there is a choice between more effective governance and more local democracy. From this perspective, there is no universal answer to the question whether or not territorial consolidation reforms are beneficial. It depends which of the two values is considered more important. If decentralisation is considered first and foremost from the functional perspective (as it is, for instance, in Poland),²⁴ then it is justified to create big territorial units.²⁵

13. In Central European countries, the performance of the local administration becomes increasingly formalised, non-personal, uniform across the country, irrespective of the size of the municipality; in the age of the information revolution, information is available in every town, not least over the internet.

14. Voluntary co-operation of municipalities instead of territorial reform.

¹⁶ P. Swianiewicz, 2009, op. cit.

¹⁷ P. Swianiewicz, 2009, op. cit.

¹⁸ P. Swianiewicz, 2009, op. cit.

¹⁹ G. Hajnal, *Hopes and Reality: The First Decade of the Hungarian Local Government System in the Eyes of the Public*, in: P. Swianiewicz (ed.), *Public Perception of Local Governments*, Budapest 2001.

²⁰ J. Borecky, L. Prudky, *Public Perception of Local Government in the Czech Republic*, in: P. Swianiewicz op. cit.

²¹ Swianiewicz, 2002, op. cit.

²² P.E. Mouritzen, *The art of the impossible: Reforming local government in Denmark*, in: H. Baldersheim, L. Rose (ed.), *Territorial Choice: The Politics of Boundaries and Borders*, London 2009.

²³ P. Swianiewicz, 2009, op. cit.

²⁴ P. Swianiewicz, *The Values of Local Democracy as Seen by Mayors in East-Central Europe*, in: H Baldersheim, M. Illner, H. Wollmann (ed.), *Local Democracy in Post-Communist Europe*, Opladen 2003, pp. 263-273.

²⁵ P. Swianiewicz, 2009, op. cit.

Some opponents of territorial reforms argue that the problem of small local government units could be resolved by way of voluntary bottom-up co-operation of local governments in order to perform functions which exceed the capacity of a single municipality (district). Clearly, this is an alternative; however, the question is how realistic and effective it could be in addressing the issues of territorial fragmentation. First, contrary to what the proponents of this solution sometimes suggest, voluntary co-operation of local government units does not happen often and does not proceed smoothly. Political problems involved in joining a group of municipalities are not unlike the problems faced by the territorial consolidation reform. It requires the ability to compromise on the interests of local government units involved. Local leaders must agree to co-operate, which sometimes requires them to restrain their own political ambitions. Effective co-operation requires mutual trust of engaged parties; it is known, however, that the level of interpersonal trust is usually low in Central European countries. It is striking that many examples of successful co-operation usually turn out to have been strongly supported by incentives offered by national or European policies. The importance of such incentives is sometimes so vast that the question arises whether the co-operation was genuinely voluntary or perhaps imposed from the outside. Such is the nature of the co-operation of local governments in the Czech Republic, Slovakia, and Hungary.²⁶ Furthermore, P. Swianiewicz and M. Lackowska²⁷ have shown that reliance on bottom-up co-operation has been very ineffective as a solution to the problem of coordination of governance in the biggest conurbations in Poland.²⁸

15. Another equivocal distinction is that between changing the territory of local government units (municipalities) and bottom-up co-operation between municipalities. The transfer of functions (sometimes together with the right to levy local taxes) to inter-municipal institutions is sometimes used as a way to circumvent political problems inherent in territorial reforms while also marginalising the position of municipal governments. With time, in fact, a new, bigger local government unit is created while the original municipalities retain only symbolic functions and a minimum role to play in the provision of public services. Instead of the politically risky venture of liquidating a municipality, one can effectively marginalise it by way of transferring real rights to a newly established, bigger territorial unit. This trend has been observed mainly in the Czech Republic, Slovakia, and Hungary.²⁹

16. Reactions of the public administration, including local governments, to the financial crisis are formulaic rather than innovative. Looking for savings by means of cutting expenditures, increasing the budget deficit or raising taxes is more prevalent in the countries in question than government policies aiming to improve the effectiveness and efficiency of spending.

17. The shape and size of the public administration in Central European countries is determined, on the one hand, by the scope of responsibilities delegated to the public sector (usually by law) and the acceptable (preferable) quality of their delivery and, on the other hand, by the scope and scale of financing of those functions (number of FTEs, level of remuneration, office space, equipment, etc.). Another important factor of the performance of the administration are historically developed institutional solutions which periodically expand or reduce the public

²⁶ M. Illner, *Bottom-up territorial consolidation in the Czech Republic?*, in: P. Swianiewicz (ed.), *Territorial Consolidation...*; J. Buček, *Inter-Municipal Co-operation in Slovakia*, paper presented at the UNDP, LGI and Council of Europe conference *Inter-Municipal Co-operation*, 28-30.10.2008, Bratislava 2008; E. Somlyódyne Pfeil, *The Hungarian public service reform - multi-purpose micro-regional associations*, in: P. Swianiewicz (ed.), *Territorial Consolidation...*

²⁷ P. Swianiewicz, M. Lackowska, *From Doing Nothing to Metropolitan Government Institutions? Governing Metropolitan Areas in Poland*, in: J.P. Collin (ed.), *Metropolitan Governance: Issues and Depictions of Experiments on Four Continents*, Montreal 2007, pp. 317-343.

²⁸ P. Swianiewicz, 2009, op. cit.

²⁹ P. Swianiewicz, 2013, op. cit.

sector. It should be stressed that Central European countries have so far failed to develop their public administrations according to clear models. As a consequence, the administrations in these countries follow diverse organisational models comprised of elements derived from different legal and organisational systems: a country ruled by law, an ideal bureaucracy, new public governance, or partnership governance.

18. In the absence of consistent implementation of a uniform vision of the administration, it is increasingly fraught with internal weaknesses. They often result from the wrong proportions between the scope of delegated public functions on the one hand and the implemented organisational solutions and available funding on the other hand. The main weaknesses of the public administration include the lack of proper planning and co-ordination of legislative work, procedures which are excessively formal and too complex in minor affairs, lengthy procedures, as well as the emphasis being placed too much on formal requirements rather than achieved results.

19. A perennial context of the public administration is the overall weakness of the system of law enforcement, both with regard to citizens and public institutions. Instruments such as political debates and broad consultations are still insufficiently utilised while skills necessary to design long-term, socially legitimised and realistic strategies and programmes remain underdeveloped. Other points of criticism include the overdependence of the results of government projects on ministerial policies, the blurred accountability and unwillingness to have co-operation between the central and the local administration, which often results in the lack of co-ordination of initiatives.

20. Formation of a professional body of public servants. This comes as a reaction to the need of the public administration for well-educated and apolitical human resources necessary to address the growing expectations of citizens with regard to institutions responsible for the performance of functions delegated to the public sector.

21. At the time of the crisis, local government units should pursue a more restrictive financial policy. It seems requisite to take measures in order to rationalise and cut spending. If the downturn continues in a long term, it may even be necessary to reduce planned functions in such a way as to least affect the quality of life of local communities.³⁰

22. It should also be noted that new instruments of the budgeting process are underutilised, including performance budgets whose useful ideas have not been properly adopted in the process of local and regional governance. For example, in Poland, performance budgets are implemented at the level of the central budget in a purely formalistic way while not being formalised in local government budgets.

23. The impact of economic downturn on local government finance is stronger where the system of budget revenues relies on sources of income which is curtailed as a result of economic downturn. Revenues of local governments in Poland belong to this category as a share of income taxes is an important part of their structure. Since income tax revenues may decline as a consequence of slower economic growth, this causes a sharp decrease in revenues of local government budgets. Where, however, local government revenues are based on property taxes (es-

³⁰ M. Kogut-Jaworska, 2011, op. cit., p. 329. *Wpływ spowolnienia gospodarczego na potencjał wydatkowy gmin (na przykładzie województwa zachodniopomorskiego)*, Zeszyty Naukowe Vol. 10, Kraków 2011, p. 329; cf. also: *Polska wobec światowego kryzysu gospodarczego*, NBP, Warsaw 2009, pp. 18 - 21; E. Chojna-Duch, *Determinanty polityki fiskalnej wobec globalnego kryzysu ekonomicznego* in: *Finanse publiczne a kryzys ekonomiczny*, edited by A. Alińska, B. Pietrzak, CeDeWu, Warsaw 2011, p. 13; P. Swianiewicz, J. Łukomska, *Spowolnienie gospodarcze a sytuacja finansowa samorządów terytorialnych*, *Finanse Komunalne* 2010, Vol. 5, p. 9; M. Wiewióra, *Zjawisko kryzysu finansowego jednostki samorządu terytorialnego i jego implikacje dla państwa*, *Samorząd Terytorialny* 2009, Vol. 3, pp. 30-31; W. Misiąg, *Budżetowe skutki kryzysu światowego systemu finansowego*, *Finanse. Finansowy kwartalnik internetowy* 2009, Vol. 3, www.e-finanse.com.

pecially taxes paid by owners or holders of property), the decline is less detrimental to local government units.

24. At the time of the economic crisis, countries place a strong emphasis on fiscal discipline. Hence, the growing role of budget measures necessary to maintain the discipline. These include budget restrictions imposed on revenues or expenditures (balanced budget principle, limits on spending and taxes, decisions to raise taxes approved by a qualified majority of votes, authority of supervisory bodies to put a cap on specific expenditures, restrictions on new debt), as well as special procedures for adoption and implementation of budgets. In this regard, it should be stressed that the mechanisms of direct democracy are increasingly important as they allow citizens to participate directly in the process of adoption and implementation of the budget (participatory budgets).³¹

25. Cutting expenditures at the time of the financial crisis derives from the need to match expenditures with decreased budget revenues which are more susceptible to the economic cycle. However, it does not seem reasonable at such time to take measures aiming to increase revenues transferred from the central budget. The principle of the distribution of funding between central and local governments depending on the scope of their competences and functions should be preserved.³²

26. Furthermore, if the crisis persists in a longer term, local government units should take measures aimed at broadly understood stimulation of economic growth in their territory resulting in activation of the local tax base, closer co-operation with local entrepreneurs in the framework of the municipal economy (contracting municipal services), delegating functions usually reserved for the local government over to the commercial sector.³³

27. The time of the economic slow-down and financial austerity is the best time for the public sector to design Public-Private Partnership (PPP) projects.³⁴ However, this format encounters so many barriers that its practical application is negligible, even though it seems that the benefits of this format outweigh its shortcomings.

28. Despite the commitment to the principle of decentralisation of the administration, including the evoked EU principles of partnership, there is a clear trend of centralisation of activities and decisions, as demonstrated in the relations between the central government and local and regional governments.

³¹ M. Bitner, *Reguła deficytowa jako zasadniczy element „złotej zasady finansów publicznych” w jednostkach władzy terytorialnej – próba syntezy*, Samorząd Terytorialny 2012, Vol. 11, pp. 24 – 25.

³² M. Kogut-Jaworska, 2011, op. cit., p. 329; A. Niezgoda, *Podział zasobów publicznych między administrację rządową i samorządową*, Warsaw 2012; E. Kornberger-Sokołowska, *Aktualne problemy realizacji zasady adekwatności w jednostkach samorządu terytorialnego w Polsce*, in: *Nauka prawa finansowego po I dekadzie XX wieku, księga pamiątkowa ku czci prof. A. Kosteckiego*, edited volume, Kraków 2012.

³³ M. Kogut-Jaworska, 2011, op. cit., p. 330.

³⁴ Statement of Bartosz Korbus, PPP Institute Founder, at the First National Forum of PPPPortal.pl. “Successes and Future of PPP in Poland” on 25 October 2012.