



SWIMMING AGAINST THE EUROPEAN CURRENT: SMALL SIZE AS A THREAT TO LOCAL DEVELOPMENT IN CZECHIA

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Czechia represents an outlying case of a settlement structure where more than half of the municipalities have under 500 inhabitants but account for only eight percent of the country's total population. This study analyses the factors behind variability in the amount of liabilities (as a possible indicator of development) in the balance sheets of the more than three thousand smallest Czech municipalities. The results show that the amount of liabilities is strongly positively associated with municipality size, which also explains a negative effect of voter turnout, which decreases with growing local population in the Czech context. Besides the effect of size, there are also constant (albeit much weaker) effects of geographical factors, with higher amounts of liabilities found in larger municipalities in closer vicinity to regional centres and outside structurally disadvantaged regions. This suggests the problem of an ineffective state of local governments in Czechia. Thus, the smallest municipalities with low levels of competitiveness (i.e. citizens' low willingness to join their local governments) found in peripheral regions or in the peripheries of more developed regions are faced with major developmental problems. An increasing number of municipalities are stagnating due to insufficient funds for their development.

Key words: Czechia; local governments; small municipalities; competitiveness; liabilities; sustainable development; municipal reform.

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1 INTRODUCTION

Whereas Western Europe at the end of the 20th century saw a continued process of municipal amalgamation aimed at rationalising the workings of local governments, Czechia, along with other Central European countries, set out on a different path in the early 1990s. Paradoxically, the democratisation and democratic consolidation processes in Czechia contributed to a substantial increase in the number of municipalities. Nevertheless, this process took place in response to forced amalgamations implemented under the communist regime.² Thus, by the end of the millennium, Czechia exhibited a record increase of the number of municipalities, both in European comparison and globally, or at least among OECD countries (see OECD and UCLG 2016).³ Between 1 January 1990 and the first free local elections that took place on 24 November 1990 (following the first free parliamentary elections of 8–9 June), a total of 1,649 new municipalities were formed in what is today Czechia. And by the next local elections of 1994, the number of municipalities approximated today's figure at 6,226.⁴

The subsequent period only saw a very minor increase. As a result, Czechia has one of the most fragmented settlement structures and an extremely high number of very small municipalities. For this reason, the country (especially its experts) has been consistently debating the possibilities of municipal amalgamation. This is because the territorial-administrative fragmentation reflected in the existence of many small municipalities impacts negatively on the cost effectiveness of public services and on the availability of the necessary skills and administrative capacities (including difficulties recruiting qualified personnel). Due to this mix of factors, most Czech municipalities are too small to ensure cost-effective provision of public services. Indeed, findings from other countries indicate a U-shaped relationship between the cost-of-service provision and municipality size (OECD 2020).⁵ The cost of public service provision is further increased by the fact that many of these small Czech municipalities are outlying and sparsely populated.

However, while experts have consistently recommended increasing the effectiveness of local administrations (Sila and de la Maisonneuve 2021; OECD 2016; NERV 2022), there has been strong resistance against any amalgamation, especially by representatives of small municipalities (Vajdová and Illner 2004;

² Czechoslovakia was established in 1918, and by 1921, the number of municipalities in the Czech lands reached 1,413. An additional increase after World War II resulted in a total of 11,459 municipalities (1950), yet a subsequent centrally managed administrative amalgamation ensured a gradual decrease of the number of municipalities to 8,726 (1961), 7,511 (1970), 4,778 (1980), and 4,100 in the year 1990 (see Kučera 1994, 78–80).

³ Relatedly, Czechia has the lowest median municipality size of all EU and OECD countries, namely 1,710 inhabitants per municipality, compared to 10,250 in OECD countries and 5,960 in the EU (OECD 2023).

⁴ Other post-communist countries of Central Europe also exhibited growing numbers of municipalities, albeit none as sharp. For example, Slovakia saw an increase by 198 municipalities between 1989 and 2002, 41 more municipalities were added till 2012, and the total number reached 2,890 in 2022. The number of Polish municipalities first decreased from 5,599 in 1970 to 2,070 in 1980. However, subsequent reforms of the years 1992, 1994, 1997, and 1999 led to an increase to 2,497 municipalities (2012) and finally to 2,477 (2022) (see Hornek 2016, 32–33; Statistics Poland 2023).

⁵ For example, Spanish researchers estimated that municipalities with a population of 1,000 have a 20% higher total expenditure per inhabitant than those with a population of 5,000. Swiss evidence shows higher cost and lower service quality in municipalities with under 500 inhabitants (OECD 2020).

Ryšavý and Bernard 2011; Ježek 2016) and associations of municipalities (SMO ČR 2010; SMS ČR 2022),⁶ which enjoy long-term support in both chambers of the Czech parliament.⁷

Moreover, the resistance to amalgamation is contrary to the facts of everyday life and administration of Czech municipalities (see OECD 2023), something admitted by mayors themselves in interviews (see Hornek 2016). More specifically, small municipalities with under 500 inhabitants,⁸ i.e. more than half of Czech municipalities, can only perform so-called maintenance functions and often fail to comply with legal requirements (of the Act on Municipalities)⁹ by not developing due to a lack of funds for that purpose; keeping the municipalities going is basically their only activity (Bubeníček 2010; Hornek 2016). As a result, citizens of small municipalities are not guaranteed public and medical services, transportation, education, etc., despite explicit intentions of the central government (see Vláda ČR 2017, 75–88).¹⁰ This situation is also contrary to the strategic Sustainable Development Goals (Agenda 2030) adopted by the UN General Assembly in 2015 and specifically to the Czech response to those goals (Strategic Framework Czech Republic 2030), as municipalities have failed to create (or are not even creating) conditions for sustainable development, adaptation to the ongoing climate change, or addressing other negative phenomena.

Relatedly, municipalities are often directed by part-time mayors, who work their regular jobs and only devote their leisure time to administering local affairs. This tends to be associated with weak administrative and expert capacities (Hornek 2022)¹¹ due to lower education and skills levels of local leaders in small municipalities (Střeleček 2006) and local people's much lower willingness to run for local offices, i.e. to participate in administering their municipality (Ryšavý and Bernard 2013).

⁶ This is especially the oldest association, the Union of Towns and Municipalities of the Czech Republic (established 1989) with a membership of 2,828 municipalities, i.e. 45.16% of the total number, and a combined population of 8,477,060, i.e. 78.29% of the country's total population (10,827,529) (SMO ČR 2024). A younger organisation, the Association of Local Authorities of the Czech Republic, was established in 2008, primarily brings together small municipalities, and has over 2,200 members (SMS 2024).

⁷ Historically, proponents of small municipalities have been especially represented in the Senate (the upper chamber of the Czech parliament), which is strongly localised due to a majoritarian electoral system. The chances of rationalising Czech local administration have especially diminished after 2010, when the Mayors and Independents (STAN) joined the lower chamber of the Czech parliament (see Maškarinec 2020). After the election of 2021, STAN became the third-strongest group in the parliament and a member of the government coalition, holding the office of the 1st Deputy Prime Minister and Minister of the Interior.

⁸ The array of functions performed by a municipality depends on the size of its population (Swianiewicz 2002). In the Czech case, this is amplified by the financial redistribution system in place, as the incomes of small municipalities consist primarily of redistributed tax revenue. For that reason, tax revenue is key to whether a municipality can be truly autonomous and what services it will be able to provide.

⁹ For general information on the development and issues of public administration at the local and regional levels in Czechia, see OECD (2023).

¹⁰ This also shapes the options small municipalities have in responding to new technological challenges and potentials, e.g. those presented by the smart cities concept. In Czechia, this concept has typically been implemented by larger or medium-sized municipalities (see MMR 2018). For example, the Union of Towns and Municipalities of the Czech Republic had its own project/concept, Smart Czechia, for the entire country because small municipalities are not actually equipped to implement this.

¹¹ Worth mentioning here is the fact that Czechia does not consider itself bound by all provisions of the European Charter of Local Self-Government, e.g. by the provision that "the conditions of service of local government employees shall be such as to permit the recruitment of high-quality staff on the basis of merit and competence". This, too, has been criticised by Czech associations of municipalities.

These facts have long been known to the Czech government, including the Ministry of Interior, which used to have a working group for small municipalities whose members argued that small municipalities: (1) have difficulties performing the roles of local government; (2) have such local fiscal revenue that fails to cover even basic investments; (3) are unable to tackle the lack of economies of scale in providing public services; (4) are faced with unfavourable local age structures; (5) have difficulties recruiting skilled personnel; (6) sometimes have difficulties manning their local councils; etc. (Working group of the Ministry of the Interior as quoted in Hornek 2016, 58). In addition, the Ministry of Finance has been consistently pointing to similar issues (Hornek 2016; Matej 2021). Even if these problems of managing small municipalities have been known to government institutions, independent experts, and the last ten Czech governments (since 2005), they have not been reflected in those governments' policy statements. Therefore, no substantial shifts have been achieved.¹²

Of high importance here is the fact that all the above aspects are directly or indirectly associated with municipalities' financial autonomy (and fiscal revenues), which ultimately shapes their local (political) life. At the same time, the question of the municipal financial autonomy plays a very important role (given the settlement structure and the size and number of municipalities in Czechia, among other things).¹³ For the above reasons, the present paper focuses on one of the important characteristics of the financial autonomy of municipalities, namely their liabilities, i.e. all funding they have to pay back (equity is not included). Such liabilities often comprise of pre-funding for municipal investments. We build on the assumption that a growth of municipal liabilities may indicate a local government's higher willingness to invest in local development. This is because Czech municipalities find it less costly to use debt financing for local development, something even the Ministry of Finance has been encouraging (Matej 2021, 2022).¹⁴

The goal of the present paper is to identify factors that explain higher municipal liabilities as a possible indicator of local development in the smallest Czech municipalities with under 500 inhabitants in the years 2014 and 2018. There are several reasons for limiting the research sample to the category of municipalities with under 500 inhabitants: (1) it accounts for most Czech municipalities (55% – a unique value in the European context, as will be shown below); (2) local

¹² For example, the right-wing government of Petr Nečas (13 July 2010 – 10 July 2013) was the first to mention an effort to reduce an existing discriminatory difference in revenue per inhabitant between the "poorest" and the "richest" municipalities by bringing the situation in line with advanced EU countries. The same government also intended to analyse possible steps toward solving the issues of municipal indebtedness (Vláda 2010). The governments of PM Andrej Babiš (13 December 2017 – 17 December 2021) declared their support for collaboration in addressing the issues of the rural space between municipalities and for upholding the principles of LEADER partnerships (Vláda 2018). More to Czech governments, see Hloušek and Kopeček (2014), Brunclík (2016), Svačinová (2016) or Naxera (2024).

¹³ Concerning the subnational level in CEE, Czechia ranks right behind the leading Poland (followed by Lithuania, Estonia, and Slovakia) in the Local Autonomy Index (LAI), whereas Latvia, Slovenia, and Hungary have exhibited (after 2010) the lowest levels of LAI (Ladner et al. 2016).

¹⁴ Municipal financial management exhibits a number of problems, e.g. a failure to tap available funding (which results in the loss thereof), revenue irresponsibility, failure to generate additional income from property tax, inconsistencies between local service fees and the costs of providing such services (waste collection), and pricing local services out of touch with actual costs (public transportation, rent, heat, water, sewage). Therefore, municipalities often rely on subsidies, with frequent pressures on the central budget to repeatedly increase the transfers they receive (the allocation of certain tax revenues to local governments, so-called "budgetary use of taxes" or BUT) (Matej 2021, 2022).

politics in Czechia is primarily characterised by the realities of this category of municipalities. It is dominated by independent candidates, with almost no political parties running in elections (and if they do, their candidates are often not even their members); (3) the smallest municipalities find it difficult to comply with their legal obligations and ensure local development, only funding maintenance activities; (4) relatedly, these municipalities often do not have enough funding for their operations. As they often lack professional management and sufficient administrative capacities, they may not manage their funds effectively (leaving money idling on their bank accounts); (5) consequently, precisely these municipalities would be affected by a possible municipal reform (amalgamation).

Our primary reason for limiting the time frame of the analysis to the years 2014 and 2018 is to focus on years in which regular local elections took place. By using the four-year interval, we can work with the results of local elections for the entire size group. At the same time, the analysis relies not only on election data but also on financial indicators. The revenues of municipalities in this size category are dominated by tax revenues allocated to each of them through the so-called budgetary use of taxes (BUT) system.¹⁵ The parameters and other characteristics of the BUT system are based on political decisions and subject to ongoing political debates.¹⁶ Moreover, during the COVID-19 pandemic, temporary subsidies for self-employed persons and businesses were financed from local budgets. As a result, municipalities persuaded the central government to introduce a special compensatory bonus. This, along with developments and changes in the system of monitoring local finances, prevents any meaningful long-term comparison of local revenues, including any comparison of the period of interest with previous or subsequent time periods.

2 CURRENT DEVELOPMENTS IN EUROPEAN MUNICIPAL STRUCTURES¹⁷

The differences between the municipal structures of European countries are primarily due to each country's historical development and its concept of the roles and functions to be performed by municipalities. Even the World War II did not break the continuity of the different approaches to transforming a country's municipal structure. Overall, though, most countries prefer reducing the number/amalgamation of their municipalities to make their functioning more cost-effective. The amalgamation processes in European countries began especially in the 1960s and 1970s, then slowed down in the 1980s (due to the predominant neoliberal approach and low confidence in the possibilities of directing society). In the early 1990s, though, the opinions in Europe changed again, also because of the globalisation wave and efforts to further democratise public administration (Keating 1995; Illner 2006).

This was accompanied by a renewed tendency to form larger municipalities in many countries, including the new federal states of Germany, Denmark, The

¹⁵ Local tax revenue is significantly shaped by the BUT system that redistributes shared taxes (especially VAT, personal income tax, corporate tax, and property tax) between the different public budgets (central, regional, local). Since 2018, municipalities have been obtaining a total share of 23.58% of the above shared taxes.

¹⁶ Between the years 2017 and 2024, the BUT legislation was amended more than ten times, i.e. on average more often than every two years.

¹⁷ When referring to Europe in this paper, we mean the current 27 member states of the EU, 4 EFTA countries, and the United Kingdom.

Netherlands, or Lithuania (Baldersheim and Rose 2010). Over the past 15 years, this trend has remained visible in Europe, as shown by Table 1 in more detail. In the years 2007–2022, the number of municipalities in European countries decreased by 5,608 (6%) to a total of 89,145. The strongest decreases in the number of municipalities were seen in Ireland (by 72.8%), Greece (by 68.9%), Estonia (by 65.2%), or Latvia (by 60.9%). More than 20-percent decreases occurred in Finland (25.7%), Switzerland (22.1%), and The Netherlands (20.2%), and 11–20% decreases in Iceland (19%), Norway (17.4%), United Kingdom (13.3%), Germany (12.4%), Luxembourg (12.1%), and Austria (11.2%).¹⁸ Measured by the total number of amalgamated municipalities, two countries with the highest numbers of municipalities (France and Germany) were most affected by this trend.

TABLE 1: DEVELOPMENT OF THE NUMBER OF MUNICIPALITIES IN EUROPEAN COUNTRIES, 2007–2022

Rank	European state	Year 2007 Total no. of municipalities	Year 2022 Total no. of municipalities	Change	Rank	European state	Year 2007 Total no. of municipalities	Year 2022 Total no. of municipalities	Change
1	France	36,683	34,966	-1,717	17	Poland	2,479	2,477	-2
2	Germany	12,312	10,789	-1,523	18	Slovakia	2,891	2,890	-1
3	Greece	1,034	322	-712	19	Denmark	98	98	0
4	Switzerland	2,758	2,148	-610	20	Cyprus	615	615	0
5	Austria	2,357	2,093	-264	21	Lithuania	60	60	0
6	Italy	8,101	7,904	-197	22	Malta	68	68	0
7	Estonia	227	79	-148	23	Portugal	308	308	0
8	Finland	416	309	-107	24	Sweden	290	290	0
9	The Netherlands	431	344	-87	25	Liechtenstein	11	11	0
10	Ireland	114	31	-83	26	Croatia	556	556	0
11	Norway	431	356	-75	27	Bulgaria	264	265	1
12	Latvia	110	43	-67	28	Slovenia	210	212	2
13	United Kingdom	437	379	-58	29	Hungary	3,175	3,178	3
14	Iceland	79	64	-15	30	Romania	3,173	3,181	8
15	Luxembourg	116	102	-14	31	Czechia	6,249	6,258	9
16	Belgium	589	581	-8	32	Spain	8,111	8,131	20

Sources: Own elaboration of data by Eurostat (2023), statistical offices, and Baldersheim and Rose (2010).

As a result of what was practically a long-term pressure for amalgamation, with countries transforming their municipal structures (in the context of their respective concepts of municipal roles and functions) in both Western European and CEE countries, most European countries currently exhibit low (and in most cases still decreasing) levels of settlement structural fragmentation. Moreover, many countries' municipal structures are firmly established, with no more ongoing changes (e.g. Denmark, Lithuania, Malta, Liechtenstein, or Sweden).¹⁹ In 2024, the process of municipal reform in Cyprus, which had been underway for several years, came to an end, with municipal elections in June 2024 under the

¹⁸ The issue of municipal mergers in Austria, specifically in the federal state of Styria, is examined in detail by Heinish et al. (2019), who address the impact of municipal mergers on local democracy.

¹⁹ De facto, we can also include countries that experienced negligible changes in the number of their municipalities over the examined 15-year period—Poland, Slovakia, Bulgaria, and Slovenia. The case of Slovenia may illustrate other potential issues. While the number of municipalities remains unchanged, significant population shifts occur between them. This impacts municipal governance and gives rise to further specific challenges at the national level (see Kukovič 2018; Haček 2020).

new municipal arrangements (see Cyprus Mail 2021). Switzerland, too, exhibits a slow amalgamation process, with each canton providing municipalities with services and administrative assistance in the process. Spain exhibits efforts for rationalisation and sustainability of local administration, yet even a new law from the year 2013 failed to substantially accelerate the amalgamation process, which has been politically unfeasible (Gosálvez 2015).²⁰ To the contrary, Spain has seen a slight increase in the number of municipalities despite the legal rule that a new municipality can only be formed with at least 5,000 inhabitants and it should be financially sustainable, have sufficient resources for performing the responsibilities of local government, and should not cause a decrease in the quality of services provided thus far. Overall, then, newly established municipalities have been rather rare in Europe over the past 15 years, except for countries like Czechia or Romania.

In the case of Czechia, the subject of this paper, a total of 22 municipalities were formed in 2000–2015, including 15 at the turn of the millennium, in 2000/2001 (Hornek 2022). The 6 most recently created municipalities were established by a special law of 2016 that changed the cadastral delimitation of military training areas. They were exceptions from a rule set by another law, namely that a new municipality must have at least 1,000 inhabitants. No new municipalities have been formed since then. It should be mentioned that Czechia has also seen some rare cases of voluntary amalgamation (see Musilová and Heřmánek 2015), yet only 18 Czech municipalities have ceased to exist since 1995 (Hornek 2022).

Let us now briefly outline the prevalence of small municipalities across Europe. In the years 2020–2022, there existed more than 32 thousand (32,265) municipalities with under 500 inhabitants, accounting for 36% of all European municipalities (Table 2). Czechia has by far the largest share of small municipalities of all European countries (54%), followed by France (53%), which also has the highest absolute number of such municipalities (over 18,000), Slovakia (50%), Spain (49%), and Hungary (36%). In contrast, more than half of the countries under comparison (19) have fewer than 10 municipalities with under 500 inhabitants each, including 12 countries (38%) with no such municipality in their territory.

TABLE 2: MUNICIPALITIES WITH UNDER 500 INHABITANTS IN EUROPEAN COUNTRIES

Rank	EU+ state	Number of municipalities with under 500 inhabitants	Total number of municipalities	% of municipalities with under 500 inhabitants	Rank	EU+ state	Number of municipalities with under 500 inhabitants	Total number of municipalities	% of municipalities with under 500 inhabitants
1	France	18,382	34,966	52.57%	17	Malta	2	68	2.94%
2	Spain	3,993	8,131	49.11%	18	Liechtenstein	1	11	9.09%
3	Czechia	3,391	6,258	54.19%	19	Portugal	1	308	0.32%
4	Germany	2,094	10,789	19.41%	20	Slovenia	1	212	0.47%
5	Slovakia	1,468	2,927	50.15%	21	Belgium	0	581	0.00%
6	Hungary	1,147	3,178	36.09%	22	Bulgaria	0	265	0.00%
7	Italy	900	7,904	11.39%	23	Denmark	0	98	0.00%
8	Switzerland	366	2,148	17.04%	24	UK	0	379	0.00%
9	Cyprus	281	615	45.69%	25	Greece	0	322	0.00%
10	Austria	111	2,093	5.30%	26	Ireland	0	31	0.00%
11	Norway	78	356	21.91%	27	Latvia	0	43	0.00%
12	Iceland	16	64	25.00%	28	Lithuania	0	60	0.00%
13	Romania	16	3,181	0.50%	29	Luxembourg	0	102	0.00%
14	Croatia	9	556	1.62%	30	The Netherlands	0	344	0.00%
15	Finland	6	309	1.94%	31	Poland	0	2,477	0.00%
16	Estonia	2	79	2.53%	32	Sweden	0	290	0.00%

Sources: Own elaboration of data by the statistical offices of individual countries and Eurostat (2023).

²⁰ Only two amalgamations took place in Spain 1981–2016, namely in Galicia. They were motivated by demographic problems and efforts to ensure service provision for citizens (Gosálvez 2015; Reinero 2016).

3 DETERMINANTS OF LIABILITIES IN SMALL MUNICIPALITIES

Although issues of fiscal responsibility and sustainable financing in small municipalities represent an important research topic, there have been few studies in this area. Financial aspects of funding municipalities have primarily been studied at a more general level, even in studies focusing on small municipalities. As one of a few exceptions, Burešová and Balík (2019) investigated economies of scale in small municipalities. The authors use the term “effectiveness” as an indicator of (un)successful governance. On the example of the Vysočina Region, which has the highest share of small municipalities in Czechia, they proved that economies of scale are not a suitable measure of the effectiveness of local administration.

Furthermore, Nemeč et al. (2021) studied the impact of fiscal rules on the financial management of municipalities in Czechia and Slovakia. Sedmihradská and Bakoš (2016) or Kruntorádová and Jüptner (2012) researched issues of local finance and the relationship between local autonomy and the tax autonomy of Czech municipalities. Other authors, then, focused on municipal insolvency (Hrůza and Novotná 2017; Sedmihradská and Hrůza 2014), redistribution of subsidies and distribution of public resources (Spáč et al. 2018; Lysek and Ryšavý 2020), local development potentials (Bernard 2011), determinants of local indebtedness (Maličká 2024), or the administrative and expert capacities of concrete local governments (Horník 2016; Horník and Jüptner 2020).

Let us recall that liabilities amount to all funding a municipality must pay back, most often pre-funding for municipal investments, equity is not included, and we treat them as a possible indicator of local development. Existing studies have paid little attention to the factors of variability in such liabilities, although credit financing is often the only way small municipalities can implement substantial investment projects.²¹ For this reason, the present study is based on exploratory research of the relationship between liabilities and several factors that influence the functioning of Czech municipalities in the long term.

Population size has been considered one of the key variables affecting the form of local politics (Dahl and Tufte 1973; Newton 1982; Anckar 2000). Similarly, the degree of politicisation of local political systems is also affected by municipality size in Czechia.²² This finding was previously verified by the body of work analysing the relationship between municipality size and, for example: (1) voter turnout (Kostelecký and Krivý 2015; Maškarinec 2022); (2) competitiveness, democracy, and uncontested elections (Ryšavý and Bernard 2013; Kouba and Lysek 2023); or (3) the success of lists of independent candidates (Kostelecký et al. 2023).

Since the fiscal revenue of Czech municipalities largely depends on their population (given the parameters of the BUT system), we believe a positive association between size and liabilities can be expected. There are several reasons behind this expectation. First, larger municipalities have larger revenue,

²¹ We primarily mean larger investment projects that municipalities cannot fund from their annual budgets and regular tax revenues. More specifically, these include the re/construction of local roads, sewage systems, water supply systems, municipal buildings, playgrounds, sewage treatment plants, etc.

²² Czechia's considerably fragmented settlement structure has strong effects on the politicisation of local politics, which depends precisely on municipality size (Maškarinec 2015). Therefore, while local elections in small and partly also medium-sized Czech municipalities are dominated by the phenomenon of independent candidates, the role of political parties increases proportionally to municipality size (cf. Balík et al. 2015, 139–142).

better financial capacities for their development (including access to external resources for that purpose), and larger expert capacities for applying for development subsidies.²³ The following two variables that may potentially influence the level of municipal liabilities are financial in nature. First, for fiscal responsibility,²⁴ we expect small municipalities to comply with the legal rule because we do not expect them to take large amounts of credit/debt. Given the total number of municipalities, cases emerge every year of municipalities temporarily violating that rule (especially to obtain pre-funding for a single project). In contrast, transfers received, i.e. basically subsidies that go to municipalities (both entitlements and optional payments from different providers: state funds, regional governments, central budget, etc.) should be strongly positively associated with the level of liabilities. Indeed, higher capacities to obtain external subsidies for a municipality's development should logically correlate with higher liabilities it will have to pay back in future.

The next group of variables characterises the local political-economic context. Here, the nature of electoral competition represents an important factor, with previous studies demonstrating a linear growth of competitiveness with municipality size (Ryšavý and Bernard 2013; Bernard et al. 2024). As for the effect of competitiveness, i.e. local citizens' increased efforts to take an active part in political decision-making as indicated by candidacy levels or party list characteristics in local elections,²⁵ a positive relationship can be expected between competitiveness and the level of liabilities incurred by a municipality. Our expectation builds mainly on the assumption that municipalities where citizens are more willing to participate in public life will exhibit a stronger drive for local development, something small municipalities can consistently achieve primarily by tapping external resources. This is because the amounts of guaranteed revenue (from the BUT) do not exhibit a long-term growth and rather serve to fund the daily operations of local governments, rather than larger development plans.

Level of voter turnout is another contextual factor and can serve as a complement to competitiveness. While competitiveness indicates higher levels of political activity among citizens who seek to directly participate in political decision-making (i.e. the supply side), voter turnout informs us about the level of voter demand for the supply offered by the different candidates. However, although one might expect a positive relationship between development efforts and voters' willingness to participate in local elections, the fact that municipality size has a negative effect on turnout in Czech local elections (Kostelecký and Krivý 2015; Maškarinec 2022) makes us rather expect a weak negative relationship between turnout and liabilities.

Education is one of the key socioeconomic factors when it comes to explaining voting behaviour. People with higher education participate in politics more because it enables them to attach higher importance to politics (Norris 2002).

²³ There are practically no civil servants employed by small municipalities. They typically have a full-time mayor and a part-time accountant. "Better-off" municipalities also have a secretary or a full-time accountant to assist the mayor. In contrast, large municipalities have entire dedicated departments and personnel with a relevant education background.

²⁴ A municipality is obliged to manage its finances so as its total debt for Year T does not exceed 60% of its revenue averaged over the last 4 financial years. If this happens and subsequently the excess debt does not decrease by at least 5% in Year T+1, the transfers from central tax revenue will be restricted in Year T+2.

²⁵ Citizens of smaller municipalities are increasingly willing to use the opportunity to initiate local referenda. Between 2000 and 2020, a total of 378 local referenda were held in Czechia, with more than half of them taking place in municipalities with fewer than 1,000 inhabitants (see Bláha 2023).

Similarly in Czechia, higher-educated people are more likely to participate in elections, although the positive effect is slightly weaker in local elections than in parliamentary elections (Kostelecký 2011). For that reason, we expect municipalities with relatively larger college-educated populations to also have a higher degree of liabilities. Indeed, educated citizens' traditional higher participation in politics can be expected to spark more interest in local development, and at the same time, the larger college-educated population provides a richer pool of candidates both for politicians presenting development visions and for the bureaucracy needed to implement them.

In contrast, negative effects can be expected in municipalities with older age structures, where a more conservative political climate can be expected that reduces public demand for substantial changes that accompany local development in many areas. As for turnout, municipalities with older populations exhibit slightly higher turnout in parliamentary elections but the effect is close to zero in local elections (Kostelecký 2011).

Another factor possibly differentiating municipal approaches to development is women's political representation on local councils. In this regard, previous works demonstrated that although representation of women generally declines with growing municipality size (Trounstine and Valdini 2008; Smith et al. 2012), such decline may not occur immediately. More specifically, female representation is stronger in Czech municipalities with 301–500 inhabitants than in smaller municipalities, especially those with up to 150 inhabitants (Maškarinec 2023). When treating women's higher success as an indicator of more liberal environments that allow more women to participate in the decision-making of their local governments, but also as a trait of modernisation and people's willingness to develop their community in new directions (Bláha 2017), we believe a positive relationship between women's descriptive representation and municipal liabilities can be expected.

The final two factors that may influence the level of liabilities, as an indicator of local development based on external subsidies, are related to the above findings about the spatial dimension of economic development in Czechia, which both influences political behaviour (Lysek and Macků 2022) and gives rise to so-called left-behind places (see Suchánek and Hasman 2022) or inner peripheries, where local people suffer from multiple exclusion (Bernard and Šimon 2017). The country's three structurally disadvantaged regions used to be dominated by the mining, processing, and chemical industries and currently exhibit low levels of economic growth, considerable lagging behind the most advanced regions, and specific patterns of voter behaviour (Bláha 2024).²⁶

Given the high level of settlement fragmentation in Czechia, the spatial aspects of socioeconomic exclusion may have stronger effects than in other countries. Especially the smallest municipalities with fewer inhabitants dispersed within their administrative boundaries pay more for service provision due to higher transportation costs and no economies of scale. Similarly, rural areas tend to have older populations than cities, which requires different and potentially more costly public services, a fact especially highlighted during the COVID-19 pandemic (Jüptner and Klimovský 2022). Over time, the situation is going to deteriorate as outlying and rural areas or border areas are exposed to several megatrends, such as depopulation and demographic ageing, that will shape the

²⁶ These three regions (Karlovy Vary, Ústí nad Labem, and Moravia-Silesia) also represent a large portion of the so-called Sudetenland, a territory that faced the expulsion of more than 3 million Sudeten Germans after WWII.

availability and quality of public services (Haist and Novotný 2023; Novotný 2025). For the above reasons, then, we expect municipalities located in peripheral regions, where citizens have worse access to centres, to be much less likely to tap external financing for development projects.

4 DATA AND METHODS

In this paper, we analyse data considering municipal liabilities during Czech local elections in the years 2014 and 2018. We use data for all Czech municipalities with a population under 500 inhabitants. Our dependent variable indicates the amount of liabilities (logged), namely all funding they must pay back (equity is not included). We use various independent variables to explain the varying levels of liabilities, which correspond to the hypotheses defined above: (1) municipality size, or the logarithm of the number of inhabitants more specifically; (2) the fiscal responsibility variable, whereas municipalities with a debt in excess of 60% of their revenue averaged over the past four financial years are in violation of the budgetary responsibility rule, and growing values of the variable indicate deteriorating financial health; (3) the transfers received variable is measured as the amount of transfers received (basically subsidies obtained by the municipality from external sources) in CZK per 1,000 inhabitants (logged); (4) the competitiveness variable is measured as the logarithm of the ratio of the number of candidates to the number of seats in a particular local council; (5) the non-plurality dummy variable is coded 1 for municipalities where the total number of candidates on party lists equals the number of seats available and 0 where there are more candidates than seats; (6) turnout is measured as the logarithm of the ratio of voters (those issued an official envelope) to registered voters (persons listed in the electoral rolls); (7) the university-educated variable is defined as the share of college graduates in the population aged 15+; (8) the retired variable is measured as the share of persons aged 65+ in the population; (9) the women councillors variable indicates the share of women among winners of local council seats in a given municipality and election year; (10) the centre-periphery variable is measured as the commuting distance from the municipality to its regional capital in kilometres;²⁷ (11) the structurally disadvantaged region dummy variable is coded 1 for municipalities found in one of the country's three structurally disadvantaged regions (the Karlovy Vary, Ústí nad Labem, and Moravia-Silesia Regions) and 0 for municipalities found in the remaining Czech regions.

The data for the dependent variable – the amount of municipal liabilities –, as well some independent variables (fiscal responsibility, transfers received) were obtained from MONITOR, an information portal of the Ministry of Finance (Monitor 2023) based on data from the Integrated Information System of the Treasury (Státní pokladna 2022) and the Central System of Accounting Information of the State (Státní pokladna 2024) and matched to other socio-demographic and economic data sets at the same level of aggregation. The data set of the remaining indicators (independent variables), then, was compiled from

²⁷ Although periphery can be considered as a multidimensional concept encompassing an accumulation of different social disadvantages (see Bernard and Šimon 2017), we primarily define periphery geographically, in terms of core and periphery, focusing on only one possible measure of peripherality (the so-called inner periphery). Alternatively, commute length in minutes could be measured. Yet given a very high correlation between both variables (0.94), only commuting distance in km was included in the analysis.

two basic sources: the decennial population censuses of 2011 and 2021 and other statistics of the Czech Statistical Office.²⁸

The effects of the above-mentioned indicators were analysed using the classic ordinary least squares method (multiple linear regression). The results of each regression model are indicated by basic parameters, namely unstandardised regression coefficients (B; measuring the effect of an independent variable on the dependent variable when controlling for all other variables, it tells us how much the dependent variable changes per unit change in the independent variable), standardised regression coefficients (Beta; measuring the weight of each independent variable in the model), and adjusted coefficients of determination (adjusted R-squared; measuring the overall performance of the model in explaining variance in the dependent variable).²⁹

5 RESULTS

Table 3 illustrates the results of our models which regress the amount of liabilities as all funding a municipality must pay back (most often pre-funding for a municipal investment project, equity is not included), as the dependent variable, on our set of independent variables. The empirical results presented in Table 3 show that the chosen variables do not explain the level of municipal liabilities quite consistently across the models for the 2014 and 2018 local elections. For several independent variables, the strength of their effects strongly varies, or their effects even shift from negative to positive or vice versa. Furthermore, the regression models assessing the effects of our independent variables on the amount of municipal liabilities were relatively successful, as the regression model for the 2014 local elections explained 37% of detected variance and the 2018 model even 58% of detected variance.

Starting with the effect of municipality size in the 2014 local elections, the results lend robust support to our assumptions. We confirmed the fact that rising municipality size has a strong positive and significant effect on the level of Czech municipalities' liabilities. At the same time, this may correspond to the strong correlation found in Czechia between a municipality's size and its tax revenue, to a lesser extent also total revenue, which is also the reason why these variables are excluded from the regression analysis.³⁰ The number of inhabitants shapes not only the economic aspects (higher fiscal revenue) but also the administrative and expert capacities of local governments, which ultimately influence the amount of funds (smaller municipalities do not have sufficient capacities credit-financing their development activities).

Furthermore, considering the effect of other individual variables, the amount of transfers received (practically subsidies for municipalities) proves as the second-strongest factor (after size) influencing the amount of municipal liabilities. However, the fact that increasing both investment and operational subsidies leads to higher municipal liabilities cannot be viewed in negative terms only.

²⁸ The data were obtained from the Czech Statistical Office's Public Database (ČSÚ 2024).

²⁹ Tests of multicollinearity between independent variables were performed for each regression model. To avoid problems with multicollinearity, we excluded from the analysis variables with high levels of correlation (e.g., local tax revenue, to a lesser extent also total municipal revenue, are strongly associated with the size variable, see below). Subsequently, multicollinearity in the regression model was tested using the tolerance statistic and the variance inflation factor (VIF).

³⁰ There is a near-perfect relationship between municipality size and tax revenue (both logged – 0.931 in the year 2014 and 0.937 in 2018), compared to a slightly weaker but still very strong association between size and total revenue (also logged): (0.762 in 2014 and 0.832 in 2018).

Higher liabilities may indicate municipalities' more active efforts to obtain external financing for their development. It is in this context, too, that we view the effect of the variable indicating municipalities in potential financial jeopardy, i.e. fiscal responsibility. Yet there is only a very weak positive effect of deteriorating fiscal responsibility (i.e. threat to a local government's financial stability) on the amount of municipal liabilities.

Other independent variables also have interesting effects on municipal liabilities. Let us first focus on indicators of local political context. Higher liabilities are typical of municipalities with more competitive local elections (i.e. more candidates per councillor seat)³¹ and without non-plurality of party lists (i.e. number of candidates on a list equal to number of seats available). Since people in smaller municipalities are less willing to run in elections and more likely to know one another (higher level of social control), the absence traditional electoral competition leads to low local government revenue due to the small population. At the same time, though, municipal liabilities grow in a political environment characterised by lower turnout in local elections (relatively strongly) and by weaker descriptive representation of women among councillors (not so strongly).

The relationship between a municipality's socioeconomic characteristics and its liabilities also paints an interesting picture. Local indebtedness rises in places with higher shares of college graduates and, in contrast, lower shares of retired persons. Thus, we can hypothesise that councillors in municipalities with younger and more educated populations take more interest in local development and have more courage to go into debt. They do not view debt as a problem, also because the overall low size of local budgets makes any major local development impossible without debt or pre-funding. At the same time, municipal liabilities grow in places with shorter commuting distances to regional centres and ones that do not belong to a structurally disadvantaged region.

Moving on to whether the factors of interest had similar effects on the amount of municipal liabilities four years later (in the 2018 local elections), municipality size remains (despite a slight weakening) a very strong positive determinant of liabilities. Similarly, the positive effects of subsidies received remains almost unchanged, with higher transfers (per capita) associated with higher amounts of liabilities that municipalities must pay back in future. As for financial jeopardy, the year 2014 saw a very weak (albeit positive) association with liabilities but four years later, the effect was even stronger than that of municipality size. Our working hypothesis to explain the changing strength of this relationship is that an overall improvement of tax revenue and GDP growth after 2014 helped increase local revenues from the BUT and decrease the overall indebtedness of Czech municipalities. The larger funds available to municipalities may have incentivised them to apply for subsidies and finance their local development. While this would have worsened the municipalities' financial health in the short term, it would also have contributed to a much more sustainable form of development in the long term, compared to the scenario of not investing and keeping one's money on bank accounts.

³¹ Higher numbers of candidates per councillor seat are primarily typical of larger municipalities. Yet compared to a very strong correlation between size (log) and competitiveness (log) at the level of all Czech municipalities (0.753 in 2014, 0.741 in 2018, and 0.733 when averaged over the local elections of 1994–2018), the relationship is much weaker in our sample of municipalities with under 500 inhabitants (0.374 in 2014 and 0.332 in 2018).

TABLE 3: LEVEL OF MUNICIPAL LIABILITIES, 2014 AND 2018 (MULTIPLE REGRESSION MODELS, OLS)

	2014			2018		
	B	SE	Beta	B	SE	Beta
Size (log)	1.369***	0.051	0.488	1.006***	0.037	0.393
Fiscal responsibility	0.041	0.033	0.017	1.081***	0.024	0.523
Transfers received (log)	0.484***	0.018	0.366	0.391***	0.017	0.265
Competitiveness (log)	0.166*	0.076	0.041	0.194***	0.058	0.051
Non-plurality (1 = 1 list)	-0.033	0.036		0.008	0.025	
Turnout (log)	-0.350*	0.161	-0.042	-0.390***	0.121	-0.050
University-educated	0.229	0.282	0.011	-0.221	0.214	-0.012
Retired	-0.293	0.211	-0.020	0.039	0.158	0.003
Women councillors	-0.071	0.056	-0.018	0.030	0.041	0.008
Centre-periphery	-0.011	0.044	-0.003	-0.015	0.033	-0.005
Structurally disadvantaged region	-0.026	0.037		-0.021	0.028	
Constant	1.554***	0.358		-2.687***	0.276	
N		3460			3420	
Adjusted R ²		0.369			0.577	

Note: The dependent variable is the logarithm of the amount of liabilities, B: unstandardised regression coefficients, Beta: standardised regression coefficients; SE: standard errors; statistical significance level: ***: p < 0.001, **: p < 0.01, *: p < 0.05.

In contrast, the effects of political-contextual variables on the level of municipal liabilities were highly stable in terms of both direction and strength. Thus, the year 2018 again saw a negative effect of turnout and a positive effect of competitiveness on liabilities. In contrast, there was a change in the direction of the effect of non-plurality, with higher liabilities recorded in municipalities with a single party list and one candidate per councillor seat, although the effect was even weaker than in 2014, namely close to zero. Moreover, all local socioeconomic characteristics saw a change in the direction of their effects. Yet while municipal liabilities decrease rather sharply with growing numbers of college-educated residents, they now increase with the share of retired residents, although the relationship is much weaker than in 2014; the same applies to women's descriptive representation, even though its effect was already rather weak in 2014. Finally, we found high stability in the case of geographic factors, where the effects kept the same direction and strength. Thus, municipal liabilities grow with decreasing commuting distance from regional centres and for municipalities outside structurally disadvantaged territories.

6 DISCUSSION AND CONCLUSION

In this article, we consider the potential underlying factors that may have facilitated or, conversely, limited the amount of liabilities in the balance sheets of the smallest Czech municipalities (with under 500 inhabitants), viewed as a possible indicator of local development. The results of our models are somewhat novel, albeit ambiguous at times, especially as our indicators did not explain the amount of liabilities in balance sheets quite consistently across models. First, we confirmed that growing amounts of liabilities in a municipality's budget/balance sheet are very strongly associated with municipality size (thus bringing additional evidence of the fact that the factor of size is key to explaining a large portion of the political and economic life of Czech municipalities). Similarly,

according to expectations, lower amounts of liabilities exist in municipalities found in one of the three structurally disadvantaged regions or with worse access to regional centres, suggesting that smaller municipalities in peripheral areas, or their political leaders, are much less willing to use external financing for local development projects, as also evidenced by the effect of the transfers received variable. In contrast, the effect of fiscal responsibility requires further research, as its strength changed considerably. Constant effects were found for competitiveness (positive) and turnout (negative). However, this contrasts with the effect of higher numbers of candidates, or the level of non-plurality, which indicate whether local voters really have a choice (or can only vote for a single list where the number of candidates equals the number of councillor seats) – the direction of this effect on local development efforts changed between elections. Finally, the results for demographic factors are again rather ambiguous. In the elections of 2014, efforts to ensure local development by obtaining external subsidies were more often seen in municipalities with higher shares of college graduates, younger populations (fewer retired persons), and fewer women councillors. The situation completely reversed in 2018, when higher amounts of liabilities were associated with more retired residents, more successful women councillors, and fewer university-educated residents. Yet while the effects of women's descriptive representation were rather weak in both elections, the effect of retired residents not only reversed but also weakened, and the share of college graduates reversed but remained relatively strong. It remains an inspiration for further research to identify the reasons behind the considerably volatile effects of these variables.

In addition to expanding knowledge about the specific empirical case of Czechia, our results also provide an important contribution to the international literature. In our opinion, the fact that increasing both investment and operational subsidies leads to higher municipal liabilities cannot be viewed in negative terms only. Higher liabilities may indicate municipalities' more active efforts to obtain external financing for their development. These cases often indicate that local leaders have managed to find at least some way of funding local development. In other words, municipal representatives (most often full-time mayors) have a vision of how to develop their community and, given the nature of local politics in such small municipalities with under 500 inhabitants, they can persuade their councillors to take the risk of going into debt to pre-fund local development subsidies. This can be driven by higher levels of education among residents (elected councillors), younger local populations, more advantageous locations (municipalities closer to a centre, nature, mountains, other attractive destinations), more practical experience with inter-municipal cooperation, or experience with external subsidy consultants (which, however, means that the local government can tap funds to pay for their services).

Once again, the above facts highlight one of the interesting contributions of our study, which uses the variable of municipal liabilities to confirm and shed more light on the state of ineffectiveness of local administrations in Czechia. The large number of small municipalities with the above characteristic of small local democracies, along with inadequate incentives for local development, present a potential ticking time bomb for local governance. Indeed, if the country's settlement structure does not change substantially, there will be more and more municipalities without sufficient funds for their development, resulting in stagnation or even exacerbation of people's long-term unwillingness to run in local elections, which in turn may effectively undermine local democracies for many years.

On the one hand, residents of municipalities with higher revenues, which have more leeway in using their finances, find that there is something “at stake” and thus become interested in running for office and managing their municipalities. On the other hand, municipalities whose governments primarily only have tax revenue at their disposal are less prestigious and less attractive to potential candidates, which may result in decades of having (almost) the same people on their councils. They may enter the vicious circle wherein an existing local council is less likely to take the risk of an investment project that might ensure development, make the place more attractive, and consequently boost long-term revenue, and instead it opts for savings, not going into debt, and maintaining the status quo. The only possible solution is to elect new councillors who find the courage and try to make their municipality more attractive.

Finally, it should be mentioned that the Czech experience with a non-democratic regime and the ways it forced municipal amalgamation has motivated, till present day, an at-times-irrational resistance to efforts to increase the effectiveness of local administrations (by reducing the number of the smallest municipalities) which do not perform well and cannot live up to future demands, despite frequent recommendations from both local and international experts. In the unique Czech case of settlement structural fragmentation, problems are likely to exacerbate over time, as the smallest municipalities will be faced with a growing administrative burden, continued ageing, and depopulation. A solution is probably to gradually increase pressure on small municipalities to choose amalgamation over complete abandonment of their basic (but especially developmental) functions. Then again, soon, Czechia is unlikely to implement the necessary municipal reform by setting a clear lower limit for continued existence of municipalities, e.g. 500 inhabitants. We do not expect this even in the longer term, given the above-mentioned Czech specifics such as representation of municipalities at the central level (in both chambers of the national parliament, whereby especially the Senate is undergoing gradual regionalisation or even localisation of representation, or of the interests Senators advocate for), the influence of associations of municipalities, the historic experience of municipal centralisation under the communist regime, or possible misunderstanding of the possible reform by local leaders, who refuse to even hear the argument behind it.

A more likely path forward in the Czech case (on which the country is in fact slowly moving) is by amending existing legislation to improve the conditions for functional 21st-century local administrations as we know them from other countries (e.g. the NOTRe reform in France or the PARAS reform in Finland). More specifically, we mean supporting and creating effective partnerships of municipalities to make their operations more effective and ensure their development. Yet merely offering the option will certainly not be enough; the central government will have to provide significant guidance to local governments so that they start using such instruments or use them effectively. If nothing changes, several small municipalities will be at risk of gradually collapsing. However, the path of inter-municipal cooperation was not effective in the long term, and current Czechia still lacks some options that exist abroad, including both financial incentives for inter-municipal cooperation ³² and adequate and effective consulting and technical assistance by the government administration at the central or regional level.

³² France provides special subsidies and a special tax regime in some cases; Estonia and Norway additional funding for common public investment; Slovenia a financial incentive to cover 50% of the personnel costs of common managing bodies; Spain’s Galicia a preference for multi-municipal investment projects in drawing regional funds; and Poland is also slowly moving in that direction by providing additional funding to municipalities that have drawn up a common strategic plan for a functional area (OECD 2023).

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PLAVANJE PROTI EVROPSKEMU TOKU: MAJHNOST KOT GROŽNJA LOKALNEMU RAZVOJU NA ČEŠKEM

Češka predstavlja poseben primer poselitvene strukture, saj ima več kot polovica njenih občin manj kot 500 prebivalcev, pri čemer te občine skupaj predstavljajo le okoli osem odstotkov celotnega prebivalstva države. Namen te študije je analizirati dejavnike, ki vplivajo na variabilnost zneskov obveznosti – razumljenih kot možni kazalnik razvojnega potenciala – v bilancah stanja več kot tri tisoč najmanjših čeških občin. Rezultati analize kažejo, da obstaja močna pozitivna povezanost med višino obveznosti in velikostjo občine. Ugotovitev pojasnjuje tudi negativni vpliv volilne udeležbe, ki praviloma upada z naraščajočim številom prebivalcev. Poleg vpliva velikosti občine imajo opazno, čeprav šibkejšo vlogo tudi geografski dejavniki: višje ravni obveznosti so značilne za večje občine v bližini regionalnih središč in zunaj območij, ki so strukturno zapostavljena. Ti vzorci razkrivajo širši problem neučinkovitosti lokalne samouprave na Češkem. Najmanjše občine, ki jih zaznamuje nizka raven politične konkurenčnosti – tj. nizka pripravljenost prebivalcev za vključevanje v lokalno upravljanje – in ki se nahajajo v perifernih regijah ali na robu razvitih območij, se soočajo z izrazitimi razvojnimi izzivi. Zaradi pomanjkanja dostopa do razvojnih sredstev vse več občin stagnira, kar dolgoročno poglablja regionalne razlike.

Ključne besede: Češka; lokalne vlade; majhne občine; konkurenčnost; obveznosti; trajnostni razvoj; občinska reforma.