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Revija za  
Journal of

U

univerzalno  
Universal

O

odličnost  
Excellence

December 2014  
Letnik III, številka 4  
ISSN 2232-5204



Fakulteta za  
organizacijske študije  
Faculty of organisation studies

ISSN 2232-5204.

**Izdajatelj:** Fakulteta za organizacijske študije v Novem mestu.

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**Naslov uredništva:** Fakulteta za organizacijske študije v Novem mestu, Novi trg 5, 8000 Novo mesto.

Izid publikacije je finančno podprla ARRS iz naslova razpisa za sofinanciranje domačih znanstvenih periodičnih publikacij.

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## Burnout And Lifestyle Of Principals And Entrepreneurs

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### Abstract:

**Research Question (RQ):** What kind of lifestyle do the principals and entrepreneurs lead? Does the lifestyle of principals and entrepreneurs influence burnout?

**Purpose:** To find out, based on the results of a questionnaire, what kind of lifestyle both researched groups lead. Does lifestyle have an influence on the occurrence of the phenomenon of burnout.

**Method:** We used the method of data collection by questionnaire. Acquired data were analyzed using SPSS, descriptive and inference statistics.

**Results:** Results showed, that both groups lead a similar lifestyle and that lifestyle influences burnout with principals, as well as entrepreneurs.

**Organization:** School principals and entrepreneurs are the heads of individual organizations or companies, the goal of which is success. To be successful in their work, they must adapt their lifestyle, which can be healthy or unhealthy. If their lifestyle is unhealthy, it can lead to burnout.

**Society:** With results of the questionnaire we would like to answer the question about the lifestyle of both groups and its influence on the occurrence of burnout.

**Originality:** The study of lifestyle and the occurrence of burnout in these two groups is the first study in this area.

**Limitations/Future Research:** In continuation, research groups could be submitted to the research fields of effort physiology and tracking of certain haematological parameters, such as cholesterol, blood sugar and stress hormones - adrenaline, noradrenalin, cortisol. Thus, we could carry out an even more in depth research of the connection between lifestyle and burnout.

**Keywords:** lifestyle, burnout, entrepreneurs, managers.

## 1 Introduction

Principals are managers in public management. Management is represented by people, who are collectively or individually responsible (Greener, 1987, in Šugman et al., 2002, p. 16) to the institution that they are employed by. The essence of a manager's work is coordination (Rozman, Kovač & Koletnik, 1993, in Šugman et al., 2002, p. 216). A successful principal nowadays requires both the skills of manager and the skills of a leader. When we talk about the organisational and economic aspect of leading schools, the manager skills and abilities are certainly more desirable. However, these alone will not suffice, when the principal wishes to manage his employees well and efficiently. Principals, who can use the right measure of both in their work can certainly be more successful, as this helps them ensure support of the co-workers, are oriented towards the people in the organisation, their needs and the understanding of environment, within which they operate (Poličnik, 2006, p. 13).

An entrepreneur is the key element of the entrepreneurial process; only a quality, serious and mature entrepreneur can lead a company to success (Rajter et al., 2008, p. 25). A very important role of the entrepreneur is management and leading, but often, the entrepreneur is also an innovator, as they must know how to evolve an entrepreneurial opportunity into an entrepreneurial idea, which is interesting for the market, while ensuring assets and resources for realisation (Gomezelj Omerzelj et al., 2008, p. 22).

Principals and entrepreneurs are thus leaders, capable of quick adaptation to changes. For this, they are prepared to work from early morning hours and until evening, sometimes overnight. They are ready to adapt their way of life and sacrifice themselves to make the organisation or company successful.

We have involved principals and entrepreneurs from all over Slovenia into the research. We realise, that good awareness, hard work, perseverance and various preventive actions may warn people and draw more attention to the care for one's own health and that, which happens to them, and thus prevent many a loss of a very significant human resource, not only for the organisation, but for the country as a whole.

The purpose of the research is to, based on both research groups, confirm or deny the first research question, which we have asked ourselves, that is, what is the lifestyle that the principals of elementary and high schools and kindergartens lead and what is the lifestyle of entrepreneurs.

The goal of the research is to determine if the lifestyle or its elements actually influence the burnout of mentioned groups

## **2 Theoretical Foundations**

### **2.1 Review Of Literature And Theoretical Foundation Of The Problem**

Lifestyle is the way of life. It has an important role in the everyday life of each individual. It determines our well-being and stress resistance (Youngs, 2001, p. 89). It is a voluntary behaviour and the decision regarding behaviour and consumption patterns, which people select on their own (Blaxter, 1990, in Starc & Kovač, 2007, p. 29). From the perspective of an individual, we can understand it as a multitude of practices, activities, cultural orientations and wishes, which are expressed in clothing, eating and functioning habits (Ule et al., 2000, in Starc & Kovač, 2007, p. 30).

A healthy lifestyle includes healthy and regular nutrition with no vices, a proper balance between work and rest, maintaining physical and emotional capacity, balance between the physical and intellectual effort and a genuine contact with nature. Of course, it also includes the knowledge and control of oneself, inter - human relationships, personal means of relaxation and constant learning (Ramovš, 2009, p. 5). A negative element of unhealthy life, along with smoking, alcohol and drug abuse is, most commonly, an unhealthy diet, closely related with the occurrence of excess weight and obesity, as well as diabetes (Novak, 2010, p. 29).

Physical activity is one of the methods, which efficiently influences our well - being as it has an important role in the prevention of development of many a disease and reduction of potential health issues (Karpljuk et al., 2009). Sports activity reinforces and maintains psychological health and contributes to a better self - image and self - valuing (Karpljuk et al., 2009). There are many people, who are aware of this, however, the fast pace of life means more and more obligations at work and in personal life, as well as a country, which does not employ right ways to encourage employee health care, due to which they neglect it (Štefančič, 2011). Bilban (2007) advises, as a path to avoid burn - out, a definition of one's goals, based on realistic foundations. The individual must increase the attention paid to one's own health, which involves both nutrition and drinking habits, as well as healthy physical activity. One of the measures of burnout prevention is also spending at least some of the time without previously set obligation, taking the time to relax, refresh old friendships and establish new ones and ceasing to carry frustrations and anger within us.

Burnout is a psychological exhaustion, which appears with individuals, constantly exposed to pressure and negative stress in the work place. Burnout is not only the exhaustion at the end of a work days, but a progressing cycle of exhaustion and loss of vitality, which influences an individual's emotions, body and mind (Stevens, 1995, p. 25). Maslach (1998) defined burnout as a psychological syndrome, which is expressed as emotional exhaustion, depersonalisation

and reduced efficiency and is a consequence of chronic intrapersonal stressors at work (Maslach, 1998, in Pšeničny, 2006, p. 1). Research, based on a three dimensional concept of burn - out, these are the aforementioned emotional exhaustion, depersonalisation and a reduced sense of personal fulfilment, were carried out based on the concept of Christine Maslach (2001). Maslach (2001) developed the MBI questionnaire - Maslach Burnout Inventory, which is one of the best known burnout questionnaires in the world (Maslach et al., 2001). This questionnaire was also used in our survey for the identification of burn - out. Černelič Bizjak (2007) states, that, in Slovenia, as much as a third of health related absences from work (regardless of position or profession) is a consequence of burnout(Černelič Bizjak, 2007, p. 30). Šubic (2007) adds that, in Slovenia, 10% of employed individuals are burnt out with over 50% of employed individuals, that is every fourth Slovenian, already showing the initial symptoms of burn - out. The danger increases with higher education and how demanding the work place is (Šubic, 2007, in Boštjančič, 2010), where the positions of entrepreneur as well as the principal, as a manager in public management, are also placed.

## **2.2 Thesis Development**

With the research, we wish to confirm the thesis, that entrepreneurs and principals have a similar life style, which may also influence the occurrence of burn - out.

## **3 Method**

### **3.1 Data Collection**

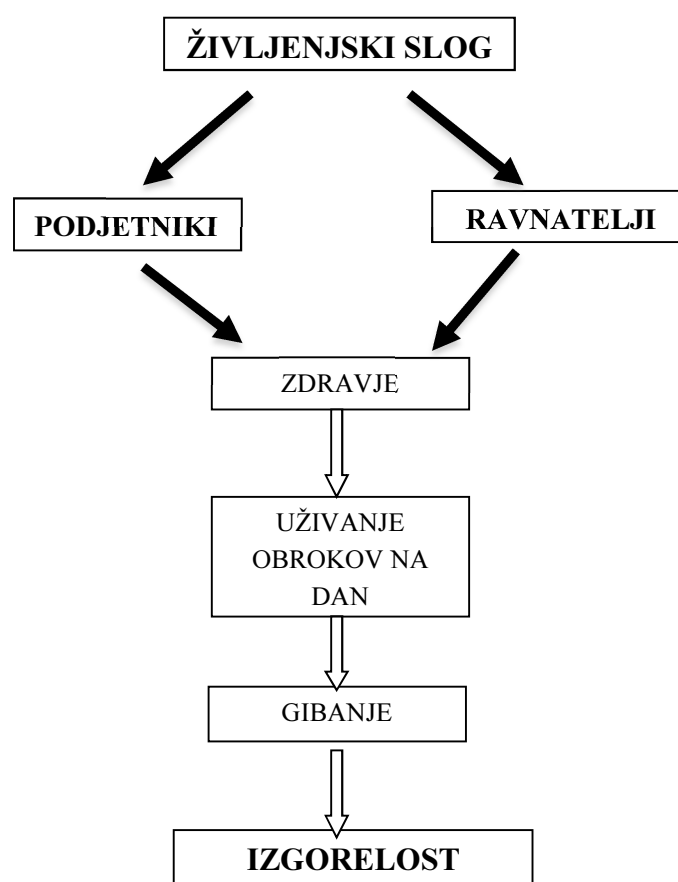
Surveys had been sent through electronic messages with a request for permission in advance.

According to the data of the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES), in the year 2010, in Slovenia, 55.734 economic companies were operational, along with 71.242 independent entrepreneurs (Agency of the Republic of Slovenia for Public Legal Records and Related Services, 2010). Surveying was carried out on a sample of randomly chosen entrepreneurs with a public e-mail address. The survey was sent to a total of 700 e-mail addresses, 156 entrepreneurs, that is 22,3% of entrepreneurs, clicked the link, while there were 91, that is 13%, surveys, suitable for data processing.

The sample of principals included principals of elementary schools, high schools and kindergartens. According to the data from the year 2011 (Ministry for Education, Science and Sports, 2011), there are 451 elementary schools, 163 high schools and 373 kindergartens in Slovenia. The survey was sent to a total of 490 e-mail addresses of principals, found on the websites of schools and kindergartens. 131, that is 26,7%, clicked the link, while there were 96, that is 20%, surveys, suitable for processing.

### 3.2 Theoretical (Data) Model Of The Research And Measuring Instrument

The Research Model that we designed (Figure 1) is set in stages. First, based on the results, we have studied the lifestyle of principals and entrepreneurs. Then, through MBI questionnaire (Maslach Burnout Inventory), we explored the incidence of burn - out, which, according to results, is present in both research groups. From all the acquired data and literature, which was available to us, we will organise various promotional actions about a healthy lifestyle in the future, which will warn of the unhealthy lifestyle and the occurrence of burn - out. With this, we wish to help individuals, companies and organisations.



*Figure 1: Research Model: Lifestyle elements which may lead to burn - out. Translation: življenjski slog - lifestyle, podjetniki - entrepreneurs, ravnatelji - principals, zdravje - health, uživanje obrokov na dan - meals per day, gibanje - physical activity, izgorelost - burnout.*

The questionnaires were divided into three segments. To identify burnout, we used the *MBI-ES Burnout Questionnaire* (Maslach, Jackson & Schwab, 1996), which identifies three dimensions of burnout, those being emotional exhaustion, depersonalisation and personal fulfilment. The already mentioned questionnaire MBI (Maslach Burnout Inventory) contains

22 points, which describe feelings, related to work. The survey participants used a seven stage scale , from 0 (never) to 6 (every day), with the points adjusted to individual research groups. The second part of the questionnaire is adapted according to the questionnaire Countrywide Integrated Noncommunicable Disease Intervention, 2008. The questionnaire covered 8 fields, those being: socio - demographic questions, burnout, health condition, smoking, eating habits, alcohol, body weight and physical activity.

All areas were covered by 80 questions. At first, we acquired basic data from the respondent, such as gender, age, marital status, education, time of employment in the function and total time of employment, which amounted to 11 questions. In continuation, we asked about health (16 questions), divided into two parts - a subjective evaluation of health (evaluation of a respondent's own health on a scale from 1 to 5) and an objective evaluation of health (questions regarding health issues, medical diagnoses, use of medicine). The questions regarding burnout were responded to with claims (22 questions), 2 questions related to smoking (time and regularity of smoking), 12 questions encompassed dietary habits (frequency of meals, drinking, dietary preferences), 7 questions related alcohol (frequency and quantity of alcohol consumption), followed by questions about body weight (3 questions: body weight, body height and happiness with body weight). The final segment of the questions regarded the physical activity of the responded and contained 7 questions, relating to the type of recreational activity in free time, the path to work and quantity of physical activity.

### **3.3 Data Analysis**

In the research part, we used the method of data collection with a survey questionnaire. Acquired data was processed with the use of the SPSS software. In accordance with the set questions, purpose and goals of the research, we used descriptive and inference statistics.

## **4 Results**

### **4.1 Lifestyle Of Principals And Entrepreneurs**

To identify the lifestyle of both groups, we focused on three questions, which cover the three essential elements, defining lifestyle as healthy or unhealthy:

1. Care for one's health (Table 1).
2. Frequency of meals (Table 2).
3. Physical activity (Table 3).



Burnout of the respondents was identified with the question "burnout at workplace", which was responded to on a 5 level Likert scale (Figure 1, Figure 2). To answer the question "Does lifestyle influence burnout of both research groups?" we have used the subjective evaluation of current health of the respondents (Table 4).

1. *Health care*: For this reply, we took the question from the survey, which provides a subjective evaluation of an individual's personal care for health, it being "How much do you care for your health?" (Table 1).

A majority of principals stated that their care for their own health is fairly good (53,7%), followed by those who think they do little or too little (34,1%). Among entrepreneurs, 46,0% responded, that they care for their health too little, followed by those, who think that they care for it fairly well (40,4%) (Table 1).

Table 1. Care for health

How much do you care for your health?	principals	entrepreneurs
A lot	8,5%	7,2%
Fairly good	53,7%	40,4%
A little, too little	34,1%	46,0%
Almost don't	3,7%	5,9%
Don't know what to say	0,0%	0,4%
Total	100,0%	100,0%

We have excluded respondents who selected the answer "Don't know what to say", while we ascribed values from 1 (almost nothing) to 4 (a lot) to other replies and calculated the average value.

The results have shown, that, on average, by self evaluation, the principals take better care of their health ( $M = 2,7$ ) than the entrepreneurs ( $M = 2,5$ ).

## 2. Frequency of meals (Table 2):

The respondents answered a closed type question on the average number of meals per day. We excluded replies "0", "23" and "34", since we assumed, that they do not represent the actual state with the respondents. Based on other replies, we calculated an average number of meals per day.

Table 2. Frequency of meals

How many meals do you usually eat per day?	principals	entrepreneurs
<i>M</i>	3,4	3,8

On average, less meals are consumed by principals ( $M = 3,4$ ).

## 3. Physical activity (Table 3):

To calculate the average number of days each week, when the respondents are physically active, we only considered values between 0 and 7.

Table 3. Number of days of recreational physical activity each week.

Usual number of days of recreational physical activity each week	principals	entrepreneurs
<i>M</i>	3,2	3,1

On average, principals are more recreationally physically active each week ( $M = 3,2$ ), however, the entrepreneurs are very close ( $M = 3,1$ ).

## 4.2 Occurrence Of Principal And Entrepreneur Burnout

To better understand the reply to the second question, we will present the burnout results for both groups in the following part. We measured burnout with the MBI questionnaire - Maslach Burnout Inventory, which contains 22 points, describing work related feelings. Respondents used a seven point scale to decide on statements, with replies ranging from 0 (never) to 6 (every day), while the points were adjusted to each individual researched group. Spaces on the measuring scale are not even, so average grades need to be treated relatively in the sense that the highest average grade in the reply "I have done a lot of useful things in my

work." means, that the respondents, on average, most commonly feel that way, while the lowest average grade for the statement "I do not much care, what happens to some of my employee." means, that the respondents generally feel this way most seldom.

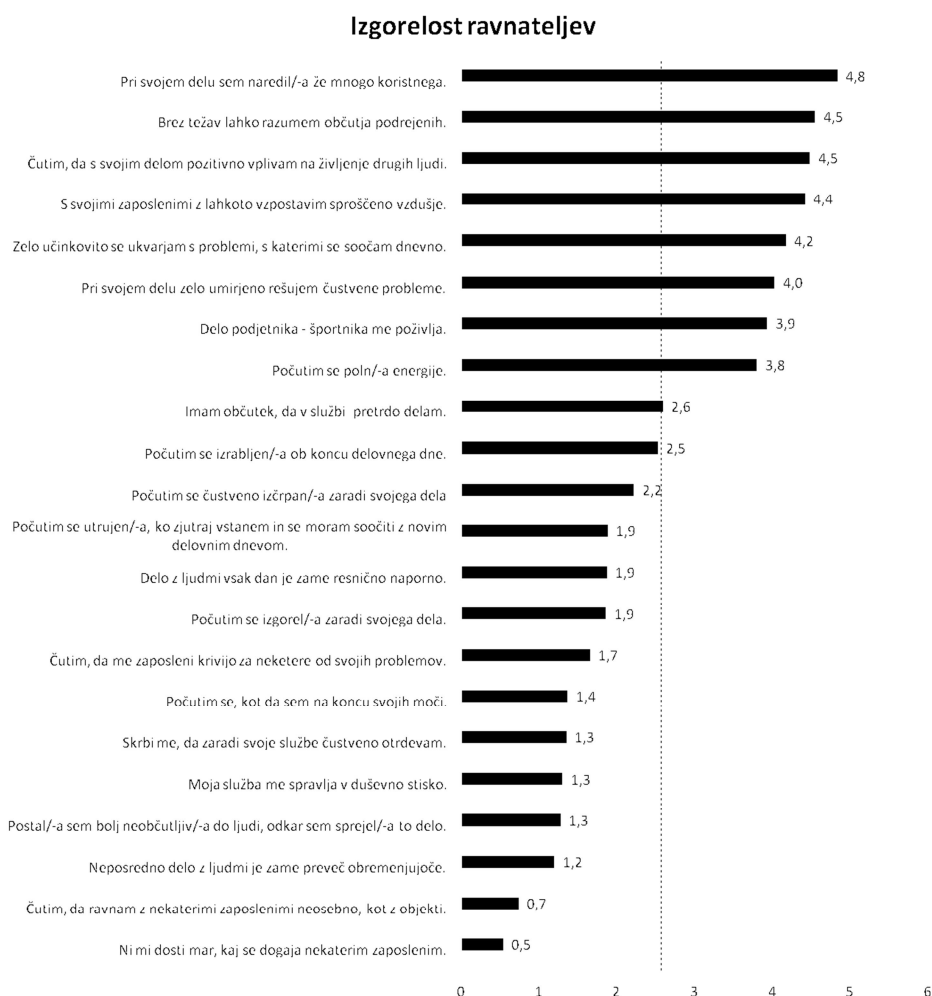


Figure 2: Principal Burnout

Principals most commonly feel, that they have done a lot of useful in the course of their work ( $M = 4,8$ ), that they have no trouble in understanding the feelings of their subordinates ( $M = 4,5$ ), feel, that they positively influence the lives of others with their work ( $M = 4,4$ ) and that they very efficiently deal with daily problems ( $M = 4,2$ ). They most seldom feel, that direct work with people is overburdening for them ( $M = 1,2$ ), that they treat some employees impersonally ( $M = 0,7$ ) and that they do not much care, what happens to some of their employees ( $M = 0,5$ ). The vertical line on the diagram shows the average of all statements ( $M = 2,6$ ) – feelings with a higher average value are felt by principals at an above average

frequency, while feelings with a lower average value are felt with a below average frequency (Figure 2).

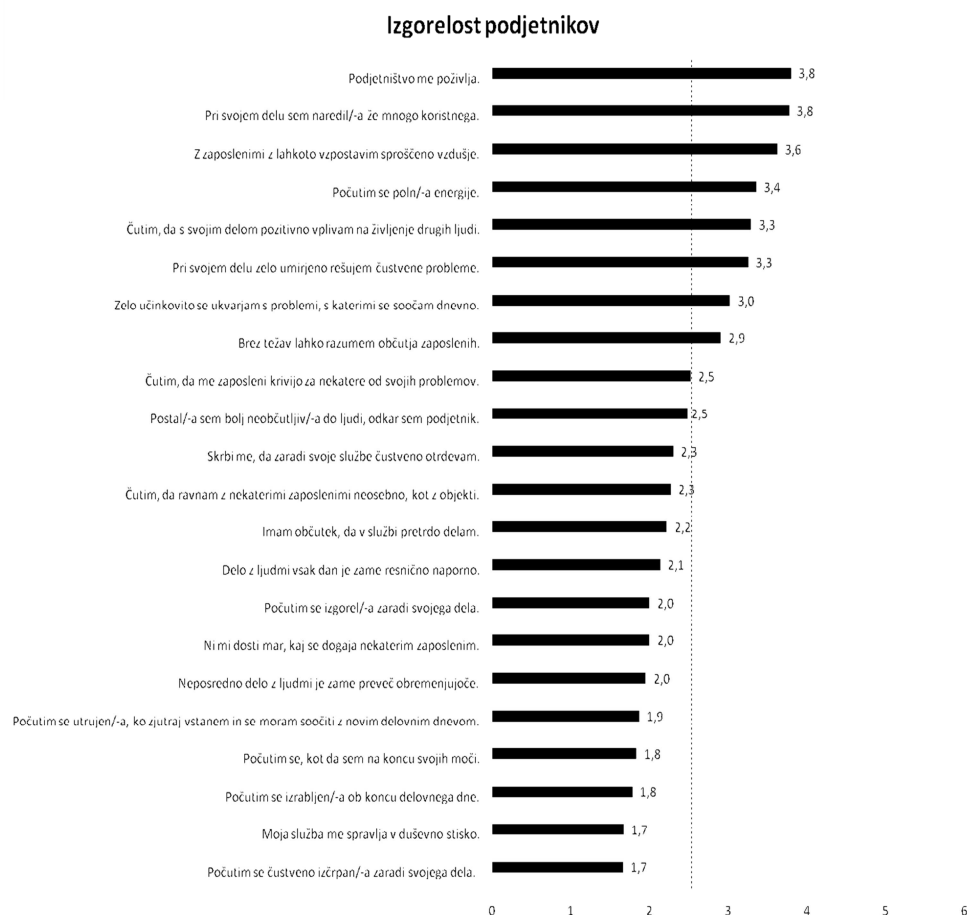


Figure 3: Entrepreneur Burnout

Entrepreneurs most commonly feel, that entrepreneurship livens them up ( $M = 3,8$ ), that they have done a lot of useful in the course of their work ( $M = 3,8$ ) and that they find it easy to establish a relaxed atmosphere with their employees ( $M = 3,6$ ). They least frequently feel, that they are at the end of their strength ( $M = 1,8$ ), that they are drained at the end of the work day ( $M = 1,8$ ), that work puts them in emotional distress ( $M = 1,7$ ) and that they are emotionally exhausted due to their work ( $M = 1,7$ ). The vertical line on the diagram shows the average of all statements regarding burnout ( $M = 2,5$ ) (Figure 3).

### 4.3 Health Evaluation

»Does lifestyle influence burnout?« To be able to find an answer to this question, we have selected the question in the survey, which refers to a subjective evaluation of the current

health. We assume that those, who evaluate their health as good or very good, lead a healthy lifestyle and thus provide a better evaluation than the others. We have gotten the following results:

Table 4: Health Evaluation

How do you evaluate your current health?	principals	entrepreneurs
Very bad	0,0%	0,7%
Bad	3,7%	4,0%
Intermediate	21,0%	30,6%
Good	60,5%	47,1%
Very good	14,8%	17,6%
Total	100,0%	100,0%

Among principals, 60,5 % evaluate their health as good, followed by those who consider it intermediate (21,0 %). Among entrepreneurs, 47,1 % evaluated their health as good, while 30,6 % opted for intermediate (Table 4).

On average, principals have evaluated their health as a little bit better ( $M = 3,9$ ), than the entrepreneurs ( $M = 3,8$ ).

## 5 Discussion

The lifestyle of respondents, regarding the three elements of lifestyle from this research (health care, frequency of meals and physical activity), does not differ considerably. The burnout levels do not differ considerably either, as the average value of all statements, made when surveying principal burnout was  $M = 2,6$ , while it was  $M = 2,5$  for entrepreneurs. According to Maslach and Leiter (2002), burnout at workplace is not only a problem of the individual, the defects of the character, behaviour or productivity, as in this case, the solution would be simple: change people or get rid of them. Burnout is a problem of the social environment, within which people work, regardless of the work they do, the interpersonal interactions they shape and the way they carry out their work tasks. If a work place does not acknowledge the human side of work, the risk for burnout is higher (p. 17—18). Frequently, it is a consequence of chronic stress and characteristic for professions, which mainly deal with

human resources, which also includes principals and entrepreneurs. It is the last phase of an unsuccessful solving of stressful situations (Černelič Bizjak, 2007).

The way of life and stress are factors, which frequently influence illnesses affecting an individual. Care for oneself represents the maintenance of personal health (Bobovnik, 2012). It includes the activities of an individual, the family or the community with the intention of improving or maintaining health and preventing disease. It represents all decisions, taken by individuals for themselves or their families with the intention of staying physically and mentally fit. Exercise, healthy dietary habits, self curing, personal hygiene and avoidance of unhealthy vices (e.g. smoking) are all included in it. Care for oneself also represents a care for minor health issues and chronic conditions, as well as health after being released from a hospital (Bobovnik, 2012). A subjective evaluation of health condition says a lot about how an individual feels. On average, principals ( $M = 3,9$ ) and entrepreneurs ( $M = 3,8$ ) were very similar in self evaluation. Košiček (1998) states that caring for ones health means healthy living and we leave healthily if we strive to expose ourselves as little as possible to the so called risk factors, which are negative influences on our health, which lead to the development of chronic degenerative disease. Many people only begin to think about health once they fall ill or lose their health. A person who truly respects health and is aware of its value strives to maintain and reinforce it and, as much as possible, avoid disease (Berčič & Sila, 2001, p. 74). From the acquired results, we may concluded that lifestyle influences burnout.

Many things can be found in literature, that connect both research groups, principals and entrepreneurs. An entrepreneur, leading a company on their own, is a manager as well and a manager, too, can become a very successful entrepreneur. They are guided by an immeasurable desire to succeed. Thus, these people are ready to sacrifice many a night, without a week passing, when the drive to work makes them forget their free time. Thus, the acquired results do not surprise.

## **6 Conclusion**

Both questions we asked can be replied to affirmatively according to the obtained results. our research has shown, that entrepreneurs and principals, both in terms of lifestyle and in terms of burnout, do not differ significantly. This was consistently shown by results, as, regarding all researched lifestyle elements, both groups have a similar average. The average of self evaluation of health is  $M = 2,7$  for principals and  $M = 2,5$  for entrepreneurs. The average of the frequency of meals is  $M = 3,4$  for principals and  $M = 3,8$  for entrepreneurs. The average of weekly physical activity for principals is  $M = 3,2$  and for entrepreneurs, it is  $M = 3,1$ . The average of all statements on burnout amounted to  $M = 2,6$  for principals and  $M = 2,5$  for

entrepreneurs. The subjective health evaluation for principals was  $M = 3,9$  and averaged  $M=3,8$  for entrepreneurs. Thus, major and significant deviations were not present.

This type of research, which would involve the mentioned research groups in the comparison of lifestyle elements and their influence on the occurrence of burnout as a modern day illness has not yet been detected in literature.

With this research, we wished to prove, that lifestyle or its elements are very significant, not only for the individual, but also for the company or organisation within which they operate. If an individual is of good health, which means that they have a healthy lifestyle, there is very little possibility for burnout to occur. This influences work success, well being and self confidence. The very ways of notifying the public about a problem of the modern time such as burnout is a step in the right direction, specifically, towards awareness that many face burnout and perhaps do not even know it. If a person is aware, why they feel the way they do, they may react in a timely manner. Everything is connected. A healthy, content person will work well, do more in a shorter time and positively influence others with their positive disposition. More such people mean more success which, through time, does not only assure the success of a small company or organisation, but an entire country.

In the future, both groups could continue to be researched, moving into the field of physiology of effort and following of some haematological parameters, which would show actual physical state of principals and entrepreneurs. These measurements would have to be conducted in laboratories, thus opening a new field of research, where a more detailed exploration of similarities and differences in terms of lifestyle and burnout could be carried out.

The survey questionnaire, which was sent to the principals and entrepreneurs, contained 80 questions of the closed type. Completion took at least 15 minutes. Since this questionnaire was reasonably long and since some questions referred to privacy, the respondents perhaps did not wish to answer particular questions or fill out the questionnaire.

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## Local Self-Government as an Architect of Coalitions for Local Development<sup>1</sup>

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### Abstract

The paper addresses the new role played by local self-government units in Poland. Main factors that determine the public authorities' capacity to become architects of coalitions for local development are identified. Coalitions are defined as partnerships linking and mobilizing stakeholders anchored in three sectors: public, economic and non-governmental. The coalition-making role of the public organs is investigated on the basis of Local Action Groups (LAGs), which are pro-developmental cross-sector organizations established in rural areas of the Podkarpackie (Sub-Carpathian) Voivodeship, Poland. Findings are presented that draw on quantitative and qualitative results of the research project that investigated mechanisms involved in the operation of the cross-sector coalitions. The dominant role of the public authorities in those coalitions is demonstrated. The Community-led Local Development model is referred to as the future framework for LAGs.

*Keywords:* local government, local development, Local Action Groups, Community-led Local Development, Poland

### Introduction

Municipal self-government delivers nearly 70% of all public services in Poland, which constitutes a serious organizational and financial challenge for public authorities in charge of administrative units, especially those whose resident population is less than 5 thousand<sup>2</sup>. Moreover, the role of territorial self-government is not limited to the delivery of public services. Basing on a new paradigm of local development, functions of the municipal public authorities are defined more holistically.

The new paradigm of local development emphasizes a multi-dimensional nature of activities undertaken by public administration at all sub-national tiers. In terms of agency, this means that local authorities are made responsible for creating conditions in which various

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<sup>1</sup>The paper is supported by *Research grant No. N N114 250039, financed by the National Science Center in years 2010-2013.*

<sup>2</sup> Polish municipalities count 15,5 thousand residents on average. However, 1967 out of their total number (2479) count less than 15 thousand residents (GUS, 2013, pp. 46, 48).

public and non-public stakeholders can co-operate in order to jointly tackle socio-economic problems of local communities involved. In terms of objectives, this means that local public policy-making is expected to become both multi-directional and integrated in order to make an impact on several aspects of socio-economic life simultaneously.

The need to act and intervene multi-dimensionally is especially important when programming and implementing policies of local development, whose spatial reach and socio-economic effects are increasingly more difficult to delimit precisely. This is, *inter alia*, because administrative boundaries of territorial units are becoming ever more porous: mobility of local residents grows in parallel to de-territorialization of employment; many types of economic activity have become footloose; service provision can often be either delocalized or de-territorialized (including public services).

Also, public support for local development ceases to be exclusively focused on promotion of economic activity in the local community. It starts (again) to include broader issues of social dynamics, including the quality of life. This change finds reflection in new expectations expressed by entrepreneurs who are no longer satisfied with opportunities to maximize their profit. They want to live in a pleasant and friendly environment as well, having access to high standard public services and attractive leisure offers. Such expectations are fully congruent with the local societies' general needs. Therefore, new municipal policies of development are expected to become more holistic and multi-dimensional.

Unfortunately, many small municipalities, especially the ones located in rural areas, find it increasingly more difficult to embark on such multi-dimensional policies because of organizational shortages, including human resources. In several cases, the municipal authorities are unable to implement such policies because of severe financial constraints. In the circumstances, the municipal public authorities may resort to redefining their traditional roles and instruments. One of the options is for them to turn into an animator who creates conditions that foster other local actors' stronger involvement in making and implementing decisions about territorial development.

In the present paper we are interested in this new role played by local self-government units in Poland. We identify main factors that determine the public authorities' capacity to become architects of coalitions for local development. Coalitions of this kind attempt to link and mobilize stakeholders who represent three sectors: public, economic and social (non-governmental). We investigate the coalition-making role of the public organs basing on the

case of Local Action Groups (LAGs) which are pro-developmental cross-sector organizations established in rural areas of the Podkarpackie (Sub-Carpathian) Voivodeship<sup>3</sup>.

Supported by the Axis 4 LEADER of the Program for Rural Areas' Development 2007-2013, the LAGs were explicitly created to overcome (at least partly) developmental difficulties experienced by small rural municipalities. We pay special attention to the role played by the municipal authorities in the establishing and functioning of the LAGs, which include local stakeholders from all of the three sectors. Basing on our field research, we note these coalitions' capacity to promote more integrated and participative development in the rural municipalities. However, a question arises about the LAGs' future goodness of fit with the program of Community-led Local Development (CLLD) which is to replace the LEADER program in the period 2014-2020.

The paper is structured in the following manner: in the first section the concept of local development is discussed, inclusive of development-related competencies of local territorial self-government in Poland. In the second section, the Community Initiative LEADER is briefly presented, which provides an organizational-financial framework for the LAGs, encouraging also their conceptualization in terms of voluntary, cross-sector coalitions for local development. In the third section the actual role of municipal authorities in the establishing and operating of the LAGs in the Podkarpackie Voivodeship is focused upon.

Findings are presented that draw on quantitative and qualitative results of our research project (see footnote 1) that investigated mechanisms involved in the operation of those cross-sector coalitions, which are formally premised on the principle of partnership between the three sectors. The dominant role of the public authorities in the LAG coalitions is demonstrated. In the final section of the paper, the CLLD model is overviewed briefly. The paper ends with conclusions concerning the viability of the LAGs as coalitions for local development in the CLLD framework.

### **Public authorities' responsibility for local development**

As stressed by Andrzej Sobczyk, „endogenous potential, whose mobilization ensures sustainable local [...] dynamic” (2010, p. 126) is currently considered the main factor of local development. This approach exemplifies the first group of definitions of local development as distinguished by Agnieszka Ziomek: 1) definitions that concentrate on intentional (goal-oriented) activities undertaken by local residents, units of self-government and other local

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<sup>3</sup> Voivodeships are the biggest administrative-territorial units in Poland, which are equivalent to NUTS 2.

actors; 2) definitions that focus on increasing economic efficiency of the region, which is achieved by mobilization of its material and financial resources (2010, p. 181).

Moreover, local development is ever more frequently perceived in terms of „harmonized and systematic activities that involve the local community, the local authorities and the remaining actors who operate in the given municipality”. These activities are oriented toward „creating new and improving existing assets of the municipality, creating favorable conditions for the local economy and entrepreneurship as well as providing for the spatial and environmental order” (Szewczuk, Kogut-Jaworska, Ziolo, 2011, pp. 21-23). Clearly, the territorial dimension is highlighted in so defined local development, which marks a break with thinking about development in terms of sector-based interventionism. Instead, economic, spatial, social and cultural features of the given territorial unit are all to be taken into account, including the municipal residents’ needs alongside their value preferences and resources (Sobczyk, 2010, p. 126).

It follows that, basing on the new developmental paradigm, private local actors are perceived as integral factors of local development, which should be reflected in their inclusion in public decision-making processes concerning preferred directions of local development. Furthermore, the local economic and non-governmental actors are expected to pursue their proper activities in ways that may contribute to the whole local community’s developmental goals. It is assumed that their contributions to the collective goals can be greatly facilitated if their individual strategic choices are informed with a feeling of belonging to the specific, place-based communities.

Organs of local territorial self-government play a crucial role in steering and organizing the developmental processes, being endowed in Poland with competences that enable them a considerable degree of flexibility in supporting initiatives to increase the local residents’ well-being. However, interestingly, with reference to the municipal level, the existing legal regulations do not list local development explicitly in terms of the public authorities’ task. Nevertheless, among their other 22 assigned tasks to do with satisfying needs of the local communities, one could hardly indicate an obligation that is not related – directly or indirectly – to the broadly defined local development<sup>4</sup>.

Art. 6 of the Local Government Act delegates to the municipal level all such tasks that are not explicitly assigned by law to other subjects (entities). This arrangement provides the public authorities with considerable autonomy – in the legal sense – as far as their

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<sup>4</sup> Art. 7, Act of 8 March 1990 concerning municipal self-government (Dz. U. 1990, nr 16, poz. 95).

intervention in the field of local development. In the Act concerning Principles of Development Policy Implementation, that was adopted on 6 December 2006<sup>5</sup>, the Polish Legislator defined the municipal responsibilities in the field of development more precisely, even if explaining them only succinctly. Art. 3 of this Act lists the following public organs to be involved in the programming and implementation of the policy of development: the Council of Ministers, regional self-government (at the Voivodeship level), the county-level self-government and, finally, the municipal self-government.

Importantly, regulations contained in the two quoted Acts of Parliament do not exhaust legal foundations basing upon which municipal authorities may take action aimed at stimulating local development in Poland. As a result, in legal, political and societal terms territorial self-government is the key actor of local development in Poland. It follows that it is commonly held responsible for developmental dynamic and its outcomes. This explains, *inter alia*, why local public authorities may (and are expected to) play the role of an architect and/or strategic partner in coalitions for local development. This role of the municipal authorities is clearly visible in Local Action Groups, which are pro-developmental organizations established in rural areas in the framework of the LEADER program.

### **The LEADER and Local Action Groups**

The Community Initiative LEADER<sup>6</sup> was first launched in 1991. It contributed to promotion of an integrated approach to development in rural areas. It had been designed basing on an assumption that development must have endogenous roots. Therefore, support available through the LEADER Initiative was earmarked for creating conditions that fostered rural residents' involvement in decisions concerning their local ways to develop. At the same time, an emphasis was put on innovative inputs in rural development. Also, the rural pro-developmental initiatives were expected to be holistic in terms of their scope and impact (European Commission, 2006, p. 6).

Implementation of the LEADER Initiative ended in 1993, which was followed up by the LEADER II in the period 1994-1999. Subsequently, the LEADER+ program was created, which lasted until 2006. The LEADER+ was made available – since 2004 – to the new EU Member States, including Poland. During the 2007-2013 programming period, the LEADER program was integrated with national programs for rural areas, continuing to receive support

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<sup>5</sup> Act of 6 December 2006 concerning Principles of Development Policy Implementation (Dz. U. 2009, nr 74, poz. 712).

<sup>6</sup> LEADER –*Liaison Entre Actions de Développement de l'Économie Rurale* – Linkages between Actions Addressing Development of Rural Economy.

in the framework of the Common Agricultural Policy (CAP). In Poland, a special axis of the National Program for Rural Areas' Development (Program Rozwoju Obszarów Wiejskich [PROW]) was created in order to implement the LEADER component.

It needs to be stressed that LEADER is not just one of the many similar EU programs. Rather, it stands for a specific methodology of bottom-up action in impoverished rural areas. Ultimately, owing to its demonstrated merits, this approach to local development is currently also applied in urban areas. In general, the LEADER approach features the following characteristics (European Commission, 2006, pp. 8-14):

1. territoriality – initiatives are focused on small and bounded areas which are relatively homogenous in economic, social and cultural terms; the local residents' traditions, shared experiences, needs and expectations are integral part of this place-based approach;
2. a bottom-up character – the residents are offered an opportunity to express and meet their needs and expectations; conditions must be created to facilitate their involvement in decisions and actions that determine directions of local development;
3. partnership – key actors who represent the public, social (non-governmental) and economic sector in the given local community are expected to form pro-developmental networks that, preferably, coalesce into partnerships called Local Action Groups;
4. innovative inputs – innovation is emphasized when drafting local strategies of development and supporting projects, whose aim is to introduce new products, new services or new organizational arrangements in the local communities involved;
5. integrated intervention – the individual developmental projects implemented within the LEADER framework should complement and reinforce one another, being oriented to improving all aspects of local life;
6. local networks – networks of local actors need to be created as platforms for exchanging and sharing information, for mutual learning and pooling resources as well as negotiating most desirable directions and outcomes of local development;
7. co-operation between networks – the need to build networks of networks is highlighted within regions as well as between regions and countries.

Apart from the path-breaking methodology of development, the institutionalization of the LEADER approach doubtlessly created an opportunity for the municipal authorities to reach for additional financial resources that could be used to stimulate local development. In the circumstances, wherever there was no other strong social entrepreneur, the public organs

embraced the role of an initiator of a local pro-developmental coalition which, in accordance with the LEADER program's requirements, eventually had to be registered in the form of a Local Action Group.

A single LAG covers an area corresponding to – at least – 2 rural (or rural-urban) municipalities. Towns inhabited by more than 20 thousand residents are, however, excluded from participation in the LAGs. A single LAG's area may be inhabited by between 10 thousand and 150 thousand of residents (MRiRW, 2007, pp. 329-330).

The popularity of the LEADER+ and the LEADER program in Poland is best evidenced by the fact that 338 Polish LAGs cover 93,22% of the areas that were allowed to participate in the program, which amounts to 278 235,7 km<sup>2</sup>. In terms of population, the 338 Polish LAGs count 16 877 180 residents altogether, which is equal to 91,29% of the population living in the Polish rural areas (constituting 44,27% of the country's total population) (MRiRW, 2009, pp. 6-7).

The LAGs operate basing mainly on regulations included in the Act of 7 March 2007 concerning support for development of rural areas with a contribution from the European Agricultural Fund for Rural Development (Dz. U. 2007., nr 64, poz. 427). However, they must also follow numerous minor regulations issued by the Polish Ministry of Agriculture and Rural Development.

In most cases, the Polish LAGs are registered as so called special associations. Like regular associations they are legal persons who have their own statutes and autonomous organs, such as the general assembly of members, the executive board and the auditing board. However, on top of this, they also have a council – a decision-making organ which is responsible for evaluation and selection of developmental project applications that are submitted by local applicants for funding *via* the LAGs. The main criterion used for evaluation and selection of the project applications is their compliance with the LAGs' Local Development Strategies. Unlike other types of associations, the LAGs are supervised by the regional self-government organs.

The legal and organizational construction of the LAGs endows them with a capacity to create a strong basis for representation of local interests. The LAGs' membership structures as well as their statutory organs must reflect the principle of cross-sector partnership<sup>7</sup>. Being

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<sup>7</sup> Fearing that the partnerships could be dominated by public stakeholders – who have greater financial, organizational and human resources as well as being more experienced in European projects' implementation – a principle was introduced that required at least 50% of the stakeholders to be recruited from among the social and economic partners (this principle was applied to both the general membership structures and the executive and decision-making organs of the LAGs).



legal persons who manage (predominantly) public financial resources, they are also obliged to ensure full transparency of their activities. Moreover, they are required to inform their local societies regularly about their decision-making processes as well as consulting their decisions and plans for action with the local stakeholders. Their statutory activities are explicitly oriented to integration and mobilization of the local societies.

Paradoxically, some of their organizational principles seem to make it difficult for the LAGs to meet expectations related to their bottom-up and voluntary character. Especially, their obligation to ensure that their membership structures and organs meet the cross-sector partnership criteria (see footnote 7), actually restricts their autonomy in recruiting members, electing organs and making decisions. At the same time, given a weak propensity for cross-sector co-operation in rural Poland, introducing this kind of a legal requirement might, in many cases, be considered as the only way to establish a multi-sector developmental coalition at the local level.

One more important issue to be mentioned at this point is the fact that the local public authorities' interests are commonly perceived as identical with the interests of the whole local community in Poland. This perception is one of the main reasons why their strategic role in creating coalitions for local development such as the LAGs is widely accepted in society. However, there are other reasons involved, too, that facilitate their leadership, if not overt domination, in the local coalition-building. In the next section of the paper, which is basing on our empirical research, the key role of the local authorities in the creation and operation of the LAGs is discussed in more detail.

### **Local self-government as a key stakeholder of the Local Action Groups**

The research project, whose results are presented below, aimed to cover all of the LAGs established in the Podkarpackie Voivodeship for the period 2007-2013. The field research included both quantitative component – whereby questionnaires were distributed with the aim of reaching all of the LAG members – and a qualitative component which consisted of participant observation and in-depth interviews that were conducted with representatives of pre-selected LAGs. Ultimately, 518 respondents (33% of all LAG members) took part in the quantitative part of the project. They represented 26 LAGs. The qualitative part involved 75 interviewees.

In the ultimate sample, the LAG members who represented social organizations, business entities, themselves (meaning: physical persons) as well as other non-public categories

constituted 63,9% of the respondents, whereas the public sector representatives amounted to 28% of the respondents (table 1).

Table 1. Shares of various categories in the sample of respondents

Units of territorial self-government	26,6%
Self-government associations	1,4%
Social organizations	19,7%
Economic entities	8,1%
Physical persons	34,4%
Other	1,7%
Data unavailable	8,1%

*Source:* the Authors' calculations.

In quantitative terms, the representatives of public authorities did not rank first. However, several respondents mentioned problems that the LAGs had faced when recruiting members representing non-public sectors. In particular, the involvement of local business representatives seemed unsatisfactory, which evidenced the private economic actors' weak interest in such collective initiatives. In consequence, participation of the local entrepreneurs in the LAGs was usually limited to formal membership. Even if they were adequately represented in the executive and decision-making organs of these organizations, which, as mentioned, was required by law, their actual involvement in the LAGs' activities was seen as insufficient.

Another serious problem – which was also identified by other researchers (Halamska, Michalska, Śpiewak, 2010; Furmankiewicz, 2013) – concerned practices whereby the members' sector identification was manipulated. For example, a LAG member, who officially represented a social organization or a business entity in the LAG coalition, could simultaneously turn out to be an employee of a local administration unit or a councilor involved in territorial self-government. Members of this kind had been most often recruited in the initial stages, which was routine whenever it was the public authorities who had initiated and coordinated the process to establish a LAG. Such practices could serve three basic functions: 1. they facilitated the creation of the LAGs; 2. they helped the LAGs to meet the legal requirements concerning their membership structures; and/or 3. they ensured the public authorities' control over the LAGs.

On the one hand such practices could reduce the scope of local interests represented in the LAGs as coalitions for local development, making them less inclusive. Also, they may have undermined the position of non-public sector stakeholders in the LAGs, whose representation – as demonstrated by the case of economic actors – was already distorted. In consequence, the non-public stakeholders might have had too weak influence on decisions

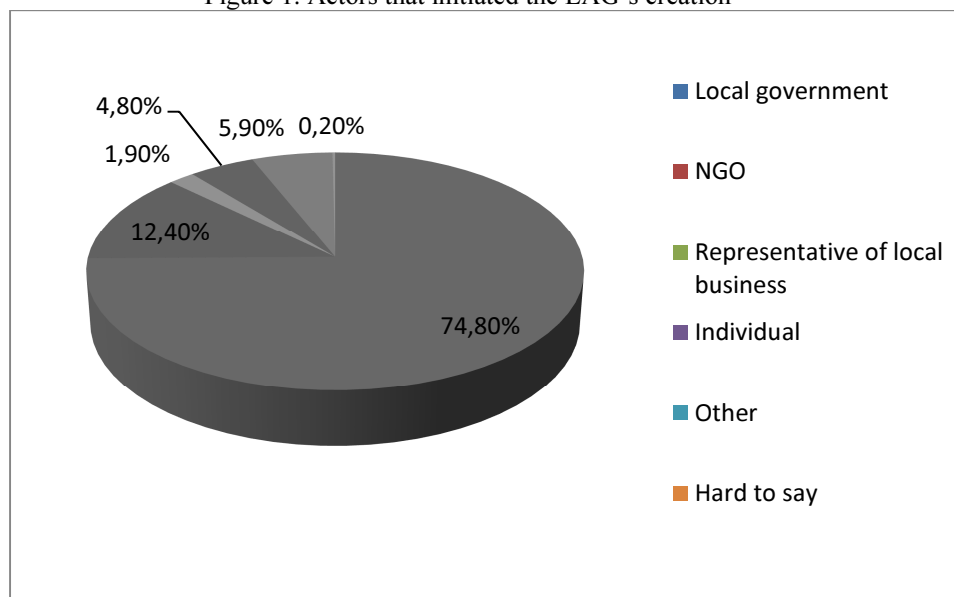
concerning directions of local development that were taken by the LAGs. Lastly, this kind of „gerrymandering” could affect the legitimacy of the LAGs by breeding suspicions that they were instruments used by the public authorities to reinforce the latter’s dominance in the field of local development.

On the other hand, paradoxically, the sources and effects of those practices could be interpreted in more positive/pragmatic terms. Firstly, the architects of the LAGs often had to act in rural communities where the social and economic sectors were very weak. In other words, the spontaneous supply of the non-public actors who were willing to access the LAGs might have been limited. Since the public authorities were usually determined to establish a coalition for local development that could be supported in the framework of the LEADER program, they might have experienced “a necessity” to gerrymander the LAGs’ membership in order to fulfill the restrictive legal obligations that had imposed on them the requirement to secure the at least 50% share of the non-public stakeholders.

Secondly, the creation and successful operation of pro-developmental coalitions such as the LAGs was doubtlessly premised on availability of professional know-how and experience in absorbing the EU funding. Those assets could be, in many cases, only provided by persons closely related to the local public administration in rural areas. Thirdly, apart from being complicated, the programming and implementation procedures imposed on the LAGs by the Ministry of Agriculture and Rural Development required significant up-front financial contributions of the stakeholders involved, whereby (initially) no institutional assistance was envisaged at the national level. In many impoverished rural communities the local territorial government was the only stakeholder capable of providing this kind of contribution on behalf of the whole coalition.

The strong part played by the local self-government organs in establishing of the LAGs as *sui generis* coalitions for local development to be funded by the LEADER component of the national Program for Rural Areas’ Development is clearly documented by the results of our research. Nearly 75% of our respondents indicated that their LAG had been created owing to an initiative undertaken by the municipal authorities (figure 1). Only slightly more than 12% pointed at a social organization; less than 5% indicated a physical person, and even fewer respondents – an entrepreneur as an architect of their LAGs.

Figure 1. Actors that initiated the LAG's creation



Source: the Authors' calculations.

The dominant role played by the local authorities in the creation of the LAGs was confirmed by nation-wide research, even though their dominance proved not so pronounced as in the Podkarpackie Province: 44% of the national respondents indicated the local territorial self-government organ as an architect of their LAGs (Knieć, 2010, p. 19). One of our interviewees described the process of a LAG's creation in the following manner, starting from the idea's emergence and ending with the LAG's successful establishing:

*I happened to be a mayor at that time (...) and one day I found myself taking part in a meeting organized at the Marshal Office and after the meeting the Marshal tells me that there is going to be another meeting with the already existing LAGs [some of the LAGs had been created in the framework of the LEADER+ program] and if I'm interested I should come and listen to what they say. And so I went there and listened to what they were talking about, even though I did not quite understand what was it all about. But I liked it because they talked a lot about some kind of societal initiatives (...) And later it just all began like this, I first organized a meeting of mayors from some municipalities, because I've come to the conclusion that it will be easier for us to recruit the leaders using the self-government units (...) The mayors brought with them to this meeting in K. [the name of one of the municipalities participating in this LAG] leaders from their local communities, ladies from rural housewives' societies, some associations' chairmen, some active councilors, and this is how all this began (XII/1/CA).*

It seems that this manner of the local public authorities' involvement in the creation of the LAGs was quite typical in the Podkarpackie Voivodship. Importantly, it was most often highly appreciated.

What is more, the leading role of the municipal self-government organs was appreciated not only during the process when the LAGs were being formed. It was also welcomed at a later stage, when the newly established LAGs were obliged to produce their strategic documents. The public administration employees were frequently the key contributors to the

LAGs' Local Development Strategies (LDS) – unless external experts were commissioned. The know-how, experience and professional skills of the local government staff were no less essential when the LAGs started to apply for and absorb the EU financial support. Also, apart from procedural and technical know-how, working contacts made earlier by the local mayors with the Marshal Offices were highly appreciated by the LAGs. Those contacts could be used in situations when formal procedures proved of no help. This is how one of our interviewees put it:

*(...) well, it was also owing to the mayors' help, because a group like ours, if it had had no support on the part of this mayor, that mayor and another one, it would have stood no chance of achieving anything at the Marshal Office (...) they, being from territorial self-government, are knowledgeable about all those structures, [they know] where to find money and how to arrange it all (VI/8/ZA).*

As mentioned, one of the biggest advantages of the local self-government organs' involvement in the LAGs' structures was the financial stability that they could provide. The availability of financial resources was crucial because the LEADER component, in which the LAGs participated, was based – similarly to other EU programs – on principles of additional funding and re-financing of developmental tasks. As such, the municipal authorities could demonstrate the biggest financial resources which were earmarked for local development. If necessary, they could take loans on preferential terms as well. Also, the public authorities agreed to shoulder the biggest share of the membership fees collected by the LAGs. Lastly, in the majority of cases, it was the municipal governments that secured premises for the LAGs' offices – often free of charge or at reduced rates.

Those financial realities of the LAGs were stressed by all our respondents and interviewees. This is, for example, demonstrated by distribution of answers to a question concerning factors that motivated them to form a coalition such as their LAG. Even though “local needs” proved to be the most frequently indicated (74,8%), this choice was followed by 46,5% indications pointing to the necessity to institutionalize co-operation in the form of the LAG in order to be able to apply for external financial support for local development. In consequence, since the LEADER component of the Program for Rural Areas' Development was commonly interpreted in terms of yet another source of external (EU) funding, the LAGs were most often treated as just one more way to get access to this funding. This instrumental motivation was openly admitted by several interviewees. One of them stated:

*To tell you the truth, it was all initiated by the people from the [territorial] self-government, small town mayors, rural mayors. This started because you need to find the money, and how else to find it? There was no other way than to have to create this association [i.e. the LAG]. (IV)*

Furthermore, the dominant position of the municipal governments within the LAG coalitions for local development finds also reflection in the manner in which the financial means available to the LAGs from the LEADER component were distributed among the four types of activity permitted within the program in the 2007-2013 period. The data for the Podkarpackie Voivodeship evidence the following logic of allocation:

1. Diversification toward non-agricultural economic activity: 11 158 339.51 PLN (ca. 2 675 860 Euro) – 6.31%
2. Creation and development of micro-enterprises: 21 426 717.30 PLN (ca. 5 138 301 Euro) – 12.13%
3. Village renewal and development: 106 868 039.71 PLN (ca. 25 627 827 Euro) – 60.48%
4. Small projects: 37 255 512.26 PLN (ca. 8 934 175) – 21.08% (Pawłowska, Gąsior-Niemiec, Kołomycew 2014).

Noteworthy, financial support available through Activity 1 and Activity 2 was typically earmarked for farmers and local businesses, while non-governmental and grassroots organizations could apply for funding through Activity 4. By contrast, the municipal organs were by far the most frequent beneficiary of financial support available *via* Activity 3. As is easily seen from the data presented above, the share of the funding allocated to Activity 3. was the biggest.

What is more, the projects supported through Activity 3. carried, on average, the biggest financial value, which could reach up to 500 000 PLN (ca. 120 000 euro). They were usually related to building various types of infrastructure intended for public use, which could facilitate development of tourism, sports, culture and leisure opportunities. Other types of projects concentrated on improvement of public space, restoration of heritage, renovation of monuments etc. In their majority, the projects implemented *via* Activity 3. were thus focused on public utilities and amenities whose construction and maintenance are listed among the municipal self-government's assigned tasks. In many rural municipalities regularly available financial means to meet obligations of this kind are very limited.

### **Community-led Local Development**

In the new EU financial perspective 2014-2020, the LEADER approach is to evolve in the direction of a new model called Community-led Local Development (CLLD). The CLLD model preserves the fundamental LEADER's features, such as: the bottom-up initiative, territoriality, integrated actions, partnership, innovation, decentralization of management and

financing as well as networking and co-operation. What distinguishes the CLLD from the LEADER model is first of all the fact that it may be supported by all of the four major EU structural funds: the European Agricultural Fund for Rural Development (EAFRD), European Maritime and Fisheries Fund (EMFF), European Regional Development Fund (ERDF) and European Social Fund (ESF).

The CLLD model is to be an obligatory instrument in the area of Common Agricultural Policy, whereas its implementation remains optional in the other policy fields – subject to decisions taken by the individual Member States (MIiR, 2014, p. 3). Even if only optional, the expansion of collaborative and participative ways to involve local citizens in public policies must be interpreted in terms of an official appreciation of the LEADER approach<sup>8</sup>. Irrespective of the factors responsible for the promotion of local coalitions made up of stakeholders anchored in different sectors, in the 2014-2020 financial perspective such local coalitions will be expected to increase their scope of action.

For example, they will need to plan activities aimed at: facilitating access to the labor market for the long-unemployed and professionally passive; improving access to high quality public services; supporting social entrepreneurship; re-developing impoverished urban and rural communities. Importantly, all of the listed activities are found among the tasks attributed by law to the territorial self-government in Poland. In the circumstances, it is almost certain that local coalitions operating under the CLLD will be used to support the municipal public organs in fulfilling their responsibilities. This is likely to further reinforce the dominant role played in them by the public authorities. Their strategic collaboration and skillful coordination will also be crucial because an opportunity to finance developmental initiatives through the CLLD mechanisms is expected to trigger the effects of scale.

This is because the reach of activities pursued will be able to cover an area exceeding a single municipality and thus reaching a bigger population. For the same reason, the CLLD coalitions will be able to involve more stakeholders and, hopefully, make them more engaged in cross-sector enterprises. In consequence, the initiatives undertaken in accordance with the CLLD model will have a supra-local character with all of the consequences involved. Their positive consequences will certainly include more opportunities to overcome financial and organizational constraints typical of small municipalities. Their negative consequences might

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<sup>8</sup> However, it should be noticed that the further promotion of institutionalized, cross-sector coalitions based on the principle of partnership is in no lesser degree related to the priority given by the EU decision-makers to institutional transformation pursued in accordance with theories of the New Public Governance.

entail a loss of the local feeling and the relative operational accessibility that was typical of the LAGs.

### **Conclusions**

Research focused on members of the Local Action Groups in the Podkarpackie Voivodeship demonstrates that the local public authorities were the most frequent architects of this kind of coalitions for local development. What is more, the territorial self-government organs proved to be those coalitions' most powerful stakeholders, offering access to the biggest financial resources, providing most of the needed human and organizational resources as well as mobilizing the other actors to network and co-operate. Also, the local government organs provided the most competent know-how as far as applying for EU financial support earmarked for local development *via* the LEADER component of the national Program for Rural Areas' Development.

However, the dominant position of the municipal authorities in pro-developmental coalitions such as the LAGs was not only secured owing to their structural advantages over the other types of local stakeholders. Apart from being anchored in the existing legal regulations, this position was also made possible because of their strong legitimacy in the role of an animator in the field of local development. Owing to the nearly 25 years of its effective operation in Poland, the municipal self-government has become the most legitimate addressee of expectations that local communities have as far as their development. This conclusion is clearly supported by quite unequivocal evidence produced by our field research on Local Actions Groups (LAGs), which are pro-developmental coalitions established in the Polish rural areas<sup>9</sup>.

The formula of coalitions grouping various stakeholders involved in local development – such as exemplified by the LAGs – has only started to be practiced in Poland. The initial disproportions between the different types of stakeholders involved in the LAGs – in terms of their resources, know-how, capacity to act and, last but not least, their social legitimacy – were too big to genuinely expect a partnership of equals. This explains why – in spite of the requirements imposed by law – the LAGs became dominated by the municipal authorities. Moreover, finding a better balance between the stakeholders representing different sectors does not seem a realistic option in rural parts of Poland, even in a longer term because of the structural weakness of the non-governmental and economic sector there. While this

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<sup>9</sup> Critical remarks concerning the towering role of the local public authorities in the LAGs were only rarely expressed during the in-depth interviews conducted by our research team.



conclusion might read uncomfortable theoretically, it could also be interpreted in a more upbeat tenor since local development is not predominantly about constructing ideally balanced coalitions. Rather, it is about finding most effective ways to make relevant stakeholders involved to the benefit of the local communities.

This pragmatic statement does not preclude an expectation that processes of learning and emancipation on part of the non-public stakeholders may succeed in some local communities, enabling more balanced pro-developmental coalitions to emerge. Inter alia, the formal need to abide by the partnership regulations is likely to result in the so far weaker stakeholders' growing capacity to articulate their needs and interests, which might encourage them to bargain with the so far more powerful public partners on more equal terms. However, the role of an architect will probably continue to be associated with the municipal authorities – not least because of their democratic legitimacy and their assumed interest in the promotion of well-being of the whole local community, whereas the other stakeholders may be perceived as motivated by narrower objectives.

Also, the strategic position of local government is likely to be reinforced when coalitions for local development, such as the LAGs, will start operating according to the CLLD model – receiving more funding and increasing the scale and scope of permitted activities. Such changes may help resolve difficulties experienced by small municipalities more effectively, not the least because they will facilitate processes to create supra-local economies of scale, including in the area of public service delivery. Incentives offered are likely to foster co-operation rather than competition between individual municipalities, which will increase the overall capacity of the public authorities to coordinate developmental processes. By contrast, the roles and positions of the other stakeholders might not necessarily be strengthened under the CLLD model, which is, however, subject to future research. Similarly, systematic research is needed in order to see whether the switch from the LEADER model to the CLLD model will indeed result in more integrated and participative patterns of local development.

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## **Financial independence of local government units in Poland**

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### **Abstract**

In the proposed paper the financial autonomy of a local government is understood as an independence of local authorities in shaping their budgets: deciding about the revenues and expenses. Discrepancies between the level of decentralization in public services and decentralization in public finances is the constant issue of public debates as well as a frequent subject of academic discussions.

The aim of the paper is to assess the actual potentials of local authorities in the formation of their budgets. The key hypothesis is that local authorities, having limited control over their finances, cannot be entirely accountable for the quality of delivered services. The authors analyze the current legal regulations and institutional solutions as well as the structure of local income and expenses. They also discuss the activities of local governments to shape their budgets and in that way upgrade the quality of public services delivered locally, especially focused on the education as one of the most difficult and cost consuming public tasks.

**Key word:** self-government units, finance autonomy, local budget,

### **Introduction**

One of the first far-reaching and successful reforms undertaken in Poland under the transformation period started in the late 80's was the reconstruction of a local government system. The introduced reform was a result of the political arrangements, but also brought considerable social and economic effects. The idea of bringing back the power to the people in the local communities had started to be elaborated on by the political opposition since the early 80's and supported by arguments appealing to rich traditions of Polish local governments (Pawłowska & Kołomycew, 2014, pp. 101-104).

In March 1990, local government in the municipalities (*gmina*) was restored by the Act of the Territorial Government. Subsequently, other related regulations – on local administration employees, division of competencies and responsibilities between central and local authorities, and representation of central authorities on the local level were passed. The implementation of the above-mentioned acts was preceded by the introduction of relevant amendments to the applicable Constitution Act.

The socio-economic transformation during the 90's was accompanied by work on further reforms of the public administration and the introduction of successive tiers of local government. In 1997, a new Constitution Act was adopted, in which self-government units were granted legal personality, range of powers and the right to financial independence. General constitutional regulations have been clarified in a series of legal acts adopted in 1998 as part of another, far-reaching reform of the public administration. The idea was supported by the following arguments: a) improving the performance of executive power through transmitting duties on lower tiers of administration, closer to recipients of public services, and enhancing central administration located in voivodships; b) improving the governability of the state through devolution of responsibilities that would enable central authorities to focus on the strategic issues of public policy; c) improving democracy by giving the citizens of territorial units the right to elect their representatives, the right to control the local administration and the system of the delivery of public services; d) improving the efficiency and effectiveness of state revenues and expenditures through decentralization of public finances; e) adjusting territorial division and administrative structure of the state according to the expectations of the European Union due to the plans of integration (Pawłowska & Kołomycew, 2014, pp. 101-104).

The effect of the implemented reforms was a three-tier structure of the territorial government including municipalities (*gminy* – 2479), districts/counties (*powiaty* – 313 counties and 66 cities that combine the powers of municipality and county) and regions/voivodships (*województwa* – 16) as well as a new division of public tasks, according to the capabilities and range of power of each level of a self-government.

The changes in the structure of public administration and division of tasks introduced in the late 90's meant in practice that most of the public tasks were assigned to municipalities. These units, due to their small area and the proximity to the citizens, were considered the most appropriate for the efficient provision of public services. In accordance with the principle of subsidiarity, as indicated in the Constitution of 1997, the presumption of competence in favor of the municipality was also introduced. Agreement to such a formula means that the municipality is the basic local unit and its authorities are responsible for

performing all local tasks that are not reserved for other territorial units. Furthermore, the tasks enumerated in the Local Government Act (*Ustawa o samorządzie gminnym...*) are only exemplary, and can be extended beyond the given catalogue. Actually, the tasks designed by law are regarded by municipal authorities as obligatory, although others – not expressed in legal acts and refer to local administration will – are considered as optional. The tasks of municipalities specified by law refer to: use of the land, environmental protection (waste disposal), technical infrastructure (provision of water, sewage services, electricity, gas) and roads, public transportation, health care and social assistance, culture and heritage, sport and tourism, green areas, public order and safety, and cooperation with non-governmental organizations and the promotion of municipality as well as providing education (pre-school, primary and secondary) which seems to be the hardest and currently the most expensive task.

### **Revenue of local government in Poland**

The important elements of the decentralization of public administration tasks started in early 90's were the elimination of hierarchical subordination of local authorities from the central government, granting legal personality, new powers and competencies to the local administration, but also providing them with financial independence. In particular, the financial independence was extremely important for the development of self-government in Poland. The decentralized bodies to act independently and implement public tasks must have their own sources of income and the ability to fully dispose of them. Dependence on subsidies from the central budget contradicts the essence of decentralization. It makes that decentralization remains only a normative/formal solution with no practical significance (Zieliński, 2001, p. 38).

The basic regulations on the revenue of local administration were contained in the Constitution Act of the Republic of Poland established in 1997. The provisions of the Constitution guaranteed local governments the access to the public funds, adequately to the assigned tasks. In accordance with applicable law, the revenues of the local government units can be divided into three groups of income: 1) the own revenues of local self-governments, 2) general subsidies and 3) grants. The last two groups of income are directly transferred from the state budget. The presently observed changes in the scope of the tasks and competences of local government bodies require a new model of the public funds distribution to allow them to fulfill a wide range of public tasks. In general, the Constitution Act grants local governments the right to fix the amount of local taxes and local fees. The detailed regulations concerning

the local fiscal policy are contained in the separate legal acts (Konstytucja Rzeczypospolitej Polskiej...).

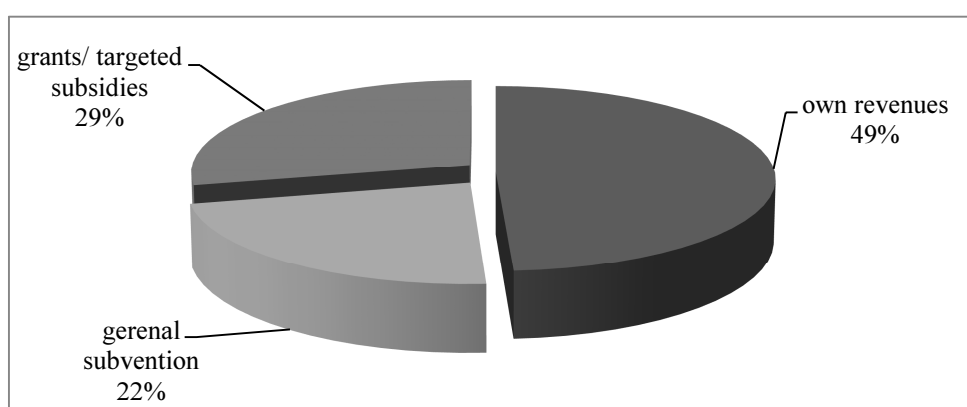
The constitutional principles of financing local governments were detailing in several laws, among which are essential: The Act on the Income of Government Units (Ustawa o dochodach jednostek samorządu terytorialnego...) and The Act of the Local Taxes and Fees (Ustawa o podatkach i opłatach lokalnych...). The first of the acts mentioned below contains a catalogue of income sources for local governments, the principles of determination and collection of the local revenue, as well as the rules of transferring the general subventions and grants (targeted subsidies). According to this act, the revenues of the local governments are:

- own revenues, including shares in the proceeds from the personal income tax (PIT) and corporate income tax (CIT);
- general subvention;
- grants (targeted subsidies) from the state budget and national targeted funds (such as the National Fund for Environmental Protection and Water Management).

The revenues of local governments might also be:

- funds from foreign sources, non-refundable;
- funds from the budget of the European Union;
- other sources specified by separate regulations.

Chart 1. Income structure of local government in Poland in 2012



Source: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013, s. 12.

## Local governments' self-reliance of on the revenue

In the context of the financial autonomy of local governments, it seems to be interesting how they can independently decide, affect and shape the level of income? And how much their income is dependent on the adopted regulations by the central authorities? First of all, it should be noted that the catalogue of income, as well as a catalogue of their own revenue sources (see Table 1) is defined by the national law. Therefore, in practice, the local governments cannot take any independent action in this range. The lack of flexible solutions in this matter means that the only thing that remains for local authorities is to formulate the demands to extend their competences.

Table 1. The main source of government units income

Source of income	Territorial Units		
	Municipality	District/ county	Voivodship /region
tax revenues (real estate, agricultural, forestry, means of transport, inheritances and donations, civil law actions)	yes	no	no
revenue from local charges (stamp duties, market fee, local fee, spa, dog ownership fee, exploitation fee )	yes	no	No
income from its assets	yes	yes	yes
income received by units of local government	yes	yes	yes
inheritances, bequests/endowment, donations	yes	yes	yes
interest on loans and local receivables	yes	yes	yes
subsidies from the other local governments	yes	yes	yes
participation in the Corporate Income Tax (PIT)	yes (39,34%)	yes (10,25%)	yes (1,6%)
participation in corporate tax (CIT)	yes (6,71%)	yes (1,4%)	yes (14,75%)

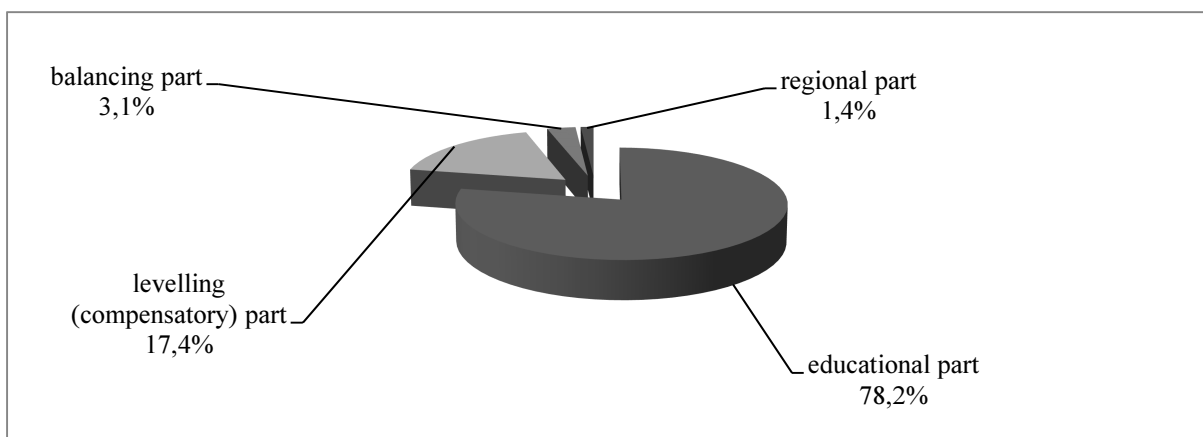
Source: own elaboration based on: Ustawa o dochodach jednostek samorządu terytorialnego z dnia 13 listopada 2003 r., tekst jedn. Dz.U. 2010 nr 80, poz. 526 z późn. zm.

The abilities of local governments to influence the height of income are limited. One might indicate three possibilities: 1) the absence of such an effect; 2) indirect influence and 3) direct influence. The first situation we can observe in case of the grants/targeted subsidies transferred directly from the state budget. The local authorities have no effect on the size of the support received. The specificity of the above-mentioned grants/targeted subsidies is that they are granted on the implementation of specific tasks. It should be remembered that the

assigned tasks are actually government tasks. For practical reasons, they are transmitted to local governments based on specific laws. The assigned tasks are generally systemic and the same for all local units. Therefore, the individual local governments have no effect on the costs of its implementation.

In the case of the general subvention only an indirect influence might be observed. And in fact, the influence of local government units on the height of the general subvention is very limited. The general subvention is composed of the following parts: 1) for municipalities and districts—levelling (compensatory), balancing and educational, and 2) for the voivodships/regions—levelling (compensatory), regional and educational.

Chart 2. The structure of the general subvention transferred to self-government units in 2012



Source: Own calculations based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

Each part of the general subvention is calculated individually for a particular self-government unit, according to the statutorily defined criteria. According to the given diagram, the vast majority of the general subvention is intended for the educational part and levelling (compensatory) part. It means that the general subvention is one of the rigid financial instruments on which local governments have no impact nor can they shape its structure. Nevertheless, the governments' ability to influence the size of the received funds in a form of subvention would have a real meaning for their financial situation. However, the height of the educational part of the general subvention is calculated according to the algorithm in which the main importance is the number of students attending schools run by the individual self-governments.



Theoretically, self-governments can indirectly influence the level of general subvention in its educational part by increasing the number of students at schools they run (for instance by creating an attractive educational offer and/or admission of students from outside their administrative area). Nevertheless, in practice, this rarely happens, especially at the level of primary and secondary schools. In this case, location of schools (distance from students' residence) mainly determines the decision of school enrollment. The daily school commuting is burdensome for children and their parents, especially due to the costs and time. Furthermore, it is worth remembering that the flow of students among self-government units (local) is significant exclusively for the particular units and their income from the educational part of the general subvention. The mentioned students' flows are not relevant to the amount of expenditure from the state budget. The total amount of educational subvention provided by the central authorities for self-governments is unchanged. The state expenditures on the general subvention (in its educational part) would increase due to favorable demographic changes and larger number of students in general.

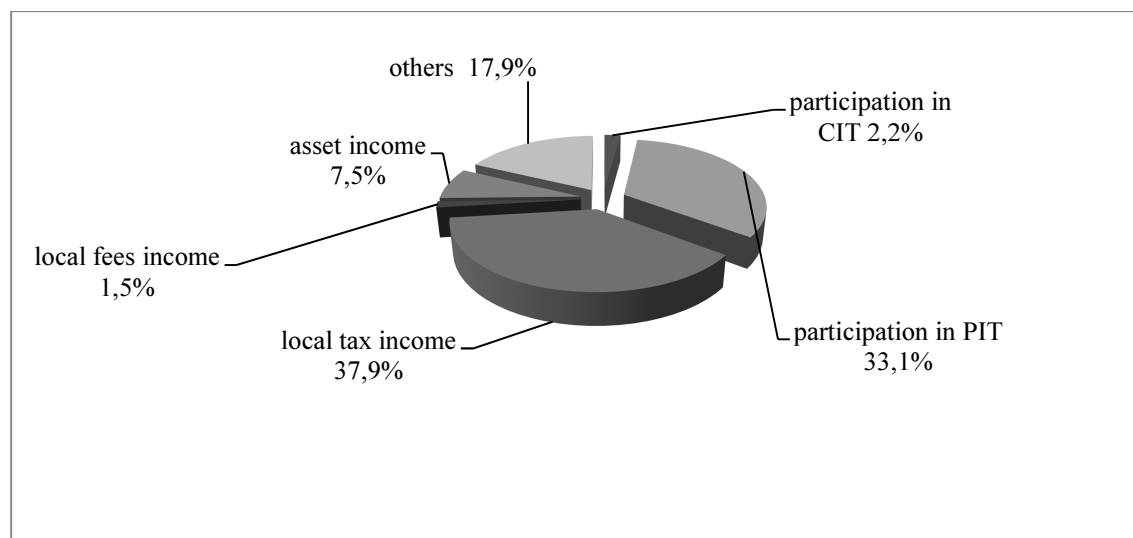
In turn, the levelling (compensatory) part of the general subvention is determined on the basis of: 1) the number of inhabitants of the individual self-government unit and 2) the achieved ratio of tax revenue per capita by governments in relation to the average ratio of tax revenues for all self-government units (calculated separately for municipalities, districts and voivodships/regions). In the case of levelling part of the general subvention, its amount depends on tax revenues per capita. Increasing tax revenues results in less income from the levelling part of the general subvention. This dependence induces that authorities on both local and regional level may only indirectly affect the size of the general subvention through the changes in tax rates.

However, due to the structure of an own income (see: Table 1) the different levels of self-government units have unequal ability to shape the tax revenues. In fact, only municipalities have the right to impose local taxes and fees. However, their taxation power is limited. Generally, it is limited to the determination of local tax ratio but only within the limits set by law. Therefore, the possibility of a direct influence on the tax reduction has no practical significance. In the process of the general subvention calculation (in its levelling part), such activities undertaken by local authorities as tax reduction, tax relief and exemption are not compensated by the state budget (in a form of subvention). This solution seems to be reasonable, otherwise self-governments would willingly reduce taxes, implement tax reliefs and exemptions, gaining public support without incurring the financial consequences. The lower income would be compensated by the state budget.

Substantially, self-governments in Poland have the possibility to affect indirectly the source of revenues such as participation in the personal income tax (PIT) and corporate income tax (CIT) and thereby to impact the size of the general subvention. By undertaking projects focused on the territorial development, self-governments actions may result in residents' and local enterprises' income improvement. Consequently, the increase in PIT and CIT tax revenue directly transmitted to the state budget will also increase self-governments' revenue from these taxes. However, in this situation the amount of general subvention will decrease, but the general revenue (from all possible sources) will rise. The above-mentioned situation should be considered solely only in terms of theoretical considerations, since there is no doubt that the increase in their income tax revenue and share in taxes brings more benefits. The financial aspect of self-governments' activity due to reduction of subvention is compensated by higher tax revenues. However, the financial independence of self-governments remains limited, in practice dependent on the central government and its condition.

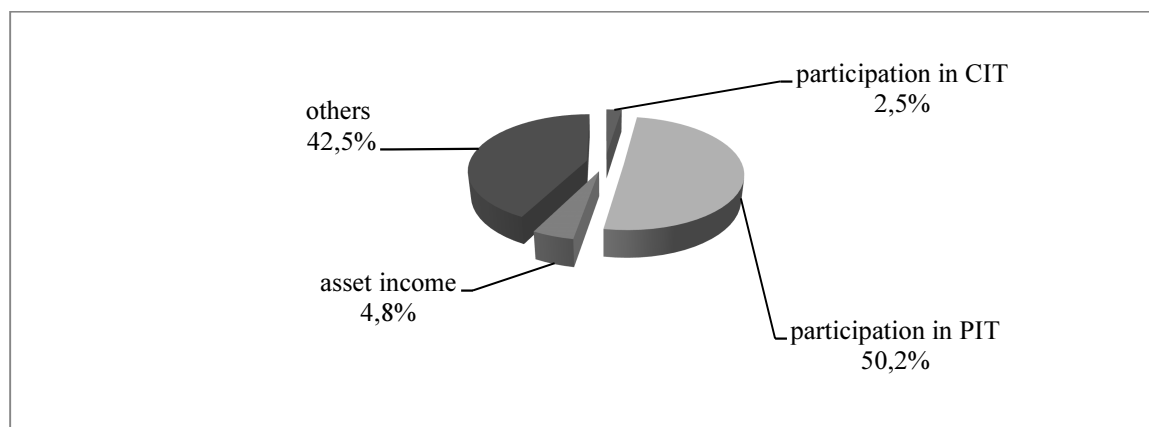
As follows from the previous analysis, on two of the main sources of income (representing more than half of total income) (see Figure 1) self-governments do not have much effect. For the third source of income - the most significant - that are own revenues, the significant differences among the various levels of self-government units might be seen. They result from already mentioned differences in local and regional governments income sources (see Table 1), that determine their structure.

Chart 3. The structure of revenues of municipalities in 2012



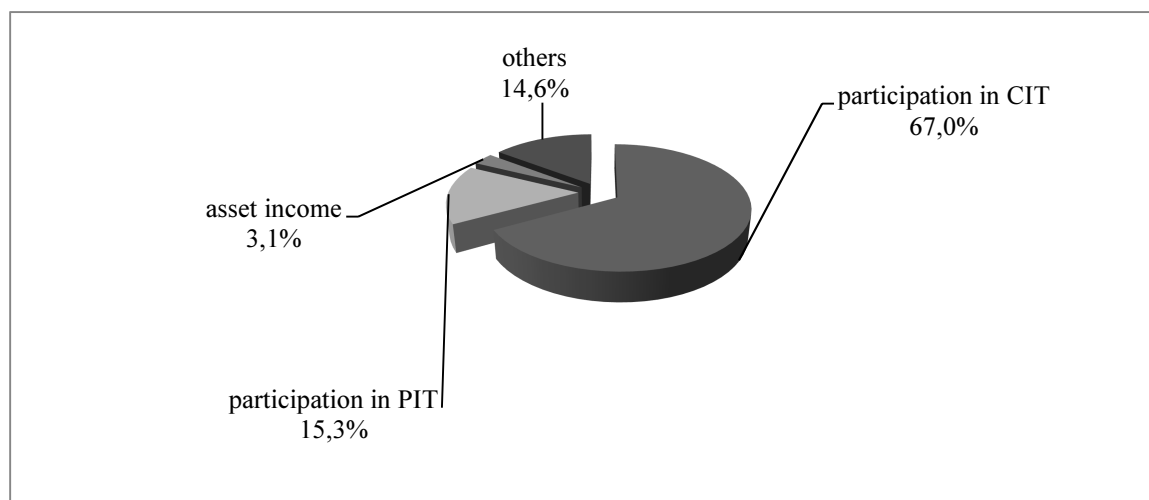
Source: Own elaboration based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

Figure 4. The structure of own income districts in 2012



Source: Own elaboration based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

Figure 5 The structure of own income voivodships/regions in 2012



Source: Own elaboration based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

The Charts 3 - 5 show that generally two sources of own revenues play a significant role at each level of self-government. These are shares in income taxes from individuals (PIT) and corporates/enterprises (CIT). In the case of municipalities (Figure 3) an important source

of revenue are local taxes and fees, while in the case of districts a significant share of total income (42.5%) are 'others' (Figure 4).

It was already mentioned that self-governments may indirectly influence the shares in PIT and CIT revenues by implementing pro-growth policies. Creating favorable conditions for economic activities may encourage businesses to invest and create jobs, while a well-developed system of infrastructure and quality of public services may favor and intensify the population. The number of people and enterprises seem to be crucial for the revenue from PIT and CIT that are paid by the residents and businesses registered in individual units. This solution has some limitations, though. First, the tax rate of PIT and CIT are not determined by self-governments, but by the central government. In addition, the size of the tax revenue to the state budget depends on the national and global economic downturn. This significantly reduces the possibility for local governments to shape that part of their income.

Municipalities as the only level of local government receive income from local taxes and fees. For the analysis of their financial independence it is important to verify the extent of the local tax policy. It should be noted that, in accordance with the Constitutional Law the imposition of taxes, other public imposts, the specification of tax subject and tax rates, as well as the principles for granting tax reliefs and remissions are governed by laws not administrative (individual) decisions (Konstytucja Rzeczypospolitej Polskiej..., art. 217). However, the Constitution granted local governments the right to set the rates of taxation within the limits set. The detailed principles of rates' determination as well as tax reliefs and exemptions are governed by the Law on local taxes and fees, as well as the Law on the agricultural tax (Ustawa o podatku rolnym...). The same legislation lays down the rules for the granting of the reliefs and tax exemptions by municipalities.

For the financial autonomy of the municipalities the maximization of the income has a significant meaning. However, the adopted laws on local taxes and agricultural tax only allow local self-governments to lower the tax rates, but their maximum size (in the case of transportation tax also the minimum) is set in the legal acts. The maximum rates on goods and prices of services are updated annually. Municipalities – in comparison to other levels of the government – have more flexibility in respect to tax policy. Regardless of these systemic solutions the executive body of a municipality may, in justified individual cases, partially or completely discontinue the tax claims (Ustawa ordynacja podatkowa...).

Despite the above-mentioned competences of local (municipal) authorities, their taxation power is limited and includes such activities as the right to determine the tax rates as well as the introduction of exemptions and reliefs. All these treatments cause a loss of

governments' revenue, but despite the negative fiscal impact some municipalities still use the existing possibilities. In 2012 such actions of local authorities resulted in a reduction of municipalities revenue by 10.3% (4.8% of total revenue). However, lowering the top tax rates is an instrument of municipalities competitiveness (See more: Miszczuk, 2012).

The high share of "others" in the income structure in the districts total revenue is a result of performed tasks. Some of the services supplied by the counties are fully or partially paid (for example, retirement homes, social care services, surveying and mapping services, transport fares). It should be noted that due to the regulations governments do not operate for profit. These revenues basically cover the costs of the performer's tasks. In the context of a financial independence - especially in the acquisition of income - they do not play a greater role.

### **Freedom of self-governments expenditures**

Freedom of government expenditure in Poland is closely related to their income structure. Particularly limited possibilities of government's expenditures are in the field of outsourced tasks, which are financed directly from the state grants/targeted subsidies. The received grants may be issued only to the specified target and any unused funds must be returned to the state budget. The governments autonomy is also limited due to the performance of the tasks commissioned by central administration. The specificity of these tasks, their standards and rules of implementation are indicated in the detailed provisions and their implementation is mandatory. Freedom of governments is therefore limited to organizational solutions. In fact, this aspect of their activity is also limited by the amount of received subsidies. There is a slightly different situation in the case of general subventions and self-government units' own revenues. These two sources of income may be spent on any purpose in accordance with the decision-making body. Unused financial resources are at the disposal of self-governments, can be transferred to next year's budget and spent on any purpose.

The fact that the funds from general subvention and own revenues may be used freely does not mean that local governments have a complete freedom in this case. Self-government units are a part of public administration and are created to meet the collective needs of their residents. The range of self-government's tasks were established and defined by the laws. The autonomy of self-governments generally applies only to those activities. The catalogue of their own tasks stays open for a practical reason. The emerging changes lead to new

expectations and social needs that governments are obligated to deliver. In the case of tasks that are not clearly assigned to individual units– in accordance with the law principles – they stay in favor of the municipalities (Ustawa o samorządzie gminnym..., art. 6). The self-government units at district and regional level are obliged to perform only the tasks clearly indicated in the legal acts.

The autonomy of self-government units is largely determined by the scope of tasks assigned to them. Generally, they can be divided into mandatory and optional. Naturally, the performance of optional tasks is connected with a with greater freedom of spending (of course within the limits of the law) (Ustawa o finansach publicznych..., Ustawa prawo zamówień publicznych...).

On the other hand, performing the compulsory (mandatory) tasks causes the need to allocate funds for their implementation regardless of the self-governments' will and opinion. It is also important to what extent the quality standards of the compulsory tasks have been determined in the applicable legislation. In practice, precisely defined margins of the tasks to be performed lead to the limiting of the self-governments' freedom, which simultaneously influences the activities and determines their expenditures.

Table 2. Expenditure by departments (category), having the largest share in the total expenditure of particular types of local government in Poland in 2012

Self-governments units/level of self-government	Category of expenses	Share in total expenditures (%)
municipalities	Education	37,1
districts	Education	32,0
regions/voivodships	Transport and communication	37,9

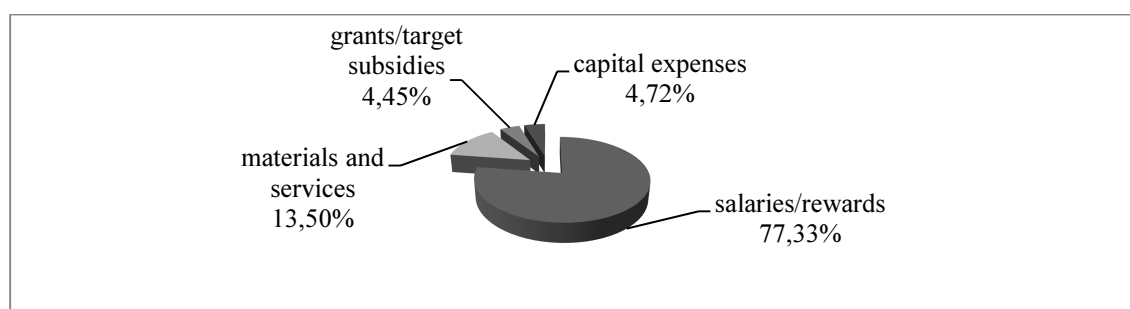
Source: Own study based on: Opracowanie własne na podstawie: Sprawozdanie z działalności regionalnych izb obrachunkowych i wykonania budżetu przez jednostki samorządu terytorialnego w 2012 roku, Krajowa Rada Regionalnych Izb Obrachunkowych, Warszawa 2013, s. 161.

According to the data presented in Table 2 municipalities and districts have the largest financial expenditures related to education, which are in fact mandatory. The education expenditures seem to be a good example of the presentation of the self-governments' autonomy. The structure and basic principles of the Polish education system are regulated by the Law on the Education System (Ustawa o systemie oświaty...). In accordance

with the provisions of this act self-government units are responsible for school administration, organizational issues, financial and human resources. The pedagogical supervision over the schools led by self-governments is provided by Board of Education (Polish: Kuratorium Oświaty), which represents the central administration. Each level of self-governments is responsible for a different type of schools. The units at the municipality level are responsible for primary/elementary education. The district level is obliged to run secondary schools as well as vocational establishments. The specific situation can be observed at the regional level, which is responsible for public institutions dealing with teachers' education and training, pedagogical libraries and other regional educational institutions.

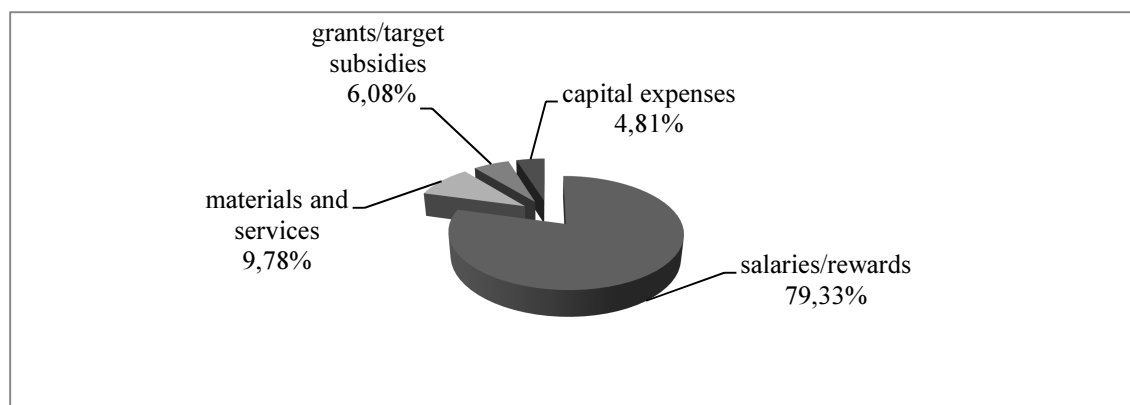
Analyzing the educational expenditures at the local level (municipalities) we can conclude that the majority of their spending is allocated for teachers' pay (see Figures 6 and 7).

Figure 6. The structure of educational expenses in municipalities in 2012



Source: Own elaboration based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

Figure 7 The structure of educational expenses in the districts in 2012



Source: Own elaboration based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

It would seem logical that local authorities, as school-running bodies, should have adequate discretion to the remuneration of their employees, especially teachers. However, in Poland the central authorities have the most to say when it comes to teachers' salaries. The main instrument of the adopted solution is the Teachers' Charter, which includes the principles of determining the remuneration for teachers (Ustawa Karta Nauczyciela...). This model preserves the central government's right to intervene in the self-government's educational policy. On the one hand, due to the importance of the education system for the socio-economic development of the territorial units such an interference might be justified. On the other hand, the encroachment of the central authorities into the area of self-governments' activities seems to be a violation of decentralization as well as subsidiary principle.

In accordance with the Teachers' Charter the salary of this professional group consists of: 1) the basic salary; 2) various additions to salary (e.g. seniority, incentive, functional (additional responsibilities), and for working conditions; 3) the remuneration for overtime and temporary replacement; 4) awards and of any other benefits arising from the employment relationship, excluding the benefits of the staff social fund and teachers' social allowances (e.g. housing and a so-called rural allowance, both for work in rural areas). The amount of the teacher's basic salary depends on work experience, qualifications and the level of compulsory classes. The amount of perks to the salary depends on the period of employment, quality of work and additional tasks assigned, additional functions and working conditions respectively. The above-mentioned rules do not give rise to controversy. They are not so much different from the generally applicable rules of other groups of employee remuneration. However, the Teachers' Charter contains far-reaching provisions. The most important are those that guarantee the reaching of average teachers' salaries (in each group of career advancement) in the schools which are run by a given local government. The possibilities of local authorities' actions are limited in this case due to the fact that the average salary is annually determined by the central regulation (indicated in the Budget Act) (Ustawa Karta Nauczyciela..., art. 30 ust. 6; Obrębski, 2012, [http](http://)).

At the discretion of local governments remains the determination of the mentioned salary-related allowances (including the most important incentive addition), the detailed



calculation and payment of wages for overtime work and temporary replacements, and the payment of other benefits arising from the employment relationship. The flexibility of local governments units in terms of teachers' remuneration in Poland is definitely limited. The adapted solution, at the same time, points to reduce the disposal of their own means of local government units and conduct independent education policy. As stated by one of the representatives of local government units „no one asks me how much I want to pay teachers, but the minister gives the table and I have to pay" (Finansowanie i zarządzanie..., 2012, p. 160).

Rigid regulations on the teachers' remuneration interfering with the independence of local government units has one more negative result on the financial autonomy of self-governments. Theoretically, current expenditures associated with running schools (including staff salaries) should be covered from the state budget within the educational part of general subvention. However, in practice the calculated amount of the general subvention is insufficient to fully cover all educational expenses, which actually result from the regulations imposed by the central government. Such a solution forces the authorities of local government units to supplement the missing part of the subvention from other sources, often sacrificing the execution of other tasks. This consequently limits the possibilities for action and implementation of tasks in other areas of local development (Kotarba, 2012, p. 54).

## **Conclusions**

The financial independence of local government units is an important element of the decentralization of public administration and an effective system of the delivery of public tasks. This allows for the actual empowerment of local communities and an independent implementation of public policies essential for the creation of local development. Obviously, local government units, as parts of the public administration system, must respect some general solutions and implement the tasks determined at the central level, especially those which affect the society and start functioning in the macro scale. However, it seems to be important whether the interference of the central government in the self-governments' activity does not go beyond the legitimate scope. The analysis shows that in Poland it may raise doubts. Generally, the essential regulations for a financial autonomy of local government units defined in the Constitution Act do not cause objections. However, the provisions of the specific laws governing these issues are more detailed. Consequently, self-government units

have a very limited impact on both the amount of their income and the freedom of spending the available resources.

In terms of income shaping, local government units have no effect on the amount of targeted subsidies received from the central budget for the assigned task's implementation. In the case of targeted subsidies, their role is limited to applying for such a grant. This form of support is possible, only if the state government has provided enough budget funds for this purpose. Regarding the general subvention, the impact of self-government authorities on their amount is limited to indirect actions and in fact is limited to the impact on the local tax revenue. In accordance with the applicable regulations, such a possibility was granted only to the authorities of municipalities. However, it's worth remembering that the increase of local tax revenue results in the decrease of the amount of subvention.

Greater possibilities of the independent actions of self-government units are visible in shaping their own income. However, in practice, this only applies to the municipality, which is the only level of local government in Poland with the right to collect local taxes and charges. It should be emphasized that the adopted legal solutions, practically enable municipalities to lower taxes and introduce exemptions. They do not have the right to impose new taxes or introduce new fees and determine their rates at will. Shaping the local tax and fee revenues can bring indirect impact on local development. Similarly, as a limited way, all levels of self-government can influence the shares of personal (PIT) and corporate income tax (CIT).

As regards the freedom to spend the available funds, it should be noted that it is different in the case of the implementation of obligatory and optional tasks. The way of funding and implementation of the compulsory tasks is strongly determined by the regulations established at the central level. On the one hand, the state authorities create the catalogue of obligatory tasks for self-government units. On the other, by defining the standards of these tasks' implementation, they affect the scope of the financial freedom of self-government units. The imposed requirements and other conditions of educational policy implementation (such as demographic, distance from school to the students' residents) at the level of municipalities and districts/counties practically deprive self-government authorities of the freedom to carry out these tasks. At the same time, they restrict the liberty of spending the resources which are at the disposal of self-government authorities. Although the educational policy is only one of the many areas of self-governments activity, the costs of its implementation (the majority of local unit expenses) makes it play a vital role in terms of their financial independence.

The far-reaching interference of the central authorities in local authorities' compulsory task performance, simultaneously affects their discretion in terms of optional tasks. The need for the implementation of mandatory tasks, imposed by the central government, substantially affects the amount of funds that remain available to local authorities and could be used according to their will (on the optional tasks). This approach reduces the possibilities of the optional tasks implementation due to the lack of sufficient funds. Paradoxically, in case of these tasks the freedom of self-government authorities is the largest.

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## **Possibilities to reform the system of municipalities in Slovenia<sup>1</sup>**

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### **Introduction**

The need for reorganization of local government in Slovenia, is not necessary in principle to convince anyone else. However, when you get down to specific issues and solutions, our individual interests and activities to prevent any practical solution and realization.<sup>2</sup> Below we present some experiments obstacles and proposals relating to the reorganization of local government in Slovenia.

### **1 Territorial reform of municipalities**

In accordance with the European Charter of Local Self-Government, which states that local self-government denotes the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population is the fundamental objective of territorial reforms to achieve that each municipality Slovenian capable of satisfying the needs and interests of their people and meet the tasks in accordance with the law.

The Republic of Slovenia has 212<sup>3</sup> municipalities, of which as many as 109 fewer than 5.000 inhabitants, as required by 13.a article of the Law on Local Self-Government (LGA)<sup>4</sup>. Reflection of territorial reform stems from the awareness that with relatively simple interventions in the territorial component of Slovenian local self-government, the re- unification of municipalities with municipalities, some of which

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<sup>1</sup> All statements and views in this article is the opinion of the author and do not necessarily reflect the views of the organization in which he is employed or organizations with which it cooperates.

<sup>2</sup> We're all for it, to organize local self-government in Slovenia, but we are not for that would be reorganized our municipality.

<sup>3</sup> The municipality of Ankaran, still does not work, but it should be based on the decision of the Constitutional Court, necessary to constitute the same time as local elections in 2014.

<sup>4</sup> The Law on Local Self-Government (Official Gazette of RS, no. 94/07 - official consolidated text, 76/08, 79/09, 51/10 and 40/12 - ZUJF)

have seceded, mainly to establish the conditions for faster development of these areas. In establishing these municipalities were not given reasons which would justify a change in the area of the municipality or the creation of new municipalities, there were no data from which it is clear that the area in which they are to set up a new municipality qualifies for the municipality as well as data from which would show that the municipality whose territory is changing, still qualifies for the municipality. Political decision-making is fully prevail over professional basis , prepared before the reform and experts' warnings after the establishment of an unplanned communities without taking into account the criteria already begun.

Interference with the existing areas of municipalities is sensitive, therefore requires careful planning. In this context, the Government of the Republic of Slovenia followed the recommendation of the Council of Europe that the planning reforms of local communities should take into account a number of parameters such as size, which includes the criteria of population and size, the functions of municipalities as well as fiscal and functional autonomy. Those parameters are in mutual interdependence and should always be considered as a whole. In those municipalities are also important areas of embossed designs and related to population density. Problem is, for example, at the local level combined area of more valleys, which are delimited by mountain ranges. It is precisely such areas are therefore often exceptions to the population or area. Such exceptions can be found everywhere, from north to south Europe.

In this moment there are no meaningful comprehensive reform of Slovenian local self-government, it is estimated that the functions and powers of municipalities, municipal authorities and the system of financing municipalities do not require radical intervention. The aim is to ensure greater management capacity of municipalities with territorial changes , and thus to a less demanding way to get the beneficial effects of both the work of Slovenian municipalities as well as the macroeconomic situation in the country .

About the reform process in changing areas of territorial administrative systems, the Committee of Ministers of the Council of Europe issued a specific recommendation. The recommendation of the Committee of Ministers draws attention to the necessity of planning reform, which must also include the local level and the inhabitants of the municipality. Objectives of the reform must be clarified and necessary to strive for political consensus. The recommendation describes all phases of reforms, including

the evaluation. General reform processes taking place from top to bottom (top-down) and bottom (bottom-up). In the top-down approaches have the main role of central authorities, who planned and carried out the reform of the territorial administrative systems. Bottom-up approach is particularly time-consuming, requires a lot of coordination, discussion and compromise. In case of changes or reform it is important to respect the content of the European Charter of Local Self-Government, sixth paragraph 4 Article of the European Charter of Local Self-Government of the Member States of the Council of Europe requires the need for local authorities to the extent possible in good time and in an appropriate way in the planning and decision making on all matters that concern them directly.

### 1.1 The local community (local, village or quarter ) as a specialty Slovenian local self-government

Centralization , which was created by the withdrawal of municipalities in distant centres are filled first local committees, and later the local community , which received approval in the Constitution of 1963 , in a clearer definition of it by the Constitution of 1974. The local community, of course, could not be a substitute for conventional municipality. Municipalities, as an integral part of the country and as a first stage, most of the tasks performed by the State, local tasks are like postponed in the local community. Their arrangement was too vague and too little defined and they did not give the system the situation on the basis of which it could successfully perform essential functions in local communities. However, you can reliably say that they are mainly rural local communities quite successful in meeting common needs of the local population and were especially effective in solving the utility - infrastructure issues, which are the typical contents of the local government. The municipality before 1994 is not realistic to carry out local affairs to meet the needs of the local population, which transparently shows the structure of the municipal government, which prevailed authorities and departments, which were basically just extensions of government ministries.

On the basis of the new constitution should get back to the classic Municipality , as we once had and have in Europe and around the world .

A fact in Slovenia before the reform and the introduction of local self-government was also 62 municipalities and 3 specific socio-political communities, 1.203 local communities and 5.955 villages.

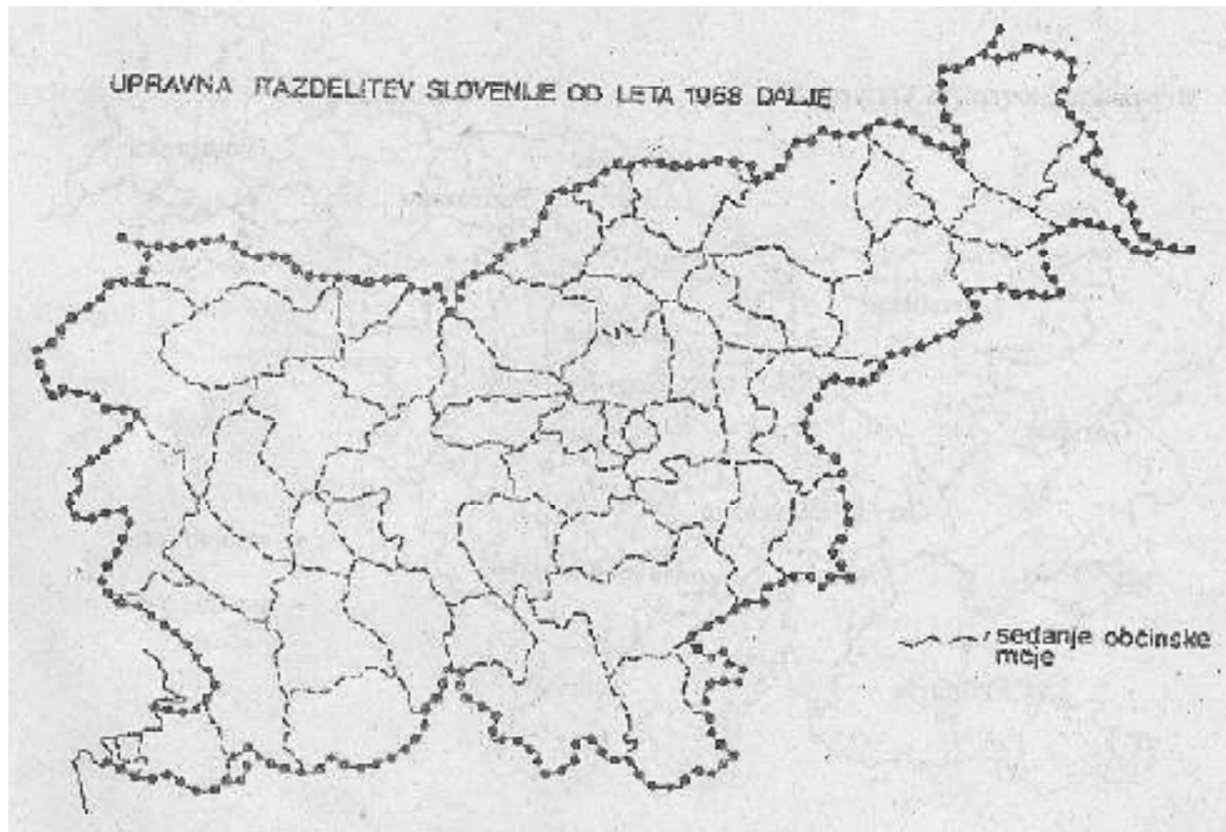


Figure 1: Administrative division of Slovenia since 1958

Source: Reporter of the National Assembly, No. 26. 16, 4. 1998

The Local Government Act in its essence is not resolved questions of local communities, their assets and competencies, but more or less left to the municipalities, but it is indicative and loosely restricted its jurisdiction. The said Act despite the many changes which did not substantially change the situation, but at the initiative of the Ministry of Finance is clearly regulate the area of asset and financial management. Also due to this situation the local community came to the initiatives for the creation of new municipalities. In fact, it is necessary to clearly answer some questions, such as:

Will the local community in the new system of local government exist at all? And if they are, or will be given to development and investment function or development



advisory function? Clear answers to questions similar in content to enable subsequent placement of local communities in the local government system, in particular, ensure transparency of financing of local authorities - municipalities. Based on the insights and different complications between the local community - the municipality, especially with regard to the financing of individual projects under the jurisdiction of municipalities and uncontrolled borrowing and burdening us confirms the fact that we propose, to the local community in terms of legal personality abolished and that the transmission of funds and assets to the local community - the municipality. The local community and from the community made , become the coordinator of the interests and opinions of a certain area, therefore community of interest (Žohar, 2002, 8).

## **2 Starting point for determining the size of municipalities**

Given the fact that the municipalities of their duties and responsibilities carried out for the people, they rule the first criterion in determining the territorial scope of local government. Such a platform can also be found in the documents of the Council of Europe, which determine unambiguously the relationship between size and efficiency of local authorities, which refers to the four elements:

- **Efficiency** (what the extent of the public service or public services can be provided at minimum cost)
- **Democracy** (in which the size is guaranteed the most effective control of local authorities and ensure their accountability)
- **Development** (how the size and structure of the local authorities the impact on local economic development) and
- **Distribution** (which size will ensure a more equitable distribution of public funds and the tax burden within the county).

Practice in the 47 Member States of the Council of Europe and within the European Union shows the very different approaches. These are often associated with general economic situation within the Member States or regions. Thus, for the period from the second half of the last century until today we see certain trends. If after World War II territorial reform of many countries went in the direction of increasing the number of municipalities in the eighties years of the last century after the oil crisis reversed

direction and the country as a rule reduced the number of municipalities . With the fall of the Berlin Wall and the emergence of new democracies the trend has again reversed and many countries have established a relatively large number of municipalities. In the last two decades in the Republic of Slovenia held the same process. Since 1994, the number of municipalities without taking into account their respective mandates and constitutional position increased. It is interesting that the modifications related, as the Statistical Office of the Republic of Slovenia, the very broad phenomenon regarding changes in the extent of the territory of settlements has been "part of the territory eliminated," and thus the administration of migration. Interesting is that the data clearly show that the majority of these changes It took place after the population of smaller settlements. The same phenomenon has also been noted after the implementation of the latest reform of local self-government after independence.

Drafters of the territorial component of the reform of local government in the early nineties of the last century have taken the starting point for municipalities with at least 5.000 inhabitants, and this is to adjust the volume and the type of tasks and responsibilities of municipalities. Throughout the reform process, there was a marked deviation from the established evidence, which resulted in an imbalance between functional and territorial component of local government, the size of the Slovenian municipality and its tasks and responsibilities. It was therefore up to the year 2006, when it was adopted a new system of financing municipalities, unbalanced by the financial component of local government, as municipalities finance inconsistent with its duties and responsibilities, and the second point 9 Article of the European Charter of Local Self-Government, which states that the financial resources of local authorities in proportion to the functions provided by the Constitution and the law.

### **3 Size of Slovenian municipalities in 2013**

Slovenia has 212 municipalities, 211 works by Average Slovenian municipality has 9,757 inhabitants. Minimum Municipality Hodoš with 375 inhabitants is the largest Municipality of Ljubljana with 282.994 inhabitants.



**Figure 1: Municipalities with fewer than 5.000 inhabitants**

Source: Own

Given the current quantitative statutory requirement that a municipality has established with 5.000 inhabitants, is now 109<sup>5</sup> municipalities in Slovenia or 51,7 %, this condition is not met. These municipalities were established in accordance with the provisions of 13. a of LGA as an exception, then the applicable provisions of the LGA. For a clearer idea we are in the table below to identify municipalities by population.

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<sup>5</sup> Finally, do not overlook the fact that in these municipalities live 311 907 inhabitants or 15% of total population

**Table1: Municipalities in individual groups of population**

<b>Municipalities by population</b>		
<b>number of inhabitants</b>	<b>total municipal</b>	<b>share in v %</b>
<b>Slovenia</b>	<b>211</b>	<b>100,0%</b>
do 1.000	7	3,3%
1.001-3.000	51	24,2%
3.001-5.000	51	24,2%
5.001-10.000	49	23,2%
10.001-20.000	36	17,1%
20.001-50.000	13	6,2%
50.001-60.000	2	0,9%
60.001-100.000	0	0,0%
over 100.001	2	0,9%

Source: SURS data, 1.1.2013

The Republic of Slovenia has over two decades of establishment of new municipalities territorially fragmented. Already in 1994, at the launch of the first 147 municipalities decisions were largely made arbitrarily and without complying with the substantive criteria which provided the Local Government Act. Health Professionals is constantly finding that we need serious professional consider how to approach the re- integration of municipalities in terms of their effectiveness in ensuring the rights held by their inhabitants .

It should be borne in mind that, with respect to the total population of the Republic of Slovenia the average Slovenian municipality of 9.272 inhabitants, while the average in EU member states almost half the size, population 5.580. However, only this

comparison without considering the duties and responsibilities of municipalities does not have the appropriate weight. In addition, do not overlook the re-observed trend of decreasing numbers in some EU Member States (Denmark, Ireland, Greece) , as well as the Member States of the Council of Europe (Iceland, Turkey).

#### **4 Warnings international institutions and the Court of Audit**

About the irrational network of municipalities has ruled the Court of Auditors of the Republic of Slovenia, which in 2012 issued an audit report regulation of municipalities, inter alia, that the main reason for the current situation in that there was no strategy<sup>6</sup>, setting clear objectives in municipalities and that this is also reflected in frequent changes of legislation in the field of local government. Prior to this, several institutions found that Slovenia does not have a strategic document, which for a long period outlined the development of local self-government. Committee on Local Government and Regional Development of the National Assembly of the Republic of Slovenia in 2011 held a public hearing on the Development Strategy of Local Self-Government in the Republic of Slovenia and called for its adoption.

Congress of Local and Regional Authorities of the Council of Europe in Slovenia conducted two monitoring of the state of the local government or the realization of the European Charter of Local Self-Government (2001 and 2010). Given the number of municipalities was the first findings of the monitoring to the structure of local government are still dominated by many small municipalities. After independence and the introduction of democratic structures in Slovenia were 60 local communities and the state has decided to enact a new organization of local communities. Report to the Council of Europe in 1997 already mentioned 147 local authorities. Minimum criterion which originally set by the Law on Local Self-Government was 5.000 inhabitants, but it had during the monitoring Slovenia 95 municipalities out of a total population of 192 below that minimum. After evaluating a delegation of Congress is responsible for this development the old parliament (National Assembly), it adopted a

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<sup>6</sup> At which for many years also points out Dr. Stane Vlaj, a connoisseur of local self-government, which was the reform in 1994 also Deputy Director of the Department of Local Government. One of his posts in 2010 addresses the issue: For the development strategy of Slovenian local self-government, 27 September, 2010. The International Institute for Middle-East and Balkan Studies (IFIMES).

whole series of "exceptions" shortly after the adoption of the law and thereby discredits the minimum criterion. This has had implications for the jurisdiction of the Constitutional Court, which had to arbitrate in more than 60 cases of new local distribution. The Court stated that Parliament has not complied with its own criteria, nor those of the already mentioned exceptions in the law itself, and this statement of the Constitutional Court are used as a basis for "equal treatment" in cases in which Parliament has rejected the exclusion and independence, that is, the creation of new local communities. Similar findings also contain other monitoring in 2010.

The consequences of a large number of small municipalities also recalls the Organisation for Economic Co-operation and Development (OECD) in his study in 2011, whereby he proposes to facilitate the aggregation of municipalities and develop new forms of inter-municipal cooperation and provide additional financial incentives for new forms of cooperation of municipalities. It notes in particular the difficulties in implementing regional policy and harmonious development of all areas in Slovenia.

## **5 The ability of municipalities to meet the needs of its people**

Territorial interventions in the two decades Slovenian local self-government so crushed, that it affects their development capacity. Therefore, the alignment of 109 Slovenian municipalities contributed significantly to the strengthening of development potential. Combining human, organizational and financial resources will be a new development opportunity for dispersed areas:

– **Combining human resources.** In the functioning of the smallest municipalities Staff deficit evident, often in those areas designated personnel did not in the labour market (ei., architects, civil engineers, economists, lawyers, etc.). But if you already have a job is in municipal administration non-stimulating. The country is co-financed by joint municipal administrations since 2005 failed to encourage municipalities to lack of inter-municipal cooperation, but the scope and content of the cooperation confined to a few areas. For a development breakthrough should be more radical interventions, the expansion content inter-municipal cooperation and provide additional financial incentives for inter-municipal cooperation and integration, which is found and proposed by the OECD in the said territorial review of Slovenia in 2011.

– **Combining organizational resources.** Experience territorial reforms of the Member States of the Council of Europe, among other things based on the demarcation of the border, which tells where the size will ensure a more equitable distribution of public funds and the tax burden within the county Combining organizational resources means primarily reunification of public enterprises and public institutions or other entities performed for the residents of public services , under a single founder. Due to the territorial dispersion of municipalities on the one hand and the nature of the public service for optimal and affordable implement these services on the other hand require a larger number of people , we have witnessed many complex organizational structures, resulting fellow founder several municipalities and inadequate legal solutions. In practice, it is also certain strategic as well as operational solutions should be coordinated and take on more municipal councils, which is a significant time lag and wasteful spending hours of civil servants in finding optimal solutions. Due to economies of scale, providing quality service at an affordable price, this measure could mean long-term development priority. The extent of the public service or public service should be provided at the lowest possible cost.

– **Combining financial resources.** On the third hand, the kinds of 109 Slovenian municipalities with the current statutory requirements mean an increase in budgets, thereby increasing the fiscal capacity of the newly established municipalities. Size and structure of the local authorities the impact on local economic development. Number and the size of investment in infrastructure increase, or increase its effects because of the impact a greater number of people.

## **6 Greater economic efficiency and effectiveness of municipalities**

Objectively, the ability to ensure the realization of the needs and interests of the local community and the enforcement of the statutory functions of the original municipalities related to the number of residents who municipality provide adequate resources to perform its functions, so you can condition 5.000 inhabitants at the same time be regarded as an objective basis for assessing the municipalities with less population are not capable of performing their duties in accordance with the principles of functional and financial autonomy , unless linking the implementation of certain tasks to inter-municipal level . So should be a priority of integration and co-

operation from that point of view, especially for municipalities whose population is under 5.000. Functional ability of local communities requires that local government units by size and position, depending on the type and levels comparable as possible and to maximize the economic and financial autonomy. When designing the local community as the basis for local self-government should be to strike a balance between the rational aspirations for greater local communities, based on their economic financial viability of the increasingly demanding and costly provision of local public services and local government , and the tendency towards the creation of small local communities which can provide a direct impact on the population of decision-making and ensuring the attainment of their common needs and interests. On the basis of the analysis is based score that municipalities with 5.000 inhabitants in the current arrangements and the provision of financing municipal tasks successfully, the same as the larger municipalities meet the needs and interests of their people and ensure fulfilment of other tasks in accordance with the law. Financing of public affairs is inextricably linked with the powers defined by law powers or the rights and obligations of public authorities. 142 article of the constitution also provides that a municipality is financed from its own sources. The State of municipalities that the economic under development cannot fully provide for the performance of their duties, in accordance with the statutory principles and criteria provide additional resources. Financing of municipalities must be consistent with the principle of proportionality means of the powers or duties. The financial system must therefore ensure the effectiveness of the provision of municipal tasks, which must provide enough variety and content of the own tax and non-tax sources. Weaker municipalities the system should provide additional funding to equalize differences in income, because they depend on the economic development of the county. The financial system must also ensure that the municipality of the assets which are income of its budget, decide autonomously, irrespective of whether the income from own sources or means of financial compensation from the state budget. Analysis of the system of financing municipalities after the legalisation of Law on Financing of Municipalities (LFM – 1) indicate that the expenditure of municipalities for the operation of local government per capita (funds intended for local self-government bodies municipalities, municipal financing activities, the narrower parts of the municipalities and the activities of the municipal administration) in the municipalities with fewer than 2.000 inhabitants, the largest. Account for almost 25%



of all expenditure allocated to mandatory tasks. In municipalities with more than 2.000 inhabitants, the cost of local self-government, on average, 17 % of the total expenditure. It is evident that the population of small municipalities stand out in the areas of local government and social security. In municipalities up to 2.000 inhabitants empirical analysis confirms the expectation that the average cost of significantly higher in those areas, as it is the cost of organizing and carrying out the tasks of the municipal administration. At the same time the increased expenditure on social protection, which are the demographic trends and the aging of the population and geographical characteristics of the areas where these municipalities are understandable.

Municipal debt is all of the reform of local self-government in Slovenia in 1994 and the following years continued and constant theme treatment. The first period was marked with great caution as a result of the effects of municipal bonds issued by municipalities in Slovenia (Laško, Trbovlje, Zagorje ob Savi) and the resulting problems. It is also the creation and design of public finances in Slovenia, especially large role devoted stability, so it was considered a restrictive municipal debt. Thus, until 2001, no large indebtedness of municipalities. After this period, the two sequences after two years (2002-2003 and 2004-2005) observed rise in the first year and fall in debt next year. From 2006 onwards, it is a gradual and constant increase. The liquidity problems are just a few of those municipalities that have borrowed in conflict with the provisions of ZFO -1. Indebtedness of municipalities in Slovenia in total debt, or a percentage of the revenues of municipalities is not great. Also, the indebtedness of municipalities per capita inappropriate smaller than government debt per capita . Of course, it is necessary to stress once more that a group of about 20 municipalities responsible for more than five years by reference to the statutory regulation. The main types of municipalities borrowed and over-indebted for the construction of infrastructure and public facilities (water supply, gym , school, kindergartens, guarantees, etc.).

## **7 Ensuring adequate human resources and functional capacity of municipalities**

The current network of municipalities is all the more problematic because the tasks of municipalities qualitatively the same , they differ only quantitatively , with the financial

and human resources are less able to municipalities not exercise or do not meet the same standards of service to its citizens. Number of employees in municipal administration ranges from two employees up to over five hundred employees. Since many municipalities do not have sufficient human resources for effective implementation of independent administrative and development tasks, it is therefore also necessary with additional funds from the state budget to promote the joint implementation of these tasks. A large number of municipalities cannot provide funding their duties. All municipalities do not have sufficient and diverse enough own sources of financing, so it was necessary to regulate the system of financing that these resources are reallocated between the financial resources of the richer and poorer municipalities. Small size and economic dependence of communities most affected by the ability of the implementation of development programs ( investments in local public infrastructure ), the provision of local public services and organizing relevant personnel of the municipal administration . In spite of the same regulation, the Slovenian municipalities also differ greatly in their functional abilities. Key reasons for the reform of the territorial component of local government are:

- Improve functional management capacity of municipalities and their financial autonomy of local government and
- Ensure the autonomy of local government as a subsystem of public administration.

Organization of local communities is determined by law, the same municipal authorities, roles and responsibilities of municipalities. Since the law concerning the performance of tasks and responsibilities does not distinguish between the size of municipalities (tasks and responsibilities are the same for all municipalities regardless of their size), is organizing an effective municipal government in the municipalities, especially those with a population under 5.000 extremely challenging and in many cases not can provide all the tasks prescribed by law. As a note some Slovenian study the size of the municipality in terms of population and its management capability connected. In smaller communities (under 5.000 inhabitants) is what 90% of their managerial ability is low or intermediate. The smaller municipalities, the lower the probability that their municipal administration able to work smoothly and were able to provide to meet the needs of citizens and local implementation of public policies. When measuring satisfaction with public services regardless of the size of municipalities have very small municipalities relatively low levels of satisfaction with

local services is also a cause or mainly in the establishment deficit municipal administrations and the limited amount of financial resources .

The level of political participation is as a rule higher in smaller municipalities, most in medium-sized municipalities (between 5.000 and 10.000 inhabitants) and lower in larger municipalities. Greater participation means more active citizen and more feedback to local authorities, which can provide higher quality public services. It follows that the size of the municipality in terms of population cannot be the only criteria when assessing the management capacity of municipalities, but it is certainly one of the fundamental. The critical aspect in terms of both satisfaction with public services represent municipalities with fewer than 5.000 inhabitants, while in medium-sized municipalities with over 5.000 inhabitants aspect of political participation, active participation of citizens and satisfaction with the impact of the implementation of local policies tall and such municipalities can successfully carry out their duties . At the same time they are in most cases able to provide adequate staffing in municipal administrations.

In view of the identified negative effects of fragmentation of municipalities , the Republic of Slovenia in 2005 with the amendment of the Law on Financing of Municipalities provide additional funding for joint municipal authorities, which reduces the risks identified. Participation of municipalities with neighbouring municipalities in the region in various fields is crucial, but an indicator of Interest cooperation, which is already operating at the same time an indicator of good opportunities to expand cooperation. Municipal administrations, which have different sizes and different qualifications can provide mutual support in performing the tasks of the municipal administration of the municipal administration other (or more) of municipalities in areas where one municipality in the capacity of staff after the pods are sufficient, while other municipalities such qualified personnel shortage. These links operating successfully are certainly indicative of the potential of territorial integration resulting from the terrain.

The primary purpose of decentralization, the organization of the system of local government is to achieve higher economic value, because by creating a more level closer to the actual needs of the environment. Fiscal federalism also means one property at a higher level.



**Figure 2: Municipalities by territorial reform**

Source: Own

Foundation for achieving this goal is the correct vertical tax structure, decentralized units enables a sufficient degree of autonomy. But it also has its limitations, fiscal decentralization, which in fragmentation units below a certain level causes the opposite to the desired effect.

In the distribution of local public goods at lower marginal costs and the same quality relevant services in major organizational units (municipalities) so costs are lower due to economies of size and diversity of product as a result of significantly better quality of human resources that are available to the central government and larger municipalities, but not necessarily each municipality. In such a case, therefore, the decentralization of funding not only unnecessary but also harmful as it increases the national economic costs. Simplified rules of fiscal decentralization is that local (regional) government services funded through tax and non-tax instruments that residents who benefit from these local (regional) public services. Compliance expenditures and financial instruments is also one of the key theoretical arguments

(in addition to tax competition and tax fragmentation) for the argument that the optimal fiscal decentralization reduces the size of the country.

The Republic of Slovenia as well as the rest of Europe is in a long-term economic crisis. At the same time the decline in economic activity is detectable strong impact on decline in government revenues and the need for social transfers. National authorities in all areas looking for ways to reduce expenditure from the public purse. Therefore, in such a vast and complex project, which is associated with radical reform processes are also critical reflection on the rational network of Slovenian municipalities. In public, strengthens the already long present belief that the number of municipalities in Slovenia too high and therefore the national economic point of view irrational.

Critical economic and fiscal circumstances require verification of all outflows from public funds, both state and local government. Short-term financial savings harmonization sizes of Slovenian municipalities with the current statutory requirements do not constitute a dramatic leap. In the long term we can expect synergy effects that would contribute to reducing the operating costs of the municipalities in the same or even higher quality of service for residents. The objective of such harmonization is necessary to ensure the most equitable distribution of public funds and the tax burden within the county.

## **8 Territorial changes - municipalities with at least 5.000 inhabitants**

In preparing the proposal for the integration of municipalities with less than 5.000 inhabitants could combine areas neighbouring municipalities within the administrative unit. This ensures the continuity of the territorial jurisdiction of administrative units and current involvement of affected communities. In most cases in these areas is also inter-municipal cooperation and were set up joint municipal administration.

Assumptions on the smallest municipalities:

- The powers of municipalities, municipal authorities and the method of financing shall not be altered.
- Area of new municipalities would be treated as a new municipality, for each municipality, which would bring together, would be determined referendum area.

- Depending on the nature of association of municipalities, which applies to most municipalities in Slovenia, the government of presentations and activities reforms included all municipalities concerned by the reform, but also includes municipal associations, representatives of local interests in the National Assembly of the Republic of Slovenia and professionals.

**Table 2: Municipalities by number of inhabitants after the territorial reform**

<b>Municipalities by population</b>		
<b>number of inhabitants</b>	<b>total municipal</b>	<b>share in %</b>
<b>Slovenia</b>	<b>122</b>	<b>100%</b>
do 1.000	/	/
1.001-3.000	/	/
3.001-5.000	/	/
5.001-10.000	53	43,4%
10.001-20.000	47	38,5%
20.001-50.000	17	13,9%
50.001-60.000	3	2,5%
60.001-100.000	0	0,0%
over 100.001	2	1,6%

Source: SURS data, 1.1.2013

Or for that, or any other proposal can be realized in the short term, it is difficult to answer, certainly the government and most of the designers of previous reforms of local government stands in the position that reform is possible only and only from the top down, that is top-down. Although the population, some mayors in informal talks agree that it is necessary to start with the territorial reform of local self-government, but in their majority, if not almost absolute opinion to be municipalities or areas

together from the bottom up, and not necessarily in a short time throughout the entire territory of Slovenia. It could be that the process of integration began, and now they are not even start, but even moving away somewhere in an unknown and uncertain future<sup>7</sup>.

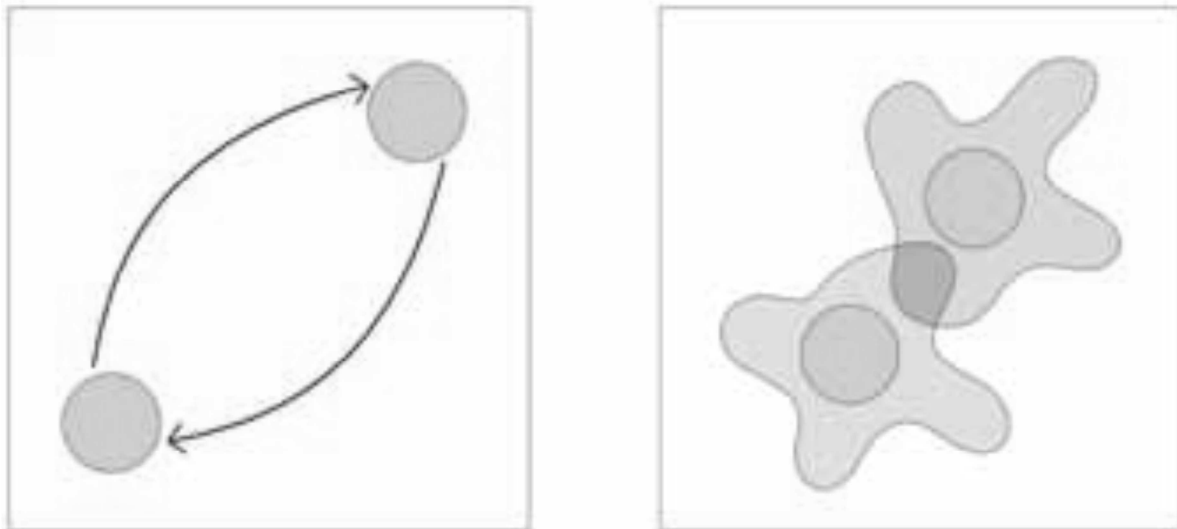
## **9 Strengthening of inter-municipal cooperation and integration**

Institute of joint municipal administration has defined the Local Government Act in 1993 (LGA ) (Official Gazette of RS, no. 72/93), but was later amended several times: in 1998 with the provisions of the act of organization and systematization of jobs (LGA - J) (Official Gazette of RS, no. 74/98) , the 2002 provisions on the administration and management of the joint authority of the municipal administration and mode of establishment (LGA - L) (Official Gazette of RS, no. 51 / 02 ) in 2005 provisions on providing resources for the functioning of the administration and the manner of its financial operations (LGA - M ) (Official Gazette of RS, no. 72 / 05 ) and finally with a substantive change 49 b. Article (LGA -N) (Official Gazette of RS, no. 60 / 07).

A key measure that is fundamentally changed the views of Slovenian municipalities on joint management bodies, was the change of the Law on Financing of Municipalities Act of 2005 (LFMA - B) (Official Gazette of RS, no. 90 / 05). The content of the new 26 b article provides that municipalities, in accordance with the law organizing joint performance of individual tasks of the municipal administration in the current year provides additional grant from the state budget in the amount of 50 % over the past year of the expenditure municipal budgets to fund shared tasks . The second feature is the fact that, despite a bit complicated model remained the core competencies in the domain of each municipality and the mayor. In this way there was a very different connectivity between municipalities.

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<sup>7</sup> Often it as an argument for the status quo applies the view that once formed the landscape will be a problem smallness of Slovenian municipalities somehow disappeared, which is not true. At the same time, however, it uses pressure on the formation of several small provinces that were closer to the municipalities.



**Figure 3: Principle of interconnections between municipalities**

Source: Adapted from ESPON 2004.

Could identify some patterns of inter-municipal cooperation and integration in Slovenia:

- 1 Integration of smaller municipalities together.
- 2 Connecting small communities and municipalities with larger urban centres.
- 3 Connecting communities with no municipalities with larger urban centres.
- 4 Subsequent connection to the county already associated municipalities.
- 5 Subsequent to connect the municipalities with larger urban centres already connected to the municipalities.
- 6 Withdrawal of individual municipalities.
- 7 The dissolution of the joint municipal administration.
- 8 The re-establishment of a joint municipal administration.

Inter-municipal cooperation and integration is a dynamic process based on the integration of bottom-up down -up. As shown above comes to connecting smaller communities with each other, especially when individual tasks (eg., financial and accounting services ) , while others link in greater overall administration , which has a



municipality with a larger administrative centres like Ptuj, Maribor, Celje, Slovenj Gradec, Dravograd, Celje, Velenje, Kranj, Jesenice, Krško, Postojna in Nova Gorica.

Subsequent connections to the related municipalities are normal, but not frequent. Subsequent to connect the municipalities with larger urban centres already connected to the municipalities is rare (Trebnje with 1.1 . 2014) . In the meantime, from certain joint municipal administration withdrew the Municipality and the Municipality of Sveti Jurij ob Ščavnici . They left the two joint municipal administration and one is in the same territory set up recently. Two common municipal government are in part functions merged into one larger, individual tasks but remain separate (Ptuj and Ormož ).

The purpose of the establishment of joint municipal authorities (JMA) of municipalities is quite clear:

- 1 Increase the professionalism in performing their duties with professional teams.
- 2 Achieve the full employment of personnel.
- 3 Obtain funds for JMA.
- 4 Reduce the cost of administration.

In the years from 2006 to 2013, it was realized co-financing from the state (see Table 3) and thus materialized legally recorded content co-financing joint municipal authorities, which is a positive way to organize and encourage the further establishment of new joint municipal authorities. In the first half of 2013, we also organized 48 joint municipal authorities and included them 195 municipalities, 51 municipalities involved in two joint administration and two municipalities in three common administrations. The following table shows the number of total municipal administrations and participating in the programs of individual municipalities by year and state budget funds intended for financing.

**Table 3: Use of state funds**

<b>Year (t)</b>	<b>Number of total municipal administrations</b>	<b>Number of municipalities involved</b>	<b>% municipalities involved</b>	<b>Funds from the budget in (t+1) in 000 €</b>
<b>2005</b>	<b>12</b>	<b>60</b>	<b>28,44</b>	<b>466</b>
<b>2006</b>	<b>15</b>	<b>76</b>	<b>36,02</b>	<b>793</b>
<b>2007</b>	<b>24</b>	<b>133</b>	<b>63,03</b>	<b>855</b>
<b>2008</b>	<b>29</b>	<b>158</b>	<b>74,88</b>	<b>1.667</b>
<b>2009</b>	<b>40</b>	<b>176</b>	<b>83,41</b>	<b>1.668</b>
<b>2010</b>	<b>46</b>	<b>186</b>	<b>88,15</b>	<b>1.409</b>
<b>2011</b>	<b>48</b>	<b>186</b>	<b>88,15</b>	<b>2.552</b>
<b>2012</b>	<b>48</b>	<b>192</b>	<b>91,00</b>	<b>4.853</b>
<b>2013</b>	<b>48</b>	<b>193</b>	<b>91,47</b>	<b>6.476</b>
<b>2014*</b>	<b>48</b>	<b>195</b>	<b>92,42</b>	<b>4.851</b>

Source: SVLR, Ministry of the Interior, Service for Local Government

In 2014 it is predicted that consumption will increase due to the increased number of total municipal administrations and the increasing number of tasks to be carried out. In addition to increasing the numbers of joint municipal authorities of municipalities and the number of them have also expanded the activities in which they engage. In the years 2015 to 2017 is estimated to be finalized all joint municipal administration and its activities cover most of the territory of Slovenia.



**Figure 4: The involvement of municipalities in Slovenia in the joint municipal administration in early 2013**

Source: Michael, FONDA and Franci, ŽOHAR. Presentation cards participation in joint municipal boards in specific areas of tasks. In : Zohar Franci ( ed. ) . Operation of joint municipal administrations in Slovenia: VI. Consultation, Škofja Loka , March 2013. New York: Association of Municipalities of Slovenia, Ljubljana: Ministry of Interior and Public Administration: Association of Municipalities of Slovenia, 2013, page 179.

At the same time, it is estimated that we can expect the spread tasks in the greater part of the total municipal administrations, especially taking complex technical, developmental and promotional functions, which had in prior periods primarily functions of the Joint Inspection and warden.

Thus, in the following years with appropriate government incentives, legal and financial, we expect the expansion of the scope of tasks of economic and non-economic public services. In the area of utilities already have the first trusses in the field of non-commercial services, but opens up the spectrum of social, welfare, educational services. Also, tourism development and local entrepreneurship. This means in addition to the substantial expansion, an increase in personnel and increasing material costs. Tasks that are most engaged in joint municipal

administration can be divided into a few main groups, which we present the following table.

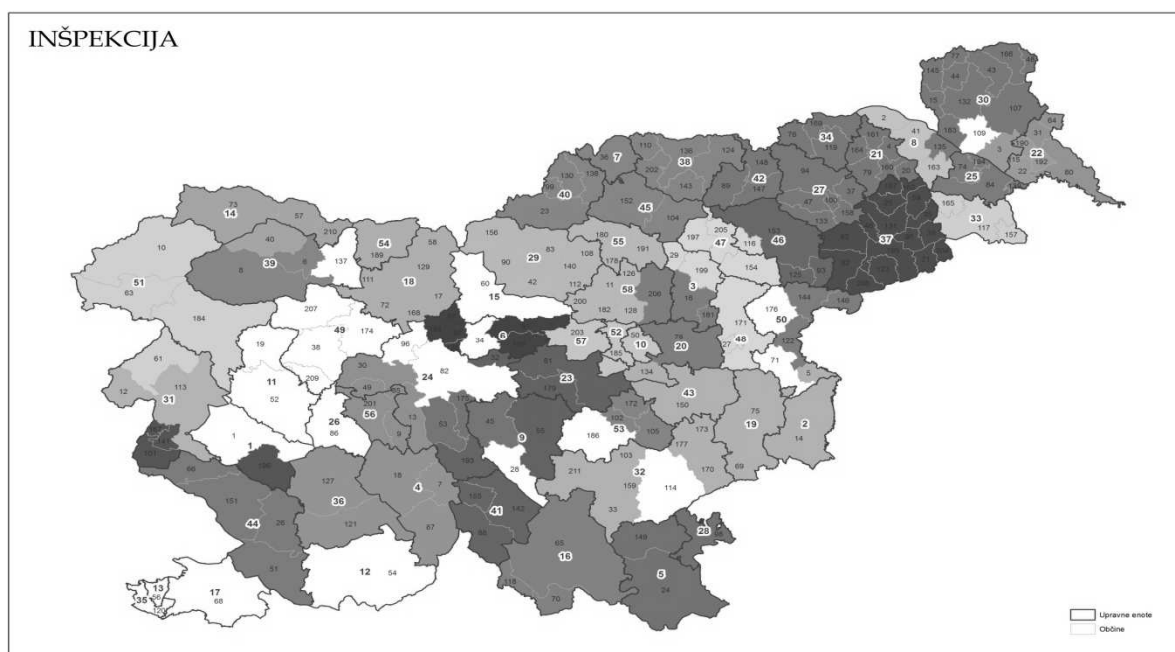
**Table 4: Tasks that are most engaged in joint municipal administration**

<b>Sec. num.</b>	<b>Task</b>	<b>Joint municipal administration</b>	<b>Municipalities</b>
1.	Inspection	35	183
2.	Constabulary	30	151
3.	Planning	7	48
4.	Internal audit	7	26
5.	Waste control	4	16
6.	The provision and implementation of public services	3	23
7.	Protecting the environment	2	5
8.	Financial and accounting department	2	5
9.	Civil protection and fire safety	2	8
10.	Preparation of projects in the areas of public utilities and to stand for European funds	1	5

Source: Own

Inter-municipal cooperation and integration is also a territorial rather complicated and the implementation of certain tasks overlap occurs between the territories. Basically, you can see a dominant pattern, which is most commonly associate municipalities

within one or more administrative units, and further to a wider regional or sub-regional area, such as, Spodnje Podravje, Mariborsko območje, Koroška, Posavje, Bela Krajina, Velenje in Zgornja Savinjska dolina, Zasavje and anyone else. Even so, it is in this area is extremely important and interdependent with the administrative reorganization . Show that model is quickly seen from the following picture, which shows the municipal integration and participation in the tasks of inspection, as the most common tasks.



**Figure 5: A model of inter-municipal cooperation and integration in Slovenia**

Source: Michael, FONDA and Franci, ŽOHAR. Presentation cards participation in joint municipal boards in specific areas of tasks. In: Žohar Franci ( ed. ) . Operation of joint municipal administrations in Slovenia: VI. Consultation, Škofja Loka, March 2013. New York: Association of Municipalities of Slovenia, Ljubljana: Ministry of Interior and Public Administration: Association of Municipalities of Slovenia, 2013, page 185.

At the proliferation of tasks and further active intermunicipal cooperation and integration can be expected to design major joint municipal authorities, which could have the role of individual sub-regions.

## **Conclusion**

The reform of local self-government in Slovenia is definitely needed, as well as the need for the realization of second level of local government and the establishment of regions. It has to be appropriate to reorganize the local community, or at least stopped them legal personality.

However, in our opinion, this is not the idea of individual initiative and individual minister who is looking for a financial impact and cost savings for the state. In our opinion, such an ad hoc campaigns reinforce attitudes and beliefs that really do not change anything and improved. In addition, the county pushed into the role of opponents, rather than co-workers and designers the necessary changes. We believe that long-term orientation, strategy development of local self-government that would be adopted by the National Assembly by a two-thirds majority can be a basis for change in the structure and functioning of local self-government in Slovenia.

This reinforces our success inter-municipal co-operation in Slovenia, since the 48 joint municipal administrations involved 195 individual municipalities or 92.4 % of all municipalities. However, it should be noted that the inter-municipal intensive process integration and collaboration began in 2005, nearly 10 years of intense and daily work. Maybe this is not a recipe, but it is an important experience.

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## **The more the merrier? Strengthening the role of regional governance over the fragmented municipal political system**

Martin Švikruha, Jaroslav Mihálik

### **Abstract**

It is rather difficult to determine the appropriate proportion and size of a single administrative unit from the principle of its effectiveness. This problem occurs in many European countries, including Slovakia and its geopolitical situation. Based on the observation and analysis, the size of local administration units differs significantly from the comparative measures. The paper discusses the problems of high level fragmentation of the Slovak municipal political system where the effectiveness of regional governance is substantial and often plays a dominant role within the decentralization process. Thus, the exclusive powers at local level are partially or to some extent transferred into the regional perspective. Compared to Nordic countries, the region of Central Europe lacks the comprehensive municipalization process so the authors argue about the options of strengthening the competences of regional governments over the local administration.

**Key words:** municipality, region, governance, Slovakia, decentralization

### **Introduction**

A modern democratic society requires the system of good governance. There is no single explanation of what the good governance means. Taken into account the different meaning and understanding for various organizations and public actors it is rather difficult to establish a definite and unambiguous framework of good governance. Former UN Secretary-General Kofi Annan<sup>1</sup> used the definition that “*good governance is perhaps the single most important factor in eradicating poverty and promoting development.*” Nevertheless, Rachel Gisselquist argues (2012) there are plenty of working uses of such term which include variety of generally good things. As she warns, the good things do not automatically fit together in any meaningful way. She based her argumentation on Gerring’s (1999) criteria of conceptual goodness that are relevant to this field. First of all, good governance lacks parsimony. Gisselquist mentions that unlike good concepts, good governance has endless definitions and it is always about details to elicit if we are talking about the same issues. Secondly, good governance lacks differentiation since well-governed countries often sound a lot like functioning liberal democracies and it is not very clear how exactly they differ. Then, good governance lacks coherence. There are plenty of possible characteristics and interpretation which do not clearly interact or belong together. Finally, good governance lacks theoretical utility because it confuses more than it aids, in the formulation of theory and the related

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<sup>1</sup> The statement was published in Kofi Annan’s Annual Report to the General Assembly on the work of the United Nations in 1998. See: *Annual Report of the Secretary-General on the Work of the Organization*, New York 1998, p. 62 (A/53/1)



project of hypothesis testing because the concept is very fluid and the specialists can easily define it in the way that best fits their own research data (Gisselquist, 2012).

From the perspective of our research, the transition countries and former Soviet Union member states created the bias to transform, extend and modernize the principles of democratic governance. While operating with the ‘democratic’ and ‘governance’ it should not be questionable whether the power is derived directly from the people which is usually guaranteed by the constitution. It is therefore the application of citizens’ power to direct and influence the state power and principles of civic representation at all levels of public administration. If the latter shall be understood as the public service and interest, the policy-making and governance is then considered to be the subject of state decentralization.

From this principle the public administration combines all interests and politics that serve and act toward the widest scope of citizens, providing for the general welfare. A modern public administration should be organized and structured around:

- Clear set of competences among the public institutions and toward the citizens
- Good and quality legislation
- The law enforcement
- Professionalism and competence of the public servants (Búšik 2005).

The public administration decentralization brings the expected benefits but, when ignoring the complexity of the process it might cause the potential threats. Let’s illustrate some of the examples. One of the most discussed positive effects of decentralization is to limit the consequences of the democratic deficit (Mihálik, Juhás 2012) which can cause a permanent crisis between the state and citizens. The decentralization links and opens the public administration for citizens to be concerned about the issues at the local and regional levels. At the same time, the state empowers its position by delegating the powers as well as the responsibilities to all levels of public administration while respecting the subsidiarity principle. Therefore, the democratic values and procedures are emphasized, the citizens’ engagement is more active and the directly elected representatives are more familiar and closer to ordinary voters. Another source of positive effect of the decentralization might be vested in the majority – minority relations in the nation states, emphasizing and strengthening the minority rights and their political and societal integration. All in all, the decentralization is expected to bring up the effectiveness and performance of the public administration itself which is discussed further in the paper.

### **Decentralization process overview**

To begin with the elementary constitutional aspects of regional self-governance we have to establish the framework of decentralization process. In essence, the transfer of public authority to lower areas than central government means also transferring the independence in the decision-making process to the self-governing entities which is then followed as an important factor in the process of construction and formation of regional governments. The decentralization is generally defined as a process of enhancing the quality of governance in a given state by enabling the decision process closer to the affected groups – citizens (Nižňanský, Pilát 2009). The common ground for defining the decentralization and argumentation is vested in transferring the power and authority to the lower levels than state level (Pirošík, Sičáková-Beblavá, Pavlovič, 2004). Derived from this, another definition is observed that describes the decentralization as a process in which the idea of centralized

government is dismissed by transferring various specific competences to a dedicated levels and entities of the state power (Vykupilová, 2007). From the amount and types of the transferred competences within the decentralization we can elicit the process of administrative deconcentration which is specified by transfer of administrative competences. Furthermore, devolution is a transfer of legislative powers and it is considered as the most extreme form of decentralization (Ibid). The political decentralization brings the rise of substate decision makers and their increased sovereignty as well as the options and political participation for citizens and their representatives (Vykupilová 2007, Litvack - Seddon 1999). The other decentralization processes include fiscal decentralization, market decentralization and deconcentration.

The similar approach toward the decentralization definitions is visible among other theorists (Burki-Perry-Dillinger 1999) who accept this process as limiting the range and scope of political as well as decisive agenda at the central state level.

Authors Litvack and Seddon define the decentralization from the institutional perspective where they point on delegation of competences and responsibilities over the public functions from the centralized governments to subordinated or almost independent governmental organisations and (or) private entities (Litvack – Seddon, 1999).

Importance of decentralization lies in transferring tasks to regional or local units located below the central level, whereas in the current modern states it is impossible to reinsurance services only from the center. As interpreted by Heywood (2004), peripheral institutions in the form of regional or local authorities confer tasks such as: education, health, social security, which relate to the particular domestic population pertaining to a given territory.

At the same time, the key feature of decentralization is to limit the definite structure and rigid competences delegation. The goals are to develop the political procedures that support constructive balance among the centralized and decentralized competences (Guide to Decentralization, 2001, p.19). Taken this into account, we admit that it is a continuous and long term approach with the aim of deepening the subsidiarity and the development of complex quality government system. It is rather expected that the competence strengthening of lower entities brings higher political participation and civic engagement in public affairs, the relations between state and citizens and most probably the effectivity of provided public services.

Apart from strategical approach toward decentralization as a strategy of power spill over, Konečný (1997) focused on three central levels of understanding:

- *Political decentralization* – practically the transmission of powers in the decision-making process together with the expectations of policy implications and recommendations
- *Economic decentralization* – power transmission in economic decision-making process as well as the spatial recognition of financial capabilities
- *Administrative decentralization* – powers delegated to lower administrative units without the continuous linkage to political and economic decentralization or power distribution in public affairs. That means the regional as well as local entities are self-decisive units.

### Positive and negative effects of decentralization

Although the importance of decentralization is highlighted by multiple authors as investigated above, there are also quite opposite tendencies triggering criticism of decentralization. Some authors criticize the decentralization of deepening regional disparities and limiting economic stability (Canaleta – Arzo – Gárate – Orayen, 2001). Mainly due to the excessive pace of decentralization it may lead to inappropriate changes in organizational structures, new roles and responsibilities as well as system problems as a whole. This is advocated by Osoro who comments the decentralization as generally no universal cure and it does not always lead to effectiveness (Osoro, 2003, p.1). The author also argues that the deficit of decentralization may be vested in weak administrative and inadequate technical capacities at the local level (Ibid). Hutchinson and LaFond stress that decentralization can cause a serious contradiction between the financial sources and technical capabilities which are necessary for the process implementation (Hutchinson – LaFond, 2004, p.11). According to other authors (Mills 1990, Prud'homme 1995; Tanzi 1996) the negative effects of decentralization often lie in the discrepancies between the devolution of administrative powers – clearly articulated and assigned – and mechanisms to keep in check those who have been vested with new powers, the financial means to implement devolution, and technical skills to implement and to monitor and evaluate the decentralization process. But the arguments for decentralization of administration differ significantly. We can collate several supporting arguments as well as those which clearly stipulate the risks of competence delegation to lower levels of administration.

**Table 1:** *Arguments supporting and denying decentralization in general*

Relative advantages of decentralization	Disadvantages of decentralization
Identity recognition	Inequality in praxis
Locally and regionally differentiated political preferences and activities	Limited resources (financial and human)
More direct responsibilities	Failure risk and power fragmentation
Power and responsibility distribution	Undermining the state level
Local community building	Smaller distance and detachment
Participation and direct engagement	Lower degree of self-sufficiency
Comprehensive decision-making process	-
Flexibility	-
Subsidiarity	-
Better minority protection	-
Lower administrative and political units serve as testing grounds or policy laboratories	-
Better local and regional sources mobilization	-

Citizens control and realize services for which they pay taxes that can limit the system of raising the tax rates centrally	-
Transparency	-

Source: Nižňanský – Pilát, 2009, pp. 4-5

In a complex analysis of advantages and disadvantages of decentralization MacLean seeks for neutral position that there is no decentralization itself and as a sole process and in principle it is not positive or negative but dependant of the success of the implementation in the context of other reforms (MacLean, 2003, pp. 4-5).

So in other words, to allow the smooth decentralization process, it is necessary to fulfill several conditions. One of the most essential as considered by Litvack and Seddon is the acceptance of decentralization instruments that help the political intention. These conditions advise: legal and institutional framework, the system of responsibility for the provision of services and fiscal relations between different levels. The structure of responsibility must rest on clear information about the expenditure on services, alternatives to their guarantees, sources and their origin, which give the public the possibility of effective monitoring and responsiveness to the activities of regional or local government (Litvack - Seddon, 1999). According to Hutchinson we can talk about favored decentralization when there is a harmonization of competences and responsibilities with the required level of knowledge, capabilities and information flows (Hutchinson - Lafond, 2004).

We can state that the success of decentralization is mutually conditioned by several factors and is closely related to determination of the proper interface between decentralization and centralization. Generally, however, we apply the fact that each task should be performed at the level of government providing the most efficient and most cost effective solution. Excessive centralization causes a decrease in the flexibility of responses to the problems. In this regard, it can be argued that increasing decentralization justification, whether political that shifts political power to the sub-central level, as well as decentralization of competence, which allocates responsibilities and competencies between levels of government and thus fills this requirement.

To add some potential threats and risks of the decentralization in Slovakia the authors (Nemec, Berčík, Kukliš 2000) usually argue about the inappropriate transfer of responsibilities to self-government structures. According to them, there is also strong evidence from western patterns (Calvo 1972) which serve as the example for the ineffectiveness in the developing or transition countries where structural changes do not always lead to increased efficiency, effectiveness and economy. Another potential dangers and challenges for the decentralized system might be: corruption, patronage politics, incomplete information, the blurry accountability of the local representatives, reform delay and centralism in case of problems.

### **The local and regional level governance in Slovakia**

When considering the decentralization levels in Slovakia we have to reflect the combination of three dimensions which was outlined in *The concept of decentralization and modernization of public administration* adopted by the Slovak government in 2001:

1. *Competence decentralization*
  - 1<sup>st</sup> level: Minimum local services

- *2<sup>nd</sup> level*: Enhancement of local services without the direct impact on the social structure (education, social securities, health care)
  - *3<sup>rd</sup> level*: Wide spectrum of public services including participation on social services
2. *Financial decentralization*
- *1<sup>st</sup> level*: Low taxation powers, low level transfers to municipalities
  - *2<sup>nd</sup> level*: Most transfers (shared taxes, grants) from the central government, the taxation system set by the central government
  - *3<sup>rd</sup> level*: The general powers to establish own local assets, sources and financial consolidation, including the loan system
3. *Political decentralization*
- *1<sup>st</sup> level*: Deconcentration – the representatives of the local public administration to be appointed by the government, the accountability to the central government
  - *2<sup>nd</sup> level*: Devolution - The representatives of the local level are elected, the payments and salaries are regulated locally and the accountability is to the citizens – voters

Here we mention the fact that the required changes and the effectiveness of the decentralization process toward the citizens and the local level might be successful only by simultaneous implementation of the above levels and dimensions. The decentralization of competences without the financial decentralization would cause the failure of such implementation. Slovakia is not any exception and as argued (Pinterič 2013) some other countries do witness the managerial as well as administration crisis in times of instability or inappropriate competences delegation. Specifically, authors deal with the Slovenian perspective which is, to large extent, very similar to Slovak demographic and territorial distribution (Jurak, Pinterič 2012).

The framework of local governments and governance is as old as the concepts of democratic government and administration itself. It was always considered as the service and provision of services to the inhabitants of particular location, region or municipality. According to several studies and arguments it has been elaborated that the principle of state decentralization and the strong role of local governments provide for accountability, effectiveness and the relative autonomy. For example, Stigler (1957) argued about two principles of local jurisdiction: if the representative government is closer to the citizens it has potential to work better and, people should have options to vote for the kind and amount of public services they want and desire. This theory suggests that the initial political relations of citizens and state authorities shall be established already at the local level to justify and reach the allocative efficiency (Shah 2006). Then, applying the Olson's (1969) principle of fiscal equivalence results in the overlapping jurisdictions such as local-state-nation and suggests that the benefits of each level jurisdiction shall be also overlapped thereby ensuring the optimal distribution of public services and goods. However, the principle of fiscal equivalence requires separate jurisdiction for each public service. Finally, the principle of decentralization or the decentralization theorem advocated by Oates (1972) suggests that every public service should be provided by the jurisdiction which has the control over the minimum geographic area that is able to internalize the costs and benefits of the provision. The theorem expects that the local governments are able to understand the needs and concerns of the local residents, local decision- making is

responsive to the people for whom the services are intended (justifying the fiscal responsibility and efficiency), unnecessary layers of jurisdiction are eliminated and interjurisdictional competition and innovation are enhanced (Shah 2006, 4).

In principle, local level government refers to specific authorities and entities that were created under the national constitution, state constitution or by ordinary law from the central government. The major purpose of local government is to bring and deliver variety of specific services in a specifically delineated geographical area. Then, the local governance or local administration is considered as a more complex category or concept of administering and executing the collective action at the particular local level. This includes various institutions of local government, networks, community organizations and informal norms that provide for the development and interaction between citizens and state, collective decision making and delivery of local public services. The local governance is a complex set of arrangements for the local, municipal and most often the community life. It provides for the basic elements of public life and local service but it should be also encompassed to provide for life and liberty of the ordinary people, enhancing the civic engagement by giving the variety of opportunities to participate in the local events and calls, supporting the sustainable local and regional development. From this perspective, the local governance is about providing and well-being in the particular locality or municipality.

In the Slovak Republic the public management is distinguished and differentiated into the following categories:

- Determination of policy development and standardization at the national level
- Implementation and policy standards are subject to control from the state level
- Particular services and provisions are exercised and executed by the regional and local level governments.

The reform process and decentralization in Slovakia after 1990 can be divided into several stages. Initially, the first step to decentralization was established already in 1990 by separating the state and local administration which led to the existence of 38 districts. The local or municipal administration was managed through institutions and authorities created by state level such as Labor Offices, Tax Offices or Environmental Offices. Subsequently, in 1996 the decentralization proceeded with the creation of 8 regional and 79 district authorities. In the wording of the Act 221/1996 the Slovak Republic is divided into regions, these are split into districts and districts into municipalities. The law practically introduced the territorial and administrative subdivision which then enabled the creation of the local self-governments. A significant move forward in state political and administrative decentralization was made in 1999 when the Slovak government approved the *Strategy of reforming the public administration* which can be characterized as the process of modernizing the functioning of a democratic state and the implementation of justice, freedom, responsibility, solidarity, the rule of law and civic engagement. These commitments were also made in spite of the EU, NATO and OECD integration and accession process. The adoption of such measures led to development of the necessary concepts in budgeting and public financing, education, control and regulation as well as the continuous informatization and networking which helps to decentralize the governance.

In 2001, the final wave of state decentralization process was established. The system of 8 self-governing regions in Slovakia was introduced which has finalized the creation of the second level governance and enabled to transform and relocate the powers and competences from local state administration to municipalities and self-governing regions. This shift was

significant in dedicating more complex set of exclusive competences to lower governmental levels including such important areas as health care, infrastructure, territorial and regional development and from our perspective, the educational and school system.

### **Consolidation versus fragmentation of local administrative units – small and large municipalities**

Determining the most appropriate size of the lowest administrative unit is not as simple as it gets. It is a problem that concerns not only Slovakia or the central European area, but also other countries. It should also be added that the size of local governments varies considerably in different European countries: on the one hand, there are countries with large municipalities such as England or the Nordic countries and the other countries with small municipalities such as France (Swianiewicz, 2003). These differences result from historical tradition, though in some countries, the territorial organization of municipal governments rooted in other traditional terms and reasons. On the other hand, several European countries have embarked on the path to connect or amalgamize territorial unit, while this trend is particularly valid in the countries of northern Europe. The situation that occurred in Central Europe after the fall of Soviet regime in the early nineties was moving in the opposite direction than in most European countries in this period, which generally resulted in raising municipal units, while in central European countries there was a fragmentation of units at the lowest level of government.

The size of the administrative units influences the overall system of local government but also public administration as a whole and has impact, *inter alia*, on the distribution of functions and the relationship between the central government and local government (Page - Goldsmith, 1987). In assessing which way is the most efficient, whether consolidation or fragmentation we need to take into account the factor of economic efficiency, state of democracy, economic development and distribution (Swianiewicz, 2003). Subsequently, we introduce evidence and factors that determine the advantages of small or large municipalities.

The relative advantage of large municipalities and thus merging supports the fact that it may offer scope for the implementation of public policy at the local level, which ultimately increases public interest in what is happening at that level. At the same time this leads to the involvement of better candidates in elections to local councils, while the size of the office is also growing in prestige and power (Dahl - Tufte, 1973). Larger units allow for increased support for local economic development, also provide more opportunities to create a strong civil society. Plus, a large government may increase the efficiency of tasks, improve service quality, since large municipal units can provide services beyond the capabilities of smaller communities and, finally, the performance of tasks will be more professional. Large municipalities have greater opportunities to provide citizens with all required services. The wider professionalisation can make better decisions about effective solutions, while the bigger municipality has plenty of resources that can be used in making voters' claims come true (Nižňanský et al., 2009). In large municipalities there are more extensive views of pluralistic society and there is a better developed party system. Finally, the representation of various minority groups appears to be better in larger units, which is supported by a greater degree of liberalization and the related acceptance of otherness (Swianiewicz, 2003).

On the other hand, there are also arguments strengthening and supporting the smaller municipalities or the principle of territorial fragmentation. One of the basic arguments in favor of smaller units is greater proximity among citizens and their representatives hence the

greater public accountability from their representatives is expected. It is usually true that the political participation of citizens in small communities is higher than in large ones which is related to a sense of belonging, which can be documented when comparing the lowest territorial administrative unit with regional governments and, with the state (Nižňanský et al., 2009).

Another fact is the greater uniformity of small autonomous units at the lowest level, which ensures easier application of policies satisfying the interests of a large number of people. In smaller areas the participation of citizens in local politics might be intensified, since they feel that they can significantly influence the political process. A big plus for small government is less bureaucracy. Fragmentation should lead to healthy competition between the smaller autonomous formations in order to obtain capital (Swianiewicz, 2003). As the above facts and fragmentation as well as the consolidation of local government have their own advantages and disadvantages it is not possible to clearly determine which of these procedures is preferred or better in theory and practice.

Klimovský argues over the advantages of consolidation and fragmentation of administrative units where he indicates that *"although economic considerations favor the consolidation (or defragmented) structure, several sociological studies show a strong identification with inhabitants of municipalities (albeit very small) with their settlement units and their results confirm importance of maintaining fragmented structures"* (Klimovský 2009, 183).

If, however, there is a very small village it has a merely negative impact on the implementation of demanding projects and services for citizens, as they have insufficient economic, organizational or human resources. In most European countries mainly in the period after World War II the process of creating larger units was in line, whereas small municipality system did not work as efficiently as desired. Consolidation or the creation of larger territorial units was justified by better communication, social mobility, as well as technological development at the municipal level (Vajdová, 2006). The solution to this problem could be a voluntary cooperation of municipalities, the establishment of joint offices or merging municipalities (Klimovský, 2009). In the next section we compare the evolution of the size of the territorial municipal units in Central European countries and their current status.

### **The comparison of the lowest local government units in Central Europe in terms of population size**

For the last 50 years most European countries established the consolidation tendencies, especially in the Western European and Nordic countries there have been a decline in the number of municipalities, while in some countries to a greater extent than in other. Klimovský states that in Lithuania the decline in number was almost 90%, Sweden 87%, Denmark 80%, Belgium and Great Britain around 78%, Germany 51%, Netherlands 44% and similar (Klimovský, op. cit., p. 188). We will, however, consider and analyse only countries falling to the central European area (Visegrad group countries), for which the consolidation process was typical even during the non-democratic regime. In the 70's there was a decrease in the number of self-governing units, mainly in Poland, where there has been a process of merging of municipalities by almost half from about 4,000 to the 2400. In the Czech Republic the process lasted slightly longer (for nearly forty years from 1950 until the end of the eighties there was a decline in the number of municipalities by more than half - from nearly 11,500 to approximately 4,000). Hungary is characterized by a similar pattern, though still in the sixties the number of municipalities was around 3000 and in the late eighties only 1300 (Swianiewicz, 2003). In Slovakia, like the abovementioned neighboring countries has



undergone a similar development, the process of descent when the number of municipalities as a result of merger was initiated even during the first Czech - Slovak Republic in the thirties but reached its peak in the late seventies during the communist Czech - Slovak Republic. Needless to say, in comparison with Hungary, the Czech Republic and Poland, the Slovak process of municipality decrease was not that significant - in 1930 there were nearly 3,500 municipalities and in early eighties, nearly 2,700 (Berčík - Lovecký, 2003), which represents a decrease of almost 23%, which is much less compared to nearly fifty percent reduction in the municipalities of other V4 countries.

After the collapse of non-democratic regimes, however, all Central European countries witnessed the fragmentation wave as a result of transformation and the number of municipalities increased again, but this was quite contrary to the consolidation course in other European countries, which have undergone an intensive process of merging at that time. Swianiewicz believes that this process in Central European countries *"could be seen as a response to violent amalgamation in the 70's"* (Swianiewicz, 2003, p.12). The most significant fragmentation is reflected in Hungary with increase of the municipality size by more than 50% from 1300 to around 3100 (Klimovský, 2009) which basically meant a return to the position of the pre-merger process. In the Czech Republic the situation was similar even though there was not a significant fragmentation of municipalities - the increase of the number of municipalities was by 1600 which resulted to almost 5800 municipalities (Balík, 2009). In Poland and Slovakia the system change brought lesser dimension than in the case of the Czech Republic and Hungary. Polish amalgamation reached a negligible increase of almost 5% (Swianiewicz, 2003), similar to Slovakia where numbers increased by nearly 200 from 2669 in 1989 to about 2800 in 1991 (Volko - Kiš, 2007).

The current situation in terms of size of the municipalities in Central Europe is almost identical with the status of the beginning of the new millenium. Based on the above, it is possible to identify the municipal structure in Poland as consolidated when the current number of municipalities is 2479 (GUS Central Statistical Office of Poland, 2013) which is equal to the number of municipalities after the merging process carried out in the 70's. From the perspective of the average population the Polish municipalities belong to the largest in Europe and they are incomparably larger in relation to the surrounding countries of Central Europe, whereas the average population of Polish municipalities is 15 000 (Balík, 2009).

Hungary is characterized by a fragmented structure of the lowest local government units, which currently numbers around 3175, while their average size in terms of population is 3170 inhabitants (Klimovský, 2010).

In the other two countries, the Czech Republic and Slovakia there are on average smaller municipalities in terms of population size, whereas in the Czech Republic the average size of municipalities in their total number of about 6250 (Karbach - Kútik, 2011) stands at 1650 residents and in Slovakia, the aggregate amount of about 2900 municipalities (List of municipalities in Slovakia, 2013) at 1870 inhabitants (Klimovský, 2010). The Czech Republic, similarly to Slovakia can be described as highly fragmented landscape in terms of their residential establishment.

It might be interpreted that Hungary, Czech Republic and Slovakia rank among countries with a large number of small municipalities.

### **The more the merrier?**

We have already analysed the settlement structure of individual countries within the region of Central Europe in terms of population size and their impact on the performance of government at the local level, alongside with the possible solutions to the situation. From the analysis we can conclude that only one of the four observed countries can be classified as a consolidated with regard to the structure of local government units, while Hungary, Czech Republic and Slovakia are countries with highly fragmented local structures. Local governments of Central European countries except Poland are thus characterized by a high degree of fragmentation and therefore are in place voices calling for reform in this area.

Although it is not explicitly investigated whether the performance of local government is determined on the larger or smaller number of municipalities within the territory, we believe that Slovakia should accede to the wide-ranging discussion on the current state of municipal structures and seriously think about consolidation problems because the municipalities in Slovakia are not only inadequately protected financially or in personel terms, but they often fail to solve their own problems or in services provisions arising from the law. We believe that a possible solution to the current unfavorable situation could be vested in introducing a merger process of municipalities on the basis of a new legislation, but this would mean an unpopular solution that would meet the displeasure of citizens, but also the leaders of the municipalities. The authority would remain in the municipalities, but it would set up administrative center covering several municipalities. The solution could also be in the municipality categorization as introduced in the Czech Republic. As suggested by Klimovský, independent and original jurisdiction would remain in the hands of small municipalities while the transferred competences and powers would be given to the higher (merged or central) municipality (Klimovský, 2009). We also suggest that the role of merged or central authority should be exercised by the current regional administration in several areas of public life and services such as education system, health care, social service. Although, this modification would have regulated certain powers of the authorities, on the other hand, the municipalities could still have the decisive powers on community development.

The structure of the powers delegated to municipalities points to the inconsistency of individual central government bodies and non-compliance with the principles of efficient allocation of political responsibilities. This is reflected in the lack of clarity of the tasks, widening the power split between the state administration and local self-government (education, health, social services), as well as work-sharing between the two levels of local government (social work), the lower efficiency and higher financial demands of the tasks, but also the negative impact on the user of public services - citizen.

The way of current methods of state administration and power transfer to municipalities raises twofold problems from the legislative perspective.

The first is the transmission of state administration on all local governments which are considered as legal entities en bloc. In the exercise of jurisdiction which is difficult due to specific expertise, personnel, spatial and technical equipment etc., it is impossible that each municipality is able to effectively perform as it is ordered by law. From these reasons, the local authorities are not considered as self-government bodies but more likely as entities executing the state administration in the name of the state power. Thus, it needs to act as a state entity.

The second problem is the extent of transferred performance of state administration, which is transferred to the local government. Many competences distort the principles of

efficient distribution of political power. The elected council, but also elected mayor do not possess sufficient influence to fulfill these tasks and there is a division of responsibility between the state and local government with a negative impact on elected bodies. A particular problem is the application of multiple provisions and acts from the period before 1989, the period of central planning and state paternalism.

## **Conclusion**

In general, it is believed that a large number of municipalities is undesirable as it reduces the efficiency of the performance of the original and transferred competencies. The merging process of municipalities should be reflected in a more efficient and better implementation of responsibilities and, at the same this should be considered as one of the most important prerequisites toward faster development of municipalities and regions. The relationship between the size of the municipality and the effectiveness of its financial activities is one of the most important issues of local self-government and decentralization process. The size of municipality is an outcome of representativeness and effectiveness in addition to the service provisions. Therefore, if we want more representative municipalities with local authorities closer to the people the result will be in a more fragmented local and territorial map with a larger number of municipalities. In comparison, if there is a request to have an effective local service we should prefer smaller number of municipalities with greater coverage area and higher number of inhabitants. In any case, the number of municipalities should be approaching the optimal size structure as advocated by several authors (Brennan - Buchanan, 1980; Oates 1981).

The effective functioning of municipal self-government is essential to their size, but also the structure of the population. Optimal – sized administration units are capable of performing multiple tasks and functions. According to the theory the more functions given to government stimulate greater public interest in participation in governance, hence the motivation of residents to be elected or to elect more quality local governments. The ability to provide public services by the government is determined by the amount and composition of their budget, whereas in small municipalities the majority of current expenditure and more than half of the budget expenditure are dedicated to management (maintenance of office, salaries of the mayor and local MPs). From this reason these municipalities are not able to invest in their development and have difficulties to finance other municipal functions. Therefore, in such situations, the delegated and transferred powers in particular services for wider public provisions such as education, health care and social service shall be dedicated to higher units, such as merged municipalities' authority or regional governments.

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